Contents

Foreword —— VII

Preface —— X

Structure of the Book —— XII

Additional Materials —— XIII

Acknowledgment —— XIV

1 Introduction —— 1
1.1 Context and Background —— **1**
1.2 Motivation and Research Questions —— **5**

2 Capital Structure Theories and its Determinants —— 8
2.1 Introduction —— **8**
2.2 Development of Capital Structure Theories —— **9**
2.2.1 Tax-based Theories —— **10**
2.2.2 Agency Cost Theories —— **11**
2.2.3 Asymmetric Information Theories —— **12**
2.3 Trade-Off Theory —— **13**
2.3.1 Static Trade-Off Theory —— **14**
2.3.2 Dynamic Trade-Off Theory —— **15**
2.3.3 Review of Earlier Studies on Trade-Off Theory —— **17**
2.3.4 Critical Comments on Trade-Off Theory —— **18**
2.4 Pecking Order Theory —— **20**
2.4.1 Basic Notion of Pecking Order Theory —— **20**
2.4.2 Review of Earlier Studies on Pecking Order Theory —— **22**
2.4.3 Critical Comments on Pecking Order Theory —— **25**
2.5 Capital Structure Determinants —— **27**
2.5.1 Firm-Specific Determinants (Endogenous) —— **27**
2.5.2 Macroeconomic Determinants (Exogenous) —— **31**
2.6 Review of Earlier Capital Structure Studies on Shari'ah Compliant Companies —— **34**
2.7 Conclusion —— **37**

3 Shari'ah Compliant Equities and Capital Structure —— 39
3.1 Historical Background —— **39**
3.2 Shari'ah Screening Methodology —— **40**
3.3 Critical Comments on Shari'ah Screening Methodology —— **43**

3.4 Proposed Solution for Shari'ah Screening Methodology — **46**
3.4.1 Shari'ah Compliance (SC) vs. Shari'ah Non-Compliance (SNC): The Judgment per se — **47**
3.4.2 The Ratio and Threshold Criterion — **51**
3.4.3 *RIEM* Methodology (Revised Shari'ah Screening Methodology) — **62**
3.4.4 The Journey towards *Islamic Firms* — **65**
3.5 *Islamic Pecking Order* Model (Financing Hierarchy) — **66**
3.6 Conclusion — **68**

4 Establishing a Framework for Comparative Analysis — 70
4.1 Data Selection Procedure/Data Sources and Classification of Datasets — **70**
4.1.1 The Motivation of the Selection Procedure — **72**
4.1.2 Procedure to Identify SC and SNC Firms — **73**
4.2 Estimator and Post–Estimation Tests — **74**
4.2.1 Static Panel Model – OLS, Fixed, and Random Effects Estimators — **76**
4.2.2 Dynamic Panel Model – Generalized Method of Moments (GMM) Estimator — **80**
4.3 Formulation of Variables — **85**
4.3.1 Dependent Variables — **85**
4.3.2 Independent Variables and Hypothesis Development — **88**
4.4 Model Specification and Testing Model — **105**
4.4.1 Regression Model Specification — **105**
4.4.2 Testing Models — **108**
4.5 Conclusion — **110**

5 Cross-Country and Cross-Industry Determinants — 111
5.1 Descriptive Summary and Correlation Matrix Analysis — **111**
5.1.1 Descriptive Analysis — **112**
5.1.2 Pairwise Correlation Analysis — **122**
5.2 Empirical Results and Analysis — **125**
5.2.1 Annotations to the Results and Approach — **125**
5.2.2 *Overall (pooled)* Analysis — **126**
5.2.3 Cross-*Country* and Cross-*Industry* Analysis — **140**
5.2.4 Explanatory Power of Capital Structure Theories — **156**
5.3 Robustness Tests — **164**
5.4 Conclusion — **165**

6 Direct Measures of Capital Structure Theories — 166
6.1 Partial Adjustment Model (Speed of Adjustment) — **166**
6.1.1 Model Specification — **166**
6.1.2 Empirical Results — **168**

6.2 Pecking Order Model — **175**
6.2.1 Model Specification — **175**
6.2.2 Empirical Results — **178**
6.3 Financing Behavior of SC *(RIEM)* Firms — **184**
6.3.1 Procedure to Identify the SC *(RIEM 66 Index)* Firms — **185**
6.3.2 Empirical Results — **185**
6.4 Conclusion — **189**

7 Overall Conclusion and Future Research — 191
7.1 Overview and Key Findings — **191**
7.2 Implications of the Study — **195**
7.2.1 Implications for Policymakers — **195**
7.2.2 Implications of Risk-Sharing Instruments on Capital Structure Theories — **196**
7.3 Contribution of the Study — **199**
7.4 Limitations of the Study — **200**
7.5 Suggestions for Future Research — **201**

References — 203

Appendices — 217

About the Author — 369

List of Abbreviations and Symbols — 371

List of Figures — 373

List of Figures (appendices) — 375

List of Tables — 377

List of Tables (appendices) — 379

Index — 381