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Corporate Governance, Risk-Taking and Financial Performance of Islamic and Conventional Banks: Evidence from Pakistan and Malaysia

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Banking is a risk-taking industry and its performance ought to be appraised by including risk- taking as a prime consideration in the overall framework. Major objectives of both the Islamic and conventional banks are same. What distinguishes both types of banking are the way these banks pursue to achieving their goals and particular objectives. This study explores relationship of corporate governance with the performance of Islamic and conventional banks by using moderating effect of risk-taking. It aims at finding any difference in the impact of governance and risk taking in banks of two Islamic countries: Malaysia and Pakistan. Our sample consists of eighteen banks from Pakistan and Malaysia which include three Islamic banks and five conventional banks of Pakistan while five Islamic banks and five conventional banks from Malaysia.

In Islamic banks, results show that firm size has significant relation with performance in terms of return on assets (ROA). Though effect of Corporate Governance (CG) is insignificant on performance (ROA) but it has significant impact on performance with moderating role of risk in Islamic banks whereas CGI have insignificant relation with performance measure ROE. In Conventional banks, CGI has insignificant impact on performance (ROA) of conventional banks even with moderating effect of risk while CGI has significant effect on ROE with moderating effect of risk. This study provides new insights to management of Islamic and conventional banks that how they can manage risk in managing each type of banks.

Keywords: Corporate governance, Risk-taking, financial performance, Islamic and Conventional banks, Pakistan, Malaysia, returns on assets, returns on equity,

INTRODUCTION

Banking is a risk-taking industry and it is imperative that its performance should be gauged by including risk- taking as a prime consideration. Moreover, profitability of any firm is bound to be affected by looking in the perspective as to how a company is being governed. The overall performance of banks should therefore be investigated in these two perspectives. Moreover, countries at different levels of islamization of their banking system need to be investigated and compared with. This study aims to find out any difference in the impact of governance and risk taking in banks of these two Islamic countries: Malaysia and Pakistan.

This study has broader future practical implications for the banking sector. It explores relationship of corporate governance with the performance of Islamic and conventional banks by using moderating effect of risk-taking. Major objectives of both the Islamic and conventional banks are same. However, one thing which distinguishes both types of banking is the way these banks pursue to achieving their goals and their objectives. The approach used in Islamic banking system to be achieving their objective is totally different as compared to conventional banks. The conventional banks achieve their goals by using contracts which are based on interest, while the Islamic banks achieve their objects by using such type of contracts which are based on trading. There is resemblance of the objects among the Islamic and conventional banks, but each type has difference in methods through which both banks manage their operations. Such difference in the methodology requires a legitimate context among Islamic banks.

Regulatory context of Islamic banks is according to the Shariah principles which are based on Qur'an, Hadith and other sources of Islamic thought. In Pakistan, the Islamic banking has arisen as to meet both economic and religious requirements of a society. In the 1973 constitution, it was decided that Riba will be eradicated from the economy of Pakistan. In 1980s, efforts were initiated to get rid of Riba from our banking system. Most of the Islamic countries also focused on pursuing Riba free economies after the world-wide financial crises. The Islamic banking was formally launched in Pakistan in 2001 when the State Bank of Pakistan (SBP) issued its first banking policy under the instructions of the Government of Pakistan to promoting the banking system based on Shariah principles and starting Islamic banking practices into Pakistan according to the best practices of the international level.

The main purpose of establishing Islamic banking in Pakistan was to enable all population segments to get access to Islamic financial services. The State Bank of Pakistan (SBP) has devised a strategy for promoting the Islamic banking which is divided into following three categories:

i). SBP allowed private sector to developing new Islamic banks.
ii). SBP allowed that conventional banks can open Islamic banking subsidiaries.
iii). SBP allows to the conventional banks to start branches which are solely on Islamic banking bases.

Main principles of Islamic Banking System

1) Taking and receiving interest (RIBA) is totally prohibited.
2) Risk and return are shared among both the investor and the bank.
3) The uncertainty and risk are totally prohibited and there is fully disclosure of all type of information.
4) Money is the capital which is used in productive process.

Shariah rules are followed by Islamic banking and all the business transactions and other related activities and all financial contracts are according to Shariah rules. The exclusive law by the Islamic bank for the Muslims must be clear according to the given principles of the Shariah (QURAN, Hadith and Sunnah). Under the Sharia's principles, it involves equity-based profit and loss sharing which are financed by the actual assets and not based on interest and gambling in the terms of Gharar and Riba. According to the Islamic rules, there is need of revaluation in the portfolio level of the products in the financial sector and Islamic financial sector which are escorted by the rules on official level for the solution of restrictions among the refinancing of the funds in the Islamic financial sector.

