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The Impact of Corporate Governance on Disclosure Practice: An Analysis of Islamic and Conventional Banks in the GCC Countries

A Thesis submitted in fulfilment of the requirements for the degree of

Doctor of Philosophy

Abdullahi Aweis Abu

Durham University Business School

Department of Finance

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ABSTRACT

Effective corporate governance plays a crucial role in firms and affects important firm policies, including disclosure and transparency policies. Corporate governance has gained significant importance in the past two decades, especially after the high-profile corporate scandals such as Enron and the 2008 financial crisis. These events have brought the importance of corporate governance to the forefront and resulted in calls to strengthen corporate governance mechanisms, especially in the financial sector. The main objective of this research is to examine the impact of corporate governance mechanisms on the extent of disclosure for Islamic and conventional banks. To do this, the current study develops two indexes, namely board effectiveness and internal control strength. The study also develops an index for Shariah governance strength (specific to Islamic banks), which is comprised of the Shariah supervisory board and other Shariah governance-related characteristics. These indexes along with the underlying individual characteristics are used as determinants in examining the relationship between corporate governance and the extent of disclosure. To measure the extent of disclosure, the study develops a disclosure index and using a sample of 52 Islamic and conventional banks performs a content analysis of the bank's annual reports for the period from 2015 to 2019. Regression analysis is undertaken to examine the impact of the main corporate governance indexes and the individual variables on the extent of disclosure.

The result of the disclosure analysis shows statistically significant weakness in the disclosure practices of the Islamic banks when compared to their conventional counterparts, thus suggesting that Islamic banks need to enhance their disclosure policies. On the other hand, the results of the regression analysis shows that both corporate governance indexes (board effectiveness and internal control strength) have a significant positive impact on the extent of disclosure. The Shariah governance strength index is also significantly and positively associated with the extent of disclosure. Moreover, the findings show that several individual corporate governance characteristics are associated with the extent of disclosure. Board independence, audit committee size, financial expertise and internal audit independence are all positively and significantly associated with the extent of disclosure.

Overall, the findings of this study reveal that effective corporate governance has a significant impact on the extent of disclosure and banks with more effective boards and a stronger internal control environment tend to be more transparent. Moreover, Islamic banks which have stronger Shariah governance are more likely to provide higher levels of disclosure. These findings can provide informative and valuable insight to regulators, policymakers and bank stakeholders, who can use them to make enhancements to the corporate governance mechanisms of both Islamic and conventional banks.

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LIST OF ABBREVIATIONS

AAOIFI	Accounting and Auditing Organization for Islamic Financial Institutions
AC	Audit Committee
BCBS	Basel Committee on Banking Supervision
CEO	Chief Executive Officer
CIBAFI	The General Council for Islamic Banks and Financial Institutions
CSR	Corporate Social Responsibility
ESG	Environment, Social, and Governance
GCC	Gulf Cooperation Council
IAH	Investment Account Holder
IAF	Internal Audit Function
IIFM	International Islamic Financial Markets
IFSB	Islamic Financial Services Board
MENA	Middle East and North Africa
OECD	Organization for Economic Co-operation and Development
OLS	Ordinary Least Squares
PLS-SEM	Partial Least Squares Structural Equation Modelling
R&D	Research & Development
SSB	Shariah Supervisory Board

DECLARATION

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DEDICATION

To My Dear Mother and My Father

To My Wife and My Children:

Tasniim, Rayyan, and Maryam

To all of you, I dedicate this academic achievement and thank you for all your love, support and supplications.

CHAPTER ONE
INTRODUCTION

1.1. Background

Effective corporate governance is one of the most important pillars in the current business practices and market environment (Chapra and Ahmed, 2002). Corporate governance provides a structure through which a company's objectives are set and the means for attaining these objectives and monitoring performance (Smith, 2009). Additionally, disclosure and transparency are considered important pillars to the effective functioning of capital markets (Healy and Palepu, 2001). Disclosure helps spur economic growth, increases investor confidence in the market, and enhances overall firm value (Bushman et al., 2004; Cheung et al., 2007). The main aim of this research is to empirically examine the effect of corporate governance on the extent of disclosure by Islamic and conventional banks in the Gulf Cooperation Council (GCC) markets.

Research in corporate governance has received a great deal of attention in the last two decades (Al-Hussain, 2009; Baydoun et al., 2013; CIBAFI, 2017; Husted and Sousa-Filho, 2019; Ridwan and Mayapada, 2020; Alnhass et al., 2023). The corporate accounting scandals in the last two decades and the 2008 financial crisis have brought the issue of corporate governance to the forefront. During the late 1990s and early 2000s, the world witnessed a series of corporate accounting scandals, including Enron and WorldCom (Jizi et al. 2014; Okaily et al., 2019). As a result, investors all over the world experienced more than $7 trillion in stock and investor losses (Al-Hussain, 2009). The accounting scandals and the 2008 financial crisis seem to have shaken investor confidence in the markets and have generated significant research interest in corporate governance and transparency issues, especially in developed countries (Alnahass et al., 2023).

Besides research interest from the academic community, governments, regulatory agencies, and standard setters in many parts of the world have taken a keen interest in introducing new regulations and standards designed to enhance corporate governance and level of disclosure in financial institutions, with the purpose of restoring investor confidence, strengthening the financial institutions, and enacting measures to prevent future financial crises. For instance, in the United States, Congress has passed the Sarbanes-Oxley Act of 2002, which introduced extensive regulations aimed at enhancing the corporate governance practices of firms while requiring greater transparency and disclosure.

On the other hand, the Basel Committee on Banking Supervision (BCBS) has issued corporate governance principles for the banking sector, which provide guidelines on various aspects related to the governance of banks, such as board of directors, risk governance, and the role of internal audits (BCBS, 2015). Additionally, BCBS has issued Basel III, which sets out a global regulatory framework designed to enhance the quality of banks' capital to make them more resilient while at the same time introducing more robust risk governance, liquidity management and disclosure requirements (BCBS, 2010).

More recently,[1] BCBS updated its Pillar 3 of Basel III, which deals with disclosure requirements aimed at enhancing transparency in financial institutions, especially in areas related to risk governance, capital quality, liquidity management and loss-absorbing capacity. These new standards and regulatory requirements underscore the importance of effective corporate governance in restoring confidence in the markets and enhancing overall transparency and the

[1] It is worth noting BCBS's disclosure requirements, which were first issued as Basel part III in 2010, underwent a number of revisions, with the most recently revised document (Pillar 3 Disclosure requirements – consolidated and enhanced framework) being issued by BCBS in March 2017.

level of disclosure in financial institutions. The General Council for Islamic Banks and Financial Institutions (CIBAFI) and the World Bank highlighted in their landmark corporate governance study the importance of corporate governance and transparency for the banking sector in general and for Islamic banks in particular (CIBAFI, 2017).