Conventional banks rely on interest as major source of earning but under the Islamic banking system interest (Riba) is prohibited and this is a profit-loss sharing system which plays a role of intermediary (Muhammed and Manarvi, 2011). As Shariah has Islamic rules, so Islamic banking system has a unique business model. Islamic banking business model is according to Shariah principles which differentiates Islamic banks from commercial banks. External risk-bearing among Islamic banks is diverse as compared to conventional commercial banking because of Shariah rules. Risk-taking behavior of Islamic and commercial banking is totally different as Islamic banks take high risk. Main reason of high risk-taking is that the Islamic banking financial transactions are backed by real assets and there is risk-sharing among bank and its clients.

Historical Background of Islamic Banking

In Islamic monetary law, foundation of equity and the prosperity of society have top priority. The market symbolizes human opportunity and solidarity in Islam. Before Islam, there were various kinds of acquisition contracts in Arabia where business and commerce described an absence of straight forwardness assertion. Normally proprietors and traders offered goods and administrations overpriced. Considering pillars of Islam (particularly Zakat) financial and social duty likewise developed. They made sure that no harm was brought about by profession and business by prohibiting financing cost accumulation among others. The Islamic good code would request from the merchants' mercy, generosity, and honesty. The holding of an offer in fruitful business as a guideline of Islamic financial was already applied by traders toward the start of Islam. Modern Islamic banking is another advancement contrasted with western saving money with its immediate400-year-old financial history.

In 1974, the Islamic Development Bank was founded by Arab governments which are 55 countries now. Being in accordance with Sharia standards, ventures are primarily funded in undeveloped partner nations. In 1975, the Islamic Development Banking Jeddah and the Dubai Islamic Bank were established. Toward the end of 1970s, the Kuwait Finance House was built up in Kuwait and the Faisal Islamic Bank in Sudan, both of which turned into the first Islamic banks. However, the spread of Islamic banking was not constrained to the Islamic world. In 1980s, the establishing of the Bank Islamic, Malaysia" engaged in development of the concept into Asia. Since the mid-1990s, Islamic banks have been found far and wide. The background to this improvement is the flourishing that the Middle East has created since the1970s, and the developing religious resonation of Islam in all Arab nations. Additionally, international financial foundations for instance the Deutsche Bank have perceived the market potential of this banking framework and set up its Islamic-windows in the Islamic nations - particularly in the Gulf States and Southeast Asia - to offer Islamic money related administrations. Moreover, in some Western nations, the concept of interest free banking attracted much interest such as he Islamic Bank of Britain was set up in 2004 and the Islamic Kuveyt Türkbank was opened in Germany ng branch in 2010.

Islamic Banking in Pakistan

One of the essential cardinal standards of being a genuine Muslim is a firm faith in Here-in-after and on the Day of Resurrection. On the off chance that these considerations are taught in one's personality, no Muslim will pursue Satan and thus abstain from coming into a perspective characteristically portrayed with craziness. In like manner, in the above refrains Allah has guided us as Muslims to avoid taking interest. The individuals who are living under the misperception that intrigue is much the same as exchange are completely mixed up. Thus, Allah has counseled us in this regard. The Muslims who don't have faith in these revelations are bound to be the Champions of Fire and will be sent to the Hell forever. It is required on our part that we as partners must embrace all means to dispense with enthusiasm from our monetary and public activity at the most punctual. Under the 1973 Constitution of Pakistan, it is required with respect to the Government of Pakistan (Article 38 (f)) to get rid of Riba as quickly as time permits. The Government needs to come up to the situation and acknowledge this as a demand and meet their Constitutional commitment.

Riba and 1973 Constitution of Pakistan

The present Government is investing heavily in guaranteeing that they have reestablished the 1973 Constitution of Pakistan in its unique shape. Be that as it may, the crying need of today is to execute the above Constitution in letter and in its real soul. In this regard, a portion from Article 38 (f) of the above Constitution is cited underneath: "The State will …. Dispense with Riba as right on time as could be expected under the circumstances". There is a need to execute the above soul of the Constitution as 39 years have just passed and the Nation is energetically anticipating the cheerful minute when Riba will be completely disposed of from our social and monetary life.