While the study of corporate governance has gained notable prominence in developed countries, it is still in its early stages in many emerging economies and developing countries, including those in the GCC (Al-Hussain, 2009; Al-Hadi. et al 2019; Zamil et al., 2023). There is a notable weakness in the practice, awareness and research pertaining to corporate governance in these countries. Research indicates that corporate governance deficiencies negatively affect the overall market environment and result in poor transparency (Al-Hadi et al., 2019). For instance, Chapra and Ahmed (2002) assert that, because of the poor corporate governance in developing countries, information asymmetry is more severe, market participants are less experienced, and regulations are ineffective.

In addition to the prevailing weak corporate governance environment in developing countries, Islamic banks are faced with additional governance challenges and risks, such as compliance with Sharia principles and Sharia governance requirements (Hasan, 2011; CIBAFI, 2017; Sencal and Asutay, 2021; AlQassar and Ahmed, 2021). In addition to being subject to general governance requirements, Islamic banks are required to adhere to Shariah rules and principles. Shariah (Islamic Law) requires that Islamic banks avoid any dealing that involves *riba* (interest), *gharar* (uncertainty), *maysir* (gambling), and engage only in *halal* (permissible) transactions (Ghayad, 2008; Haniffa and Hudaib, 2007). Further, Shariah principles promote *adl* (justice), *qist* (equity), *ihsan* (benevolence) as well as accountability and transparency (Hassan and Harahap, 2010). Naqvi (1994) describes *adl* & *ihsan* as an equilibrium which is essential for

creating social harmony and balance. This equilibrium has important governance implications for Islamic banks. It underscores the importance integrating and embedding the *adl* & *ihsan* equilibrium in the Islamic bank's processes, activities, and decision-making, including those related to the governing bodies such as the board of directors, audit committee and the SSB. Abdullah and Asutay (2021) assert that when *adl* is incorporated into the Islamic bank's governance structures, it will result in greater harmony, justice and balance and will enable the Islamic bank to have more standardized policies, procedures, and practices. The equilibrium will also affect and shape the way the Islamic bank governs the relationship with its stakeholders (Sencal and Asutay, 2021). The integration of *adl* into the corporate governance structure of the Islamic bank operationalises the processes that will ascertain fair and equitable treatment of all stakeholders where their rights and interest are given at most priority (Abdullah & Asutay, 2021). Moreover, to achieve the axiom of *ihsan* Islamic bank boards and SSBs will need to go above and beyond what is required and discharge its duties and responsibilities with excellence and benevolence (Abdullah and Asutay, 2021).

Shariah teachings also promote environmental conservation and protection and sustainable development (Aribi and Gao, 2010; Sencal and Asutay, 2021). This puts on Islamic banks additional responsibilities to establish governance mechanisms designed to ensure that Shariah principles are achieved, and its rules strictly followed.

One of the key governance mechanisms for ensuring strict adherence to Shariah rules and principles is the Shariah supervisory board (SSB). The SSB is an integral part of Islamic banks' governance systems (Chapra and Ahmed, 2002; AlQassar and Ahmed, 2021; Hasan, 2011; Istrefi, 2020; Nathan and Ribière, 2007a; Sencal and Asutay, 2021) and is expected to advocate for greater transparency and disclosure. Transparency is deeply rooted in important Islamic values such as

honesty, truthfulness, and accountability in front of God (El-Halaby and Hussainey, 2015). It is also an important component of the *adl & ihsan* equilibrium as it demonstrates the Islamic bank's unwavering commitment to achieve the highest form of justice and excellence in their disclosure practices to fulfil the information needs of all its stakeholders in an honest, truthful and comprehensive manner (Ariffin et al., 2007). Abdullah & Asutay (2021) assert that the axiom of justice plays a pivotal role in instilling in the Islamic banks the need for disclosing information fairly to all stakeholders while avoiding any form of discrimination or transgression. Ariffin et al. (2007) argue that Islamic banks need to provide more disclosures when compared to their conventional counterparts due to the nature of their stakeholders such as the investment account holders (IAH). They assert that, unlike the traditional depositors in conventional banks, IAHs in Islamic banks are exposed to higher risks and as such require greater transparency in order to assess bank performance and manage their investment risks more effectively. Maali et al. (2006) outline the three important principles which make transparency more important for Islamic banks when compared to their conventional counterparts:

1. To show compliance with Islamic principles, in particular dealing justly with different parties.
2. To show how the operations of the business have affected the wellbeing of the Islamic community.
3. To help Muslims perform their religious duties.

El-Halaby and Hussainey (2015) assert that accountability to God, the desire to convey the truth, and fulfilling their religious obligations toward society gives greater impetus for Islamic banks to be more transparent. As a result, there is a high expectation from Islamic bank stakeholders, including IAHs for management in general and the SSB in particular to commit to

full disclosure and promote greater transparency. However, several studies seem to suggest that, despite the presence of SSBs, disclosure is generally weak in Islamic banks (Aribi and Gao, 2010; Haniffa and Hudaib, 2007; Harun et al., 2020). This underscores the need for empirical research examining corporate governance and the level of disclosure and transparency in Islamic banks.

1.2. Research Motivation and Rationale

Weak corporate governance, lack of transparency, and information asymmetry were among the chief issues that led to the 2008 financial crisis and the financial meltdown that ensued. This has generated significant research interest in examining the role of corporate governance in firms and how it affects various firm policies, including information disclosure. As a result, extensive research has been conducted in developed countries examining the impact of corporate governance characteristics on the extent of disclosure (Jensen and Meckling, 1976; Forker, 1992; Healy and Palepu, 2001; Cohen et al., 2004; Dey, 2005; Huafang and Jianguo, 2007; Natarajan, 2007; Chen et al., 2010; Del Baldo, 2012; Hermalin and Weisbach, 2012; Htay et al. 2012; Sacconi, 2012; Barros et al., 2013; Khan et al., 2013; Salman & Nobanee, 2019; Husted and Sousa-Filho, 2019; Al Maeeni et al., 2022; Zamil et al., 2023).

While the study of corporate governance has gained notable prominence in developed countries, there is relatively little research focusing on developing countries (Al Zuhair, 2008; Rizk et al., 2008; Al Shammari and Al-Sultan, 2010; Al-Janadi et al., 2012; Hassan, 2013; Aribi et al., 2019; Farah et al., 2021; Al Maeeni et al., 2022; Ibrahim et al, 2023; Zamil et al., 2023). Research seems to suggest that there is a notable weakness in practice, awareness and research pertaining to corporate governance in many developing countries, including those in the GCC (Farah et al., 2021). Chapra and Ahmed (2002) argue that corporate governance is considered generally weak

in most developing countries. They assert that financial institutions (including Islamic banks) are most affected by weak corporate governance in developing countries due to their larger number of stakeholders and greater systematic risks.

In GCC markets, numerous studies highlight a general lack of awareness among companies regarding the role and importance of corporate governance. For example, a survey conducted in 2008 by *Hawkamah*[2] finds that more than 53% of banks and companies in the GCC market surveyed were unable to even define properly corporate governance (Smith, 2009). In addition, Al-Hussain (2009) finds a similar lack of awareness and misunderstanding of corporate governance concepts in Saudi Arabia (the largest GCC country) not only by managers and directors, but also by legislators, stockholders and the public. There is also a dearth of research within GCC countries on corporate governance practices and their effect on disclosure (Razook, 2010; Farook et al., 2012; Farah et al., 2021; Al Maeeni et al., 2022; Zamil et al., 2023). In particular, there is a notable scarcity of empirical studies examining corporate governance in Islamic banks (Chapra and Ahmed, 2002; Harun et al., 2020). Islamic banks are financial institutions conducting their transactions in accordance with Shariah principles (Nathan and Ribière, 2007; Alnehass et al., 2023). To conduct a *riba*-free banking model, Islamic banks have developed several Islamic financial contracts, some of which are sale-based financing instruments while others can be classified as profit-loss sharing investing instruments. These Islamic financial contracts include *Murabaha, Ijara, Musharaka, Mudaraba, Salam, and Istisna'.*

The Islamic banking industry represents a major player in the financial markets and continues to witness significant growth. According to the Islamic Financial Services Board, the

[2] A corporate governance think tank at the Dubai International Financial Centre.

Islamic banking industry is currently estimated to be worth $3.06 trillion (IFSB, 2022). Further, the Standard & Poor's Global Rating report that Islamic banks were expected to grow at a rate of 10–12% for the years of 2021 and 2022 (Reuters, 2021). The GCC markets, including Saudi Arabia, Qatar and United Arab Emirates play crucial role in the overall global Islamic finance industry and is expected to continue to grow in the coming years (IFSB, 2022).

Islamic banks are expected to play a critical role in the social development and welfare of society (Aribi and Gao, 2010) and thus are expected to give greater importance to disclosure and transparency to enhance their overall performance and value (Sencal and Asutay, 2021). However, it is to be noted that disclosure in Islamic banks is significantly lagging (Haniffa and Hudaib, 2007; Aribi and Gao, 2010; Farook et al., 2011; Aribi et al., 2019). A comprehensive corporate governance study undertaken by the CIBAFI finds that Islamic banks have significant weakness in their Shariah governance and lack adequate disclosures, especially those related to Shariah compliance matters (CIBAFI, 2017).

This highlights the need for research focusing on examining the impact of corporate governance mechanisms on the level of transparency of Islamic and conventional banks (Hassan, 2010; Hasan, 2011). The current study aims to fill the gap highlighted above and contribute to the improvement of corporate governance mechanisms and disclosures by Islamic and conventional banks at both the policy and theory level. The main motivation behind the current study is to examine the impact of corporate governance on the extent of disclosure by Islamic and conventional banks in GCC markets. This study helps shed light on how improvements to corporate governance and the level of transparency impacts Islamic banks' performance and overall value. Furthermore, this study paves the way for future research focusing on the link between corporate governance mechanisms and disclosure in GCC banks.

1.3. Research Aim and Objectives

The main aim of this research is to examine the impact of certain corporate governance mechanisms (e.g., board of directors, audit committee, and shariah governance) on the extent of voluntary disclosure by Islamic and conventional banks and to fill the research gap highlighted above and contribute to the improvement of corporate governance mechanisms and disclosures by Islamic and conventional banks at both the theory and policy level. Furthermore, the study aims to pave the way for future research focusing on the link between corporate governance mechanisms and disclosure in GCC-listed Islamic and conventional banks. The research objectives include the following:

- Critically analyse the literature on corporate governance and disclosure, focusing on the research conducted to examine their causal relationships.
- Explore and analyse relevant theories and provide a theoretical framework for the current study.
- Develop an index for board effectiveness and internal control strength to perform an analysis and examine their impact on the extent of disclosure.
- Investigate the impact of corporate governance characteristics (board effectiveness, internal control strength) on the extent of disclosure.
- Examine the impact of bank- and country-level factors such as size, profitability, leverage and regulatory quality on the extent of disclosure.
- Develop a disclosure index to measure the extent of disclosure by both Islamic and conventional banks.

- Determine whether there is a significant difference in the extent of disclosure by Islamic and conventional banks.
- Develop a Shariah governance strength score to investigate its effect on the extent of disclosure by Islamic banks.

The motivation behind this research is to make original contributions to the effect of corporate governance on the extent of disclosure by Islamic and conventional banks in the GCC countries. The GCC markets have been selected for this study due to the fact that the GCC countries share similar socio-economic structures and institutional norms, thus providing a control mechanism and allowing the researcher to make meaningful comparisons (Haniffa and Hudaib, 2007; Abdallah et al., 2015; Al-Sartawi and Reyad, 2018; Salman & Nobanee, 2019). Moreover, the GCC market was chosen because the GCC is a crucial market for the Islamic banking industry, and it is a highly liquid market with significant growth potential (Smith, 2009; Al-Sartawi and Reyad, 2018). The total assets of the Islamic banking industry in the GCC markets are estimated to be worth USD 1.6 trillion as of the year ended 2021, which represents 53.4% of the global Islamic finance assets (ISFB, 2022). There is a great need for more research focused on the region due to the limited studies done addressing governance issues facing the Islamic finance industry (Chapra and Ahmed, 2002; Grassa and Chakroun, 2016).

1.4. Research Questions

In line with the research objectives outlined above, the main question that the current study aims to investigate is: How do corporate governance mechanisms (e.g., board of directors, audit committee, internal audit, etc.) affect the extent of disclosure by Islamic and conventional banks

in the GCC markets? More specifically, the study investigates the following sub-questions in relation to the above main research question:

- How does the effectiveness of the board of directors impact the extent of disclosure?
- Does the strength of the internal control environment affect the extent of disclosure?
- How does the strength of Shariah governance affect the level of disclosure by Islamic banks?
- How do board characteristics such as independence, size and frequency of meetings affect the extent of disclosure by Islamic and conventional banks?
- Is there an association between internal control characteristics (e.g., audit committee size, independence, meeting frequency, financial expertise, and internal audit independence) and the extent of disclosure?
- Do firm- and country-level characteristics affect the extent of disclosure?