Relationship of Agency theory

This theory was developed by Jensen and Meckling (1976). This theory encourages that how the corporate governance of

an organization is based on the conflicts of an interest between the company's owners(investors), supervisors along with significant suppliers about the obligation fund. Every one of these gatherings has various interests and targets. The investors need to expand their riches which is possible when the organization will give more profits. The estimation of their offers relies upon the long-haul monetary prospects for the organization. Investors are accordingly worried about profits, yet they are even increasingly worried about long haul gainfulness and budgetary prospects, on the grounds that these influence the estimation of their offers. The directors are utilized to run the organization for the benefit of the investors.

There are many studies in literature which explored the impact of governance system on the performance of Islamic and Conventional banks. Beck et al., (2013), Hassan &Dridi (2010), Mollah &Zaman (2015) explored governance of conventional as well as Islamic banks. According to Mollah &Zaman (2017), Islamic banks take high risk and achieve its goals because of its good governance. They also explored that; Islamic banks contain high capital as compare to conventional. There is no study which support risk taking as moderator variable. To fill this gap, this research study uses risk taking behavior of Islamic and Conventional banks. Secondly this empirical investigation is based on the two major Islamic countries Pakistan and Malaysia where concept of Islamic banking is widely understood and practiced.

LITERATURE REVIEW

Governance and performance

Hussain and Shah (2017) studied about the role of corporate level governance and systematic risk by assessing a moderating impact of the socio and political factors on the risk in the firms of Pakistan. In this research study, the socio-political factor is assessed through its two proxies i.e., terrorism factor and assassination factor. They used CAPM for the measurement of the systematic risk of a sample of total 201 firms of Pakistan. These all selected firms were non-financial in nature. They used data of 12 years for analysis during the period of 2003 to 2014. They used Dynamic data estimation technique for regression analysis. Results on this research explored the mechanisms of corporate governance which play a crucial role among the reduction of the firm systematic risk. The results of the research study concluded that the socio-political factors play a moderating role between governance characteristics and firm systematic risk in Pakistan.

Alkhouri and Arouri (2018) studied about return in banking sector and effect of diversification risk. This research study used a sample of 69 commercial and Islamic banks for period of 2003-2015. They found that performance (ROA, ROE) of Islamic commercial banks was higher than conventional banks. Mdsafiullah and Shamsuddin (2019) made a study about the corporate governance risk adjective and efficiency of Islamic and conventional banks. They took 188 Islamic and conventional banks from 28 countries for the period of 2003-2014. They used Z-Score and Corporate governance index. They contended that Islamic banks had high capability to adjusted cost of productivity and the lower profit as compare to other banks. In Islamic banks efficiency cost is less empathetic than conventional banks. They found that risk taking decreased the cost performance and increased revenue.

Risk-taking and performance

Abobakr and Elgiziry (2017), studied about the association among the characteristics of the Board of Directors and the level of bank's risk taking. They took 27 listed banks of Egypt for a sample period of six years (2006 to 2011). They measured bank risk through three proxies of risk including, liquidity, insolvency and credit risks and for the role of governance among risk-taking, used characteristics of governance including size of the board, non-executive directors, CEO Duality, academic qualification of the board members and female's membership in the board of directors. They used pooled ordinary least square method and found that size of the board had significant association with adoption level of risk. The directors of non-executive had insignificant association with liquidity risk of the banks and insignificant association with insolvency risk level of the banks. The duality of the duties of the CEO had positive and significant association with the credit risk of the banks. The study also explored that the presence of the females in the board of directors had negative but significant association with liquidity risk of the banks. On the other hand, the presence of the female directors among board of directors of the banks had positive and significant association with the aspect of credit risk of the banks. They confirmed that the characteristics of the board were key factors among risk-taking of the banks.

Schnatterly et al., (2018) studied about the impact of rules and regulations, and governance on the risk-taking behavior of the banks. They studied 600 banks which are randomly selected from USA banking sector. They find that independence of the board and well-developed rules and regulations influenced banks' risk-taking level. Elamer et al., (2019), studied about the role of governance among risk-disclosures of the banks of 14 emerging economies (Middle East and North-Africa) for eight years from 2006 to 2013. This research study has findings of three types. Firstly, it explored that the existence of the Shariah Supervisory Board was positively significant on bank risk-disclosures. Secondly, the ownership structure of the banks was also positively and significantly associated with the disclosures of the risk among the banks of the MENA. Thirdly, the control of the corruption in the country had significant association with disclosures of risk in the banks of the MENA countries.