1.5. Research Methodology

In line with the above research questions and objectives and consistent with prior studies, the current study makes certain research philosophical assumptions. From an ontological perspective, the study adopts a social constructivism position for the data collection and an objectivist position for the data analysis. Epistemologically, the study takes the interpretivism approach for the data collection and postpositivist approach for the data analysis. Moreover, the study adopts a quantitative method and a deductive approach for the research inquiry[3]. Accordingly, the study starts with existing theories relevant to the research questions and develops

[3] For further details on the research philosophical assumptions adopted for this study, see the Research Methodology Chapter (Chapter Five).

a set of hypotheses which are then tested using observable data in order to confirm or reject the theories (Saunders et al., 2012; Bryman, 2016).

In undertaking the research inquiry, the study adopts archival research and performs content analysis and uses secondary data on banks and countries. Following the methods most commonly used by researchers in examining the impact of corporate governance on disclosure (Chen and Jaggi, 2000; Haniffa and Cooke, 2002; Eng and Mak, 2003; Barako et al., 2006; Haniffa and Hudaib, 2007; Aribi and Gao, 2010; Al-Shammari and Al-Sultan, 2010; Hassan and Harahap, 2010; Barros et al., 2013; Jizi et al., 2014; Milad and Bicer, 2020), the study performs content analysis for data collection, utilizing the annual reports of a sample of Islamic and conventional banks listed in the GCC countries. Annual reports are chosen to perform the content analysis because they contain highly credible information, are widely distributed (Rizk et al., 2008) and are most often used by researchers (Gray et al., 2001). Jizi et al. (2014) argue that annual reports are read by a large number of groups including shareholders, stakeholders and financial intermediaries. Barros et al. (2013) conclude that annual reports are used by various stakeholders to assess company performance. Content analysis requires the use of a coding mechanism or a checklist (Aribi and Gao, 2010).

Consistent with prior studies (Meek et al., 1995; Haniffa and Hudaib, 2007), this study develops a voluntary disclosure checklist categorized based on the type of information, such as strategy, corporate governance, risk management, Shariah governance, financial, corporate social responsibility (CSR). Under each category, subcategories are developed, and the related voluntary disclosure items are listed (e.g., existence of an audit committee, under the corporate governance category) in line with prior studies and applicable guidelines of standard-setting bodies for Islamic banks such as the Accounting and Auditing Organization for Islamic Financial Institutions

(AAOIFI). All available disclosure items are examined against the independent variables (e.g., board characteristics, audit committee, and SSB characteristics) to determine their effect on the extent of disclosure.

1.6. Research Contributions to Knowledge

Research indicates that corporate governance is of enormous importance to the economy and information disclosure plays an important role in markets (Healy and Palepu, 2001). Moreover, a lack of transparency and information asymmetry can lead to a breakdown in capital markets (Healy and Palepu, 2001). This underscores the importance of studying corporate governance and its impact on various firm policies, including information disclosure by firms (Hidalgo et al., 2011).

Research exploring the impact of corporate governance on disclosure by GCC banks will have significant importance for several reasons. First, this research will be of great relevance to Islamic and conventional banks in GCC and will help shed light on corporate governance and transparency issues which exist in this important region, which is central to the global financial industry. Islamic banks in the GCC markets are on the rise and are growing at a rate higher than conventional banks (The Banker, 2018).

Despite their significant growth, Islamic banks in the GCC have received little research attention when it comes to research exploring the link between corporate governance and disclosure quality (Zamil et al., 2023). Most prior studies examining the relationship between corporate governance and disclosure appear to focus on developed countries and cover financial and nonfinancial companies. Moreover, even those studies which examine developing countries

such as those in the GCC often use samples of nonfinancial companies and do not comprehensively examine various types of disclosure, including governance, risk, financial, and Shariah governance. The current study seeks to fill this gap by examining the impact of various corporate governance mechanisms, namely characteristics of boards of directors, internal control, and Shariah governance on the extent of disclosure by GCC Islamic and conventional banks. This study develops a disclosure index which is comprised of a comprehensive set of disclosure items, including financial and nonfinancial information such as strategy; governance; risk; environmental, social, and governance (ESG); and Shariah governance.

Second, the study fills the current research gap by using various corporate governance explanatory variables including the board, audit committee, internal controls, and Shariah governance. Moreover, the study develops and uses a corporate governance quality index in three main dimensions of corporate governance, namely board effectiveness, internal control strength, and Shariah governance strength, to comprehensively examine their impact on the extent of disclosure. The results of this comprehensive study will inform academics and researchers in the field and highlight future research in areas that have not received enough attention or problems that require further study. For instance, this study paves the way for future research focused on the role of internal controls in strengthening the corporate governance environment and in turn enhancing bank transparency and disclosure.

Third, the research plays an instrumental role in raising awareness and contributing to good corporate governance practices in Islamic and conventional banks. The research informs investors, policymakers, standard setters (e.g., AAOIFI, IFSB, etc.) and regulators and sheds light on ways in which corporate governance and disclosure practices in banks can be enhanced.

Finally, the research findings can be used by Islamic and conventional banks to lead the way in adopting best practices in corporate governance and information disclosure, thereby setting a good example not only for the Islamic finance industry but for the entire banking sector in the GCC. It is also important to note that the GCC markets (e.g., United Arab Emirates, Bahrain, and Qatar) are positioning themselves to become key players in the global financial industry and a hub of Islamic finance and banking. Moreover, the majority of the world's Islamic banks are in the GCC (Rizkiningsih and Dewi, 2015). Thus, it can be expected that the outcome of this research will be timely to make significant contributions – at both the policy and theory level – to the improvement of corporate governance and disclosure practices of both Islamic and conventional banks.

1.7. Research Structure and Outline

This thesis is comprised of eight chapters. Chapter One provides an introduction and summarizes the research aim & objectives and provides an outline of the thesis. Chapter Two provides conceptual background on corporate governance and voluntary disclosure. The chapter discusses the main corporate governance models and approaches and provides an overview of the disclosure literature. The chapter also presents the theories most commonly used for corporate governance and voluntary disclosure and proposes a theoretical framework for the current study. Chapter Three discusses the relevant literature and critically analyses prior studies in relation to the research questions and the hypotheses identified for the study. Chapter Four discusses the research methodology and identifies the methods for testing the hypotheses. The chapter surveys the research philosophies and discusses the methods followed for data collection and analysis. Chapter Five, Six, and Seven present the research data and findings. Chapter Five provides the

descriptive statistics and correlation analysis of the variables adopted for the study. Chapters Six and Seven provide the result of the regression analysis performed for the study and present detailed account of the findings pertaining to Islamic and conventional banks. Finally, Chapter Eight analyses the results and provides a summary and conclusion. The chapter synthesizes the results to address the research questions and conclude on the hypotheses.