Research Methodology

In this study, we are investigating the relationship of governance and performance with risk-taking the performance of Islamic banks of Pakistan. Governance structure is measured by using a corporate governance index (CGI) which is based on six governance characteristics which are explained in Table no 1 below. Z-score is used for measuring the risk-taking of Islamic banks. Performance of the banks is measured through return on asset (ROA). We have also use firm specific and country specific variables as an explanatory variable in our analyses Secondary data is used for analysis. Our sample consist 18 banks in which Islamic and conventional of Pakistan

and Malaysia which include 3 Islamic banks (Meezan, Albaraka, and Bank Islamic) of Pakistan while 5 Islamic in Malaysia total Islamic bank both countries 8. Conventional banks (Allied, Askari, Bank Al Habib and Bank Alflah) in Pakistan. So, 10 conventional in both countries. Data is collected from annual reports of the banks during the period of 2013-2017. Same the methodology was used by Mollah et, al., (2016).

Econometrics Model

Corporate governance and performance. Moderating effect of Risk-taking is measured through both ROA and ROE.

$ROA = \beta_{0it} + \beta_{1it}\ CG + FS_{it} + \mu_{it}$

$ROE = \beta_{0it} + \beta_{1it}\ CG + FS_{it} + \mu_{it}$

$ROA = \beta_{0it} + \beta_{1it}\ CG + RT + CG*RT + FS_{it} + \mu_{it}$

$ROE = \beta_{0it} + \beta_{1it}\ CG + RT + CG*RT + FS_{it} + \mu_{it}$

Table 0: Variables and their Measurement

Variables	Identification	Proxy & symbol		Measurement
Corporate Governance	Independent variable	1.Board size		Board size greater the value of Median than dummy value is 1 if BS smaller than median than 0.
		2.Independent directors		Independent director value is greater than median 1 otherwise 0.
		3.Female directors		Female director if any in the report than 1 otherwise 0.
		4.Board meetings		BM if greater the median value 1 other 0.
		5.1CEO duality		CEO if perform the double duty than 1 otherwise 0.
Performance	Dependent variable	1)	ROA	ROA=N.I/T.A
		2)	ROE	ROE= N.I/T.E
Risk to default	Moderating variable	1) score	Z-	Z-score shows the level of default which measured as z-score= ROA+CAR/SD of ROA.
Firm Size	Control Variable			Log of total assets

RESULTS AND DISCUSSION

Table 1: Islamic Banks

items	ROA	CG_INDEX	LOG_OF_T__ASSETS	ROE	Z_SCORE
Mean	0.0092	0.6100	10.6971	0.1075	25.2577
Median	0.0095	0.6000	10.8404	0.1182	18.0700
Maximum	0.0178	1.0000	11.7258	0.1965	65.9224
Minimum	0.0031	0.0000	8.683265	0.0059	12.9525
Std. Dev.	0.0044	0.3003	0.9035	0.0554	16.0096
Skewness	0.3254	-0.2701	-1.1138	-0.413	1.8041
Kurtosis	2.5574	2.100428	3.5874	2.4053	4.8829
Observations	40	40	40	40	40

Descriptive statistics shows the result is that Mean value with return on assets (ROA) is 0.0092 (0.19%) and its maximum value is 0.0178 and its minimum value 0.0031 which is less than .05%. Standard deviation with the return on assets is 0.0043 (0.439%) and the Skewness on the return on assets 0.325 (32.5%) and Kurtosis 255.74%. The mean value of ROE is .1074 which indicates that Islamic banks earned 10.74% on its equity investments. The maximum earning of Islamic banks on their equity is 19% and minimum value is .05%. The value of standard deviation is .05 and ROE is skewed negatively at .41 and it has kurtoses value is 2.40 which indicates that our data is normally distributed The mean value of CG index is .61 which explored that there is 61% influence of corporate governance in the performance of Islamic banks. Moderating effect of the performance of ROE its mean value 25.25 (25%) and Standard deviation 16% of the mean. Skewness and kurtosis value 1.80 and 4.88.