CHAPTER TWO

CORPORATE GOVERNANCE AND DISCLOSURE: A CONCEPTUAL OVERVIEW AND THEORETICAL FRAMEWORK

2.1. Conceptual Overview

2.1.1. Introduction

Corporate governance has become one of the most important research topics in the modern corporate environment (Van Greuning and Iqbal, 2008). The corporate scandals of the 1990s, such as Enron and WorldCom, and the 2008 financial crisis have shaken investor confidence and have generated significant interest in corporate governance and its role in firms (Tricker, 2015; CIBAFI, 2017; Tessema, 2019). In fact, research indicates that corporate governance failure was the chief reason behind these crises (Tarraf, 2011; CIBAFI, 2017). These events have shown that even the world's most developed economies such as the United States can be vulnerable due to gaps in their corporate governance structures (Millar et al., 2005).

Corporate governance is crucial because it provides the structure and arrangements for how powers of decision-making are shared among the constituents of the organization and how control over the firm's assets is allocated (Hart, 1995). Shleifer and Vishny (1997) argue that corporate governance provides protection to shareholders and assures them that they will receive a return on their capital. CIBAFI (2017) asserts that corporate governance enables firms to have stronger performance, better access to finance, and maintain lower risk profiles. Moreover, it helps reduce economic instability and increases the potential for long-term growth.

Consistent with the research aim and objectives, this chapter provides a conceptual definition and an overview of corporate governance, discusses the main corporate governance

approaches and systems around the world, and provides an account of the Islamic perspective on corporate governance. The chapter provides an overview of the literature related to voluntary disclosure in both developed and developing countries, critically analyses types of disclosure, and investigates its role, its importance, as well as its costs and benefits. The chapter also presents theories relevant to corporate governance and disclosure and develops an integrated theoretical framework based on the researcher's understanding of how corporate governance affects the extent of disclosure.

2.1.2. Corporate Governance – An Overview

2.1.2.1. Definition

A corporation can be defined as a large company authorized to act as a single entity and recognized in the law as such (Calder, 2008). In general, corporate governance describes the actions or manners of governing a large company or group. The Cadbury Committee (1992) defines corporate governance as the system by which companies are controlled and directed. On the other hand, Aoki (2001) defines corporate governance broadly as the structure of rights and responsibilities among the firm's stakeholders. This definition affirms that corporate governance should be concerned with not only the shareholders, but the rights and responsibilities of all stakeholders, including employees, customers, suppliers, creditors and the community at large.

The Organization for Economic Co-operation and Development (OECD) defines corporate governance as 'a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure by which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined' (OECD, 2004). The OECD's definition goes beyond shareholders, taking the

broader view of the entities with a stake in the firm, and who influence corporate governance (Tricker, 2015). This definition emphasizes the central role that corporate governance arrangements play in the firm's strategy and decision-making process.

A more value-oriented definition of corporate governance has been offered by J. Wolfensohn, President of the World Bank. In an article published in the Financial Times on June 21, 1999, Mr. Wolfensohn stated that 'corporate governance is about promoting corporate fairness, transparency and accountability' (Chapra and Ahmed, 2002, p. 13). The values advocated for under this definition (fairness, transparency and accountability) are considered important under Islamic law and are also more attuned to the social responsibility that corporations owe to the communities in which they do business. From this definition we can infer that transparency and the disclosure of information to stakeholders are central to effective corporate governance.

Greuning and Iqbal (2008, p.31) define corporate governance in banks as 'a set of relationships between the bank's management, its board, its shareholders, and other stakeholders'. This definition underscores the importance of relationships in corporate governance and the structures that govern such relationships. It also broadens the role of corporate governance to encompass not only the shareholders, but also other stakeholders (e.g., employees, community). Because this research focuses on GCC Islamic and conventional banks, the researcher has adopted the last two definitions. Throughout this study, corporate governance should be understood to mean the set of relationships between the bank's management, board, shareholders, and other stakeholders, and the mechanisms that promote corporate fairness, integrity, transparency and accountability.

2.1.2.2. The Role of Corporate Governance in the Firm

Corporate governance plays a significant role at both the market and firm levels, has great importance to the economy (Shleifer and Vishny, 1997), and is central to economic development and social wellbeing (Claessens and Yurtoglu, 2012). For the financial services industry in general and the banking sector in particular, corporate governance helps ensure efficient, viable and sustainable growth (Dusuki, 2011). Hasan (2009a) argues that corporate governance's primary role in the financial and banking sector is to ensure fairness, accountability and transparency not only to shareholders but to all stakeholders who have an interest in the firm. Corporate governance is even more important for the Islamic banking industry as it helps Islamic banks to not only provide a fair return to stakeholders but also assure stakeholders of the bank's compliance with Shariah rules in all its products, transactions and operational activities (Dusuki, 2011; El Tiby and Grais, 2015).

The role of corporate governance in the firm becomes even more critical, given the divergence[4] between the goals of the agents and those of the firm's principals, coupled with the inability of owners to write complete contracts and monitor management's behaviours at zero cost (Hart, 1995; Cheng and Courtenay, 2006). Corporate governance mechanisms such as the establishment of an effective board of directors help firms minimize the problems arising from the agency problems. Effective corporate governance allows owners to monitor management and to

[4] The extant literature discusses the conflict of interest which exists between the principals (i.e. owners) and their agents (i.e. management), a matter known in the literature as an "agency problem". For example, Jensen and Meckling (1976) extensively discuss the agency problem between principals and agents, asserting that the agent will not always act in the best interest of the principal and therefore the principal needs to establish appropriate mechanisms (e.g. incentives and monitoring) to minimize the agent's deviation from the principal's goals. Other pioneering studies in agency problems include Alchian and Demsetz (1972), Ross (1973), Fama (1980), Fama and Jensen (1983), Eisenhardt (1989), and Hart (1995).

restrict them from shirking their duties or using the firm's resources to advance their own interests (Durnev, 2003). Hart (1995) argues that corporate governance provides the mechanisms by which owners establish checks and balances and monitor management's behaviour to ensure consistency with the goals of the firm and protect against self-enriching behaviour. While it is practically impossible to specify by contract all actions by management, the firm's owners rely on corporate governance mechanisms to allocate the powers for decision-making and monitor the behaviour of management (Hart, 1995).

2.1.2.3. Corporate Governance and Information Asymmetry

The separation of ownership and control gives rise to information asymmetry, whereby management has more information than the owners of the firm. This creates the need for internal corporate governance mechanisms such as a board of directors (John and Senbet, 1998) to reduce information asymmetry and contribute to greater transparency. Researchers have found a relationship between poor corporate governance and information asymmetry. For instance, according to Chapra and Ahmed (2002), weak corporate governance leads to poor or non-existent disclosure quality. Bonazzi and Islam (2007) also suggest that poor corporate governance leads to market failures, non-existent markets, moral hazards, asymmetric information, incomplete contracts and adverse selection, among other problems.