Table 2: Correlation analysis

Probability	ROA	ROE	CG_INDEX	Z-SCORE	LOG_OF_T__ASSETS
ROA	1				
ROE	-----	1			
CG_INDEX	-0.3773 0.0164	0.1952 0.2274	1		
Z-SCORE		- 0.5292 0.0004	-0.3691	1	
LOG_OF_T__ASSETS	0.800909 0	- 0.0439 0.7876	-0.484 0.0016 0.0001	0.57511	1

Table Number 2 show the results of correlation analysis, Risk taking as a mediating effect of bank performance which can be measure in z-score and have which CG index have negative but significant relationship with the ROA and its relationship is week with the ROA. Second Firm size have strong and significant relationship with ROA and firm size with the CGI have negative relationship and significant week relationship with the CGI.CGI value is 0.2274 and its relationship with ROE is positively strong. So independent variable CGI have highly correlated with the performance of banks, but their relationship is insignificant. Second significant but negative and strongly relationship with the performance of ROE.

Table 3: Regression Analysis (ROA)

Variable	Coefficient	Std. Error	t − Stat	Prob.
CG_INDEX	0.00019	0.001647	0.120999	0.9043
LOG_OF_T__ASSETS	0.00393	0.000547	7.179173	0
C	-0.03297	0.006418	-5.13708	0
R − squared	0.64159			
Adjusted R − squared	0.622224			
F − statistic	33.11794			
Prob(F − statistic)	0			

Table number 4.3 is regression analysis, Islamic banks shows the result of coefficient CG index have positive insignificant relationship with the performance (ROA) and Firm size have highly significant relationship with the performance of (ROA). R^2 value of 0.6415 (64%) explain our dependent variable of ROA. And the F statistics is 33% which show that our model is suitable. A P value is less than 0.5 (5%) at the 0.0<0.5 so it's significant relationship between them.

Table 4: Regression Analysis (ROE)

Variable	Coefficient	Std. Error	t − Stat	Prob.
CG_INDEX	0.0419	0.0339	1.2349	0.2246
LOG_OF_T__ASSETS	0.0020	0.0113	6.3588	0.0218
C	0.0386	0.13227	0.2917	0.7721
R − squared	0.4145	Durbin − Watson stat		1.1547
Adjusted R − squared	0.3904			
F − statistic	0.7999			
Prob(F − statistic)	0.00004			

Table no 4 shows the results of OLS regression which shows that CG index has p value .22 which is greater than .05, so it explored that cg index has positive but insignificant impact on financial performance of Islamic banks. Next variable is firm size which has p value .02 which is less than .05 which shows that firm size has significant impact on performance of IBs in Pakistan and Malaysia.

Table 5: Regression Analysis ROA Moderating

Variable	Coefficient	Std. Error	t − Stat	Prob.
CG_INDEX	0.001256	0.00095	1.322517	0.1943
Z_SCOR	0.000167	1.91E-05	8.779505	0
CG_INDEX + Z_SCORE	0.000238	2.30E-05	10.35226	0
C	-0.02142	0.0039	-5.49264	0
R − squared	0.885899	Durbin − Watson stat		0.4895
Adjusted R − squared	0.876391			
F − statistic	93.17013			
Prob(F − statistic)	0			

Table no 5 indicates that regression results of cg index and firm performance with relation to moderating role of risk-taking in Islamic banks by using ROE as a measure of performance. The p value of CG index is .19 which is greater

than .05 which explored that cg value has insignificant impact on performance of IBs. While Z-score has p value of .000 which is less than .05 it indicates that there is a positive and momentous association among risk taking and performance of IBs. While Z score has moderating role among corporate governance and performance of IBs because it has p value .000 which is less than .05 which shows that risk-taking has significant moderating relation among corporate governance exposures and performance of IBs.

Table 6: Regression Analysis ROE Moderating:

Variable	Coefficient	Std. Error	t − Stat	Prob.
Z_SCORE	0.02588	0.027543	0.939622	0.3537
CG_INDEX ∗ Z_SCORE	-0.00254	0.000553	-4.59839	0.0001
C	-0.00184	0.00048	-3.84367	0.0004
R − squared	-0.13679	0.113062	-1.20989	0.2342
Adjusted R − squared	0.396136	Durbin − Watson stat		0.4170
F − statistic	0.345814			
Prob(F − statistic)	7.872013			

Table 6 In Islamic banks show the results of regression in independent variable of CGI p value is 0.3537 which can be greater than 0.5%, 0.373>0.5 so insignificant relationship. While Z-score is negative but strongly significant because 0.0001 <0.5. CGI and Z-score combined impact of p value less than 0.5 highly significant. R^2 value is 39% which explore our Dependent variable of performance (ROE). Probably F-statistics is 0.00% fit of our Model. So highly significant of our p statistics because 0.00<0.5.