Information asymmetry is generally present when one party has access to private information that could help another party to make better decisions (Connelly et al., 2011). Information asymmetry (also referred to in the literature as the "lemon" problem) arises when there is a difference in the level of information available to managers and to the firm's owners (Healy and Palepu, 2001), which can result in moral hazards and adverse selection. According to

Eisenhardt (1989), moral hazard refers to the agent's failure to put in the agreed-upon effort. Adverse selection occurs when the agent misrepresents his/her ability or skills, and the principal cannot verify these skills or abilities due to information asymmetry (Eisenhardt, 1989, p. 61). Several potential solutions to the information asymmetry problem are proposed in the literature, including writing optimal contracts between principals and their agents, enacting governmental regulations requiring managers to fully disclose their private information, and employing intermediaries such as analysts and rating agencies to gain access to private information held by managers (Healy and Palepu, 2001). Effective disclosure of information can also greatly reduce information asymmetry and help address agency conflicts between managers and owners (Rizkiningsih and Dewi, 2015).

The extant literature shows that corporate governance contributes to improvements in the level of disclosure. Durnev (2003) suggests that firms with effective corporate governance are likely to have greater disclosure and be more transparent to outside investors. Hidalgo et al. (2011) argue that a fundamental objective of corporate governance is to enhance transparency and reduce the information asymmetry which arises from the separation of ownership and control in the firm. In their multinational study examining the impact of corporate governance on the extent of disclosure, Beekes et al. (2016) conclude that better corporate governance enhances the level of disclosure and transparency in the markets. However, as noted earlier, corporate governance means different things to different people, hence the importance of shedding light on various corporate governance models and approaches. These are discussed in further detail in the following sections.

2.1.2.4. Corporate Governance Models and Approaches

A review of the extant literature reveals that different models of corporate governance exist in different parts of the world. The model adopted depends on various factors, including decision-making style, historical and institutional differences, culture, and regulatory environment (Freeman and Reed, 1983; Iqbal and Mirakhor, 2004; Morck and Steier, 2005 Ungureanu, 2012; Clarke and Dela Rama, 2008). For example, the Anglo-American model of corporate governance (practiced in the USA and UK) is driven by value maximization, in which firm managers are expected to maximize shareholder value (Ungureanu, 2012; Abdullah and Asutay, 2021). In contrast, Continental Europe (e.g., Italy and Germany) takes a broader and more inclusive approach where the company serves the interests not only of the shareholders, but also those of employees, unions, business partners, etc. (Ungureanu, 2012). The Japanese corporate governance model is characterized by concentrated ownership and a strong tendency towards corporate control. It emphasizes the need to harmonize the interests of various stakeholders (suppliers, customers, banks, social groups, etc.) and ensures that the firm maintains long-term business relationships with its stakeholders (Ungureanu, 2012). The corporate governance models cited here illustrate two main approaches: the Anglo-American shareholder model, and the broader and more inclusive stakeholder model.

2.1.2.4.1. The Shareholder Model of Corporate Governance

The shareholder model is considered the most widely used model of corporate governance, especially in the United States and United Kingdom (Hasan, 2009). Under the shareholder approach, the primary goal of the firm is to maximize shareholder value (Jensen and Meckling, 1976), and managers are expected to serve the shareholders' interest only (Iqbal and Mirakhor,

2004). This is the premise on which Anglo-American corporate governance operates, associating corporate governance with mechanisms designed to preserve and maximize shareholder value (Cheffins, 2013), provide greater legal protection, and ensure that actions and decisions of the managers are congruent with those of the owners. Williamson (1984) argues that the firm's corporate governance structures, such as the board of directors, should be designed to safeguard the investments of the shareholders.

Despite the widespread acceptance of the shareholder approach among researchers and practitioners (Hasan, 2011; Sacconi, 2012), a growing number of researchers hold the view that this approach presents a narrow perspective of corporate governance (Filatotchev, 2008) and limits the responsibility of the managers of the firm to shareholders only (Del Baldo, 2012; Sacconi, 2012; Karim and Archer, 2013). These researchers assert that the shareholder model fails to serve the interests of other important constituents of the firm, such as employees, customers, suppliers and the community at large. Under the shareholder model, managers are not viewed as stewards who should be acting in the best interest of the principals of the firm, but rather as self-interested opportunistic agents who have to be constantly monitored and controlled (Lewis, 2005). Due to these shortcomings, the stakeholder model of corporate governance has been proposed as a viable alternative to the shareholder model, as discussed below.

2.1.2.4.2. The Stakeholder Model of Corporate Governance

Researchers advocate for the stakeholder approach as a broader, more inclusive model that serves the various interests of all those associated with the firm. The word "stakeholders" refers to any identifiable group or individual on which the organization depends for its continued survival (Freeman and Reed 1983; Sacconi, 2012). The list of stakeholders includes shareholders,

employees, customers, suppliers, lenders and society (Murphy and Topyan, 2005). Karim and Archer (2013) posit a similar view and argue that the stakeholder approach to corporate governance serves the interests of stakeholders and shareholders equally. Under this approach, firms have a responsibility to promote the interests of all stakeholders including employees, customers, communities and the environment, as well as the interests of shareholders (Hasan, 2011). Moreover, under the stakeholder model of corporate governance, managers have a fiduciary duty to serve the interests of a firm's stakeholders and that all stakeholders are considered to have the right to participate in firm decisions which affect their interests (Iqbal and Mirakhor, 2004).

It can be argued that the stakeholder model of corporate governance is more consistent with Shariah principles and is therefore more suitable to Islamic banks. This is because the stakeholder model of corporate governance is broader, takes into consideration the interest and welfare of all stakeholders who have influence over the firm, and is more aligned with the Islamic approach to property rights and contract frameworks (Iqbal and Mirakhor, 2004; Bhatti and Bhatti, 2010). The following section provides an overview of the Islamic perspective on corporate governance and discusses relevant issues which arise in Islamic banks.