Table 7: Descriptive Analysis (Conventional Banks)

Items	ROA	ROE	Z_SCORE	CGI	LOG_OF_T_ASSETS
Mean	0.019094	0.08750	14.1497	0.52600	10.96392
Median	0.011195	0.04968	4.77299	0.50000	10.99043
Maximum	0.086108	0.22167	52.9347	1.40000	11.99512
Minimum	-0.01361	0.00187	0.08823	0.20000	9.963340
Std. Dev.	0.022272	0.08808	16.0617	0.32752	0.632622
Skewness	1.855382	0.54602	1.26235	0.68192	-0.03709
Kurtosis	5.624320	1.5779	3.44278	2.63557	1.928536
Observations	50	50	50	50	50

Table 7 Descriptive statistics in conventional banks show the results of performance in which ROA mean vale 0.0190 (1.9%) and maximum value of 0.08610. Deviation of mean value is 0.022 (2.2%) with the performance of ROA. Skewness value is 1.85 which show the distribution of the results maybe positive or negative but there they show positive impact of ROA. Kurtosis vale 5.62 which show the normality of the results. CGI Mean value 52% its maximum and minimum value 140%, 20%. SD of CGI is 32% show the deviation of the results. Firm size which mean value 10% deviation of mean 63%. Skewness negatively impact of firm size -3%. While Kurtosis have a normal value of 1.92. First DV results mean value 0.087 (8.7%) its average maximum value 22% while minimum value 0.001. Its standard deviation mean value of deviation 0.088 is greater than there average.Z-sore as a mediating effect mean value 14.14 (14%). Standard deviation 16% and Kurtosis is 3.4 is normality of results.

Table 8: Correlation Analysis

Probability	ROA	ROE	CGI	Z_SCORE	LOG_OF_T_ASSETS
ROA	1				
ROE		1			
CGI	-0.33801	0.2536	1		
	0.0164	0.0756			
Z_SCORE	0.518897		-0.168	1	
	0.0001		0.2435		
LOG_OF_T_ASSETS	0.20997	-	0.17283		1
	0.1433	0.11567	0.23		
		0.4237			

Table 8 Conventional banks correlation analysis. Show the results of independent variable of CGI value of 0.0164is significant because its value is less than .05% is 0.01<0.5. Its value shows negative but strong relationship with performance of ROA because it greater than 5%. Second Firm size value 0.14 is greater than 0.5 so insignificant while its results with the ROA is 0.209 (20.9%) is more than 5% is strong and positive relationship with Performance. And firm size 0.23 insignificant and CGI with Firm size have strongly relate each other.While Z-score as a mediating effect 0.0001 and Z-score with the performance of ROA 51% show the strong relation. Z-score with CGI have negative insignificant impact 0.24, -0.168. Firm size value 0.143 and ROA 20%. Firm size with CGI 0.23 insignificant and negative relationship. Firm size with the mediation Z-score 0.005 highly significant and negative relation between them.

Table 9: Regression Analysis (ROA)

Variable	Coefficient	Std. Error	t − Stat	Prob.
CGI	0.00146	0.008507	0.171679	0.8646
LOG_OF_T_ASSETS	0.009615	0.005128	1.87503	0.0685
C	-0.08709	0.056713	-1.53566	0.1329
R − squared	0.698003	Durbin − Watson stat		0.967821
Adjusted R − squared	0.610583			
F − statistic	7.984463			
Prob(F − statistic)	0.000001			

Table 9Regression analysis in conventional banks show the coefficient result of CGI have positive but insignificant performance with the performance of ROA. Firm size is control variable have positive and significant relation with the OLS statistics at the performance. R^2 is greater 69% with show that our model explores the Dependent variables of ROA. The p value of F-statistics is 0.00 is less than 0.5 so our model is accurate/perfect.