2.1.2.5. The Islamic Perspective on Corporate Governance

Several studies explore and shed light on the Islamic perspective of corporate governance (Chapra and Ahmed, 2002; Iqbal and Mirakhor, 2004; Lewis, 2005; Choudhury and Hoque, 2006; Grais and Pellegrini, 2006; Abu-Tapangeh, 2009; Hasan, 2009; Bhatti and Bhatti, 2010; Farooq and Farooq, 2011; Hasan, 2011; Grassa and Matoussi, 2014; Sakti and Tareq, 2016; Alam et al., 2017; Mansour and Bhatti, 2018; AlQassar and Ahmed, 2021). In general, these studies suggest that many of corporate governance mechanisms, such as a board of directors, are applicable to

Islamic banks, similar to their conventional counterparts (Hasan, 2009; Alnehass et al., 2023). However, there are fundamental conceptual principles which shape the Islamic perspective on corporate governance that ought to be considered in the governance of Islamic banks (Mansour and Bhatti, 2018). These include the concept of *Tawhid* and Shariah law (Iqbal and Mirakhor, 2004; Lewis, 2005; Choudhury and Hoque, 2006; Hasan, 2009b; Sencal and Asutay, 2021).

To understand these fundamental principles of the Islamic model of corporate governance, it is crucial that we shed light on the Islamic faith and contextualize some of the key principles and teachings which influence corporate governance. In this context, it is important to note that the main purpose of Islamic corporate governance is to achieve the higher Shariah objectives. The means through which sound corporate governance is established must be in line with Shariah rules and principles (Bhatti and Bhatti, 2010). Sencal and Asutay (2021) assert that, in addition to the business and financial transactions, Islamic banks must ascertain that their governance structures are in line with the Shariah principles and truly reflect the Islamic teachings and values. The Shariah provides its followers a complete way of life with guidelines and teachings that govern all aspects of life, including relationships among people, their financial dealings, and material needs (Presley and Sessions, 1994). Islam values human relations above material possessions and aims to strike a balance between the material and spiritual needs of human beings (Van Greuning and Iqbal, 2008).

It is essential that Islamic teachings and way of life are viewed holistically and embraced in their totality. Islam is an integrated code of life whose goals encompass the individual and the community not only in this world but in the hereafter as well (Abozaid and Dusuki, 2007). Islamic teachings emphasize the importance of justice and equity, two key themes that are built into all

Shariah rules and principles (Van Greuning and Iqbal, 2008) and that are essential to understanding the Islamic perspective on corporate governance.

2.1.2.5.1. The Concept of Tawhid

Tawhid, which means the unity and oneness of Allah (God), is undoubtedly a fundamental and overarching concept which provides the epistemological foundation for understanding the Islamic perspective on corporate governance. *Tawhid*, which represents the foundational ontology of the Islamic faith *(*Choudhury and Alam, 2013), is the belief that God is the Creator of mankind and Owner of wealth. People are vicegerents of God, entrusted with this wealth to manage and use it in accordance with the principles and rules of Islamic law (Presley and Sessions, 1994). Though scant, there have been studies which attempt to shed light on the fundamental concepts underlying the Islamic corporate governance model (Presley and Sessions, 1994; Iqbal and Mirakhor, 2004; Lewis, 2005; Choudhury and Hoque, 2006; Grais and Pellegrini, 2006; Maali et al., 2006; Greuning and Iqbal, 2008; Abu-Tapangeh, 2009; Hasan, 2011; Choudary and Alam, 2013; Htay and Salman, 2013; Obid & Naysari, 2016; Mansour and Bhatti, 2018; Sencal and Asutay, 2021; Abdullah and Asutay, 2021).

Choudhury and Hoque (2006) undertake an epistemological approach to explore the foundational concept of the Islamic corporate governance structure. Their study emphasizes that the overarching epistemological foundations of Islamic corporate governance are that of the oneness of God and the unity of knowledge. In a similar vein, Lewis (2005) argues that Islamic corporate governance is shaped by two important elements, namely *Tawhid* and Shariah law, and the two together provide a framework for understanding the Islamic perspective of corporate governance. Wilson (2006) asserts that *Tawhid* is the key principle governing business philosophy

in Islamic finance, and consequently significantly influences the Islamic perspective on corporate governance. Hasan (2009a) argues that under the concept of *Tawhid*, people are vicegerents (*khalifa*) of God who are entrusted with the responsibility to stand for justice and to uphold Shariah rules and principles. Moreover, according to the concept of *Tawhid*, all resources (including wealth) belong to God and humans are merely entrusted with the responsibility to utilize and manage these resources in accordance with the Shariah (Hasan, 2009a; Abdullah and Asutay, 2021). This means that all people are accountable to God and will be questioned on how they have used the resources with which they have been entrusted. From the aforementioned studies, it can be understood that the implications of *Tawhid* are critical in adopting appropriate corporate governance approaches for Islamic banks. When *Tawhid* is practiced and incorporated into the Islamic bank's governance structure, it will create an environment of proper checks and balances since the board and senior management are accountable to God for their decisions as well as how they used the powers entrusted onto them (Abdullah and Asutay, 2021). On the other hand, *Tawhid* creates harmony and balance between the employer and the employee as everyone is ultimately accountable to God and hence must fulfil their responsibilities and claim their rights with justice and fairness and in accordance with the Shariah (Abdullah and Asutay, 2021). Moreover, *Tawhid* makes it incumbent upon the Islamic bank to ensure that the interests and rights of all stakeholders are balanced and given due consideration as required by the teachings of the Shariah (Sencal and Asutay, 2021).

2.1.2.5.2. The Role of Islamic Law (Shariah)

Along with the concept of *Tawhid*, the Shariah is central to Islamic corporate governance. The word *Shariah* literally means, 'the way to the source of life', and technically means the legal system that codifies behaviour called for by the Holy Quran and Sunnah (Lewis, 2005, p. 14).

Shariah is pivotal to Islamic corporate governance because it governs all aspects of Muslim life, including financial dealings, and provides specific teachings and rules to which Muslims should adhere (Lewis, 2005; Abu-Tapangeh, 2009; Ahmed et al., 2015). As Muslims believe that they are accountable to God for all their actions (Wilson, 2006), they view it as a religious duty to ensure that their financial and business transactions are conducted in accordance with their beliefs (Lewis, 2005; Grais and Pellegrini, 2006).

Arguably, compliance with Shariah law is the single most important defining issue of the Islamic bank's identity (Al Mannai and Ahmed, 2018). Karim (1995, p. 287) ascertains that the Shariah forms the basic ground rules with which Islamic banks must comply in all their financial transactions. Wilson (2012) argues that it is the responsibility of the Islamic bank to provide assurance to its customers and stakeholders regarding the bank's compliance with Shariah principles and rules. In fact, Islamic banks' going concern and their long-term survival are directly linked to their ability to assure their customers and the community that they adhere to Shariah rules and principles. Shariah principles require that Islamic banks avoid any dealings that involve *riba* (interest), *gharar* (uncertainty), *maysir (*gambling) and that they engage only in *halal* (permissible) transactions (Haniffa and Hudaib, 2007; Ghayad, 2008). The extant literature suggests that the Shariah prohibitions result in highly desirable social and economic justice while contributing to market stability. Van Greuning and Iqbal (2008) argue that the Shariah prohibits certain transactions such *riba,* gharar*,* and *maysir,* in order to protect property rights, ensure social and economic justice, improve equality, and promote the common good of society.