Table 10: Regression Analysis (ROE)

Variable	Coefficient	Std. Error	t − Stat	Prob.
CGI	0.00446	0.013853	0.321934	0.7493
LOG_OF_T_ASSETS	0.015434	0.008351	1.848218	0.0724
C	-0.08406	0.092358	-0.91012	0.3685
R − squared	0.948794			
Adjusted R − squared	0.933971			
F − statistic	64.00883			
Prob(F − statistic)	0			

Table 10 in conventional banks of both countries' banks Pakistan and Malaysia regression analysis in which coefficient statistical analysis of CGI with insignificant related with the performance of ROE while log of assets is nearest to significant. OLS regression are used in which two different tests Fixed and Random effect. So, R^2 94% present our dependent variable or our model. In these results show the F-statistic 64 is highest so it fit in our model and P value is less than 5% so strongest significant relationship.

Table 11: Regression Analysis ROA Moderating

Variable	Coefficient	Std. Error	t-Stat	Prob.
	-0.00788	0.007148	-1.10255	0.276
CGI				
Z_SCORE	0.001051	0.000163	6.455846	0
CGI ∗ Z_SCORE	0.00136	0.000369	3.685077	0.0007
LOG_OF_T_ASSETS	0.019295	0.004139	4.662185	0
C	-0.20319	0.047908	-4.24122	0.0001
R − squared	0.547713	Durbin-Watson stat		0.687464
Adjusted R − squared	0.518217			
F − statistic	0.015459			
Prob(F − statistic)	0			

Table 11Regression analysis, CGI have negative but insignificant relationship with ROA. Z-Score have moderating effect of performance with highly significant. Firm size has

positive and highly significant because its value less than .05. R^2 value is 54% which can explore our model of dependent variable. Probability of F-Statistics is 0 so it shows our model fit. F-Statistics value 18.56 which highly shows that our model is perfect. OLS regression runs in which Fixed and Random effects. Independent variable of CGI impact with the Mediating effect of performance. CGI*Z-score both have combined equation runs and their impact have highly significant with performance of ROA.R^2 greater 75 which can explore our model.

Table 12: Regression Analysis ROE Moderating

Variable	Coefficient	Std. Error	t-Stat	Prob.
CGI*Z_SCORE	0.003177	0.000648	4.900162	0
C	0.040884	0.014004	2.91938	0.0053
R − squared	0.333441	Durbin − Watson stat		0.093436
Adjusted R − squared	0.319554			
F − statistic	24.01159			
Prob(F − statistic)	0.000011			

Table 12 Regression analysis, in this analysis equation between the CGI and Z-score have positive and highly significant and strong relationship. CGI as independent variable while Z-score as a mediating effect. R square 33% which can explore our models. And F-statistics 24% and its P value 0.0 less than .05 so show significant relation both of CGI and Z-score. OLS regression model run there at the Panel data and fixed method or Random effect method used this regression analysis.

CONCLUSION

This research study explores the comparison of Islamic and non-Islamic banks for exposure of Corporate Governance risk taking and performance of Islamic and conventional banks in Pakistan and Malaysia by using these components Corporate Governance index to measure them we taken the components Board size, independent directors, Female directors and CEO duality while Risk taking as a moderating effect at the performance of ROA, ROE which can be measured Net income and total assets, total equity. We use Z-score as moderating effect. We use 5 years data of total 18 banks from 2013 to 2017. Our sample size contains 8 Islamic 10 conventional banks of Pakistan and Malaysia (three Islamic and 5 conventional banks of Pakistan and 5 conventional and 5 Islamic banks of Malaysia). In Islamic banks results shows that firm size has significant relation with performance by using ROA. And CG has in significant impact on performance, but CG has significant impact on performance with moderating role of risk. While by using ROE while CGI have insignificant relation with performance. And we found that CGI has significant impact with moderating effect of risk. On the other hand, in Conventional banking by using ROA, CGI has insignificant impact on performance of conventional banks. CGI also has insignificant with moderating effect of risk. With ROE CGI has significant relation with moderating effect of risk. Our research study will provide new insight to management of Islamic and conventional banks that how they can manage risk and they can well perform. Our research study will also provide new insight to public that which sector of banking is good. They can understand the level of risk and performance of and role of management of both sectors of banking.

Research limitation, Future Direction

There are some limitations of this study we use only two country's data for analyzing the comparison for Pakistan and Malaysia, future researcher should expand number of countries for evaluating the contrasts of these two types of banks. We have taken limited index of corporate governance which includes only five characteristics, in future studies other scholars can raise governance index to see better results. They can also make comparison among small Islamic and small conventional banks.

Recommendations

Based on our findings, we recommend that in Islamic banks, governance plays a crucial role among performance so banks must have to focus on their governance so as they can well manage risk of operations.

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