Mergaliyev et al. (2021) assert that the prohibition of *riba* contributes to social development as it promotes fair and just financial dealings and results in greater market stability. Appropriate governance structures need to be in place to support the achievement of the required

compliance with the Shariah prohibitions. The Islamic corporate governance structure plays a critical role in monitoring the Islamic bank's activities to ascertain that the bank does not engage in any of these prohibited transactions (Grassa, 2013; Norman and Harun, 2019). In fact, this is one of the main responsibilities of the SSB as the stakeholders of the Islamic bank relay on the SSB for ensuring compliance with the Shariah rules, including avoidance of all prohibited transactions (Jan et al., 2021).

Shariah principles promote *adl (*justice), *qist (*equity), *ihsan (*benevolence) as well as accountability, transparency (Greuning and Iqbal, 2008; Hassan and Harahap, 2010; El-Halaby and Hussainey, 2015), fairness, and the general welfare of society (Azid et al., 2007). Shariah teachings also promote environmental conservation and protection and sustainable development (Aribi and Gao, 2010). This puts additional responsibilities on the shoulders of Islamic banks to establish the mechanisms that will ensure that Shariah principles are achieved, the rules are strictly followed, and violations are adequately disclosed and reported.

A number of previous studies (Iqbal and Mirakhor, 2004; Lewis, 2005; Choudhury and Hoque, 2006; Grais and Pellegrini, 2006; Hasan, 2009; Bhatti and Bhatti, 2010; Hasan, 2011; Farook and Farooq, 2011; Sencal and Asutay, 2021; AlQassar and Ahmed, 2021; Abdullah and Asutay, 2021) examine the Islamic perspective on corporate governance and provide a conceptual framework for understanding the Islamic model, especially the mechanisms for allocating the decision-making powers in the firm as well as monitoring management's behaviours. The framework is generally based on three important pillars: a *shuratic* decision-making process, the institution of *hisbah* and the Shariah supervision process and religious audit. These three pillars are discussed in more detail below.

2.1.2.5.3. The Shuratic Decision-Making Process

The extant literature provides a conceptual framework for the *shuratic* decision-making process and its role within the Islamic corporate governance structure. The word *shura* refers to the process of engaging in mutual consultation in decision-making to reach the best decision (Bhatti and Bhatti, 2010; Ishak and Osman, 2016). Choudhury and Hoque (2006) argue that the *shuratic* process represents the most profound institutional model of Islamic corporate governance and the systemic application of the epistemological foundations of Islamic corporate governance. In the *shuratic* decision-making process, everyone offers their best knowledge with truthfulness and justice in a consultative spirit in order to make the best decision (Bhatti and Bhatti, 2010). *Shura* is critical to Islamic corporate governance, bringing together the firm's senior management, board of directors, shareholders, employees and other stakeholders to facilitate effective decision-making in a consultative atmosphere (Hasan, 2011, p. 58; Abdullah and Asutay, 2021). Moreover, *Shura* enhances the ability of the Islamic bank boards to conduct their monitoring and oversight activities and make decisions in a fair and just manner (Abdullah and Asutay, 2021).

According to Lewis (2005), the *shuratic* process is based on seeking consensus with roots in the Holy Quran and the teachings of the Prophet (Pbuh). In a number of verses of the Quran, the *shura* principle is described as the decision-making model for the Muslim community. For example, in verse 38 of the chapter of *Al-Shura*, the Quran says, 'who obey their Lord and establish Prayer; who conduct their affairs by consultation, and spend out of what We have bestowed upon them'.[5] In his commentary on this verse, Al-Mowdudi states that consultation is an important pillar of Islamic life, and failure to conduct the affairs of the Muslim community in a consultative manner

[5] Al-Shura 42:38. Translation by Al-Mowdudi, Syed Abul Ala in his Tahfeem Al Quran, which is available at: http://www.islamicstudies.info/tafheem.php?sura=42andverse=30andto=43

that includes all those whose interests are involved is a violation of the Shariah law prescribed by Allah. Abu Tapanjeh (2009) argues that the *shuratic* decision-making under the Islamic corporate governance goes beyond shareholders, demanding that all those who are affected (e.g., employees, customers and the community) participate in decision-making. Daud (2019) asserts that *shura* is crucial to the Islamic corporate governance model as it facilitates consultative decision-making and proper discussion of important corporate matters and policies to ensure the feedback of key stakeholders of the Islamic bank is considered before final decisions are made.

2.1.2.5.4. The Institution of Hisbah

The institution of *hisbah* is considered one of the most important governance and oversight institutions established by the early Muslim community during the Caliphate of Omar Ibn Al Khatab (Pbuh). *Hisbah* can be described as the process of verification of observance of Islamic principles in an economy (Bhatti and Bhatti, 2010). However, in broad terms, *hisbah* refers to the act of enjoining good and forbidding evil (Shan et al., 2015; Abd Razak, 2018), which includes overseeing and monitoring market activities and enforcing adherence to the Shariah rules and principles (Jan et al., 2021). Further, *hisbah* functions as a regulatory and supervisory body tasked with the responsibility to ensure appropriate conduct in the market in line with the Shariah rules and principles (Daud, 2019). Central to the role of *hisbah* is accountability, transparency and fair dealing among market participants, which collectively strengthen and contribute to the creation of good governance and is an essential goal of Islam (Bhatti and Bhatti, 2010). According to Wittmann (as cited in Hasan, 2011, pp. 75–76), the institution of *hisbah* plays a crucial function in the market by regulating and supervising market activities such as control of the scale and prices, protection of measures and standards of weight, accurate valuation of coins used in the market and prevention of fraud. Daud (2019) postulates that the institution of *hisbah* provides effective Islamic

governance framework for monitoring Islamic financial institutions and ascertaining their adherence to the Islamic ethical values. Jan et al. (2021) assert that *hisbah* represents an important pillar of the overall Islamic corporate governance framework as it provides much needed checks and balances and enhances the overall monitoring of the governing bodies to ensure compliance with the Shariah rules and principles. Abd Razak (2018) proposes that *hisbah* is formed as a central monitoring institution, independent from the Islamic bank so that it can play an important governance and oversight role, ensuring adherence to the Shariah principles and rules. When implemented properly as part of the Islamic corporate governance framework, *hisbah* can promote transparency, maintain integrity, instil accountability and foster greater confidence in the Islamic financial institutions (Che Pa et al., 2017).

2.1.2.5.5. Shariah Supervision and the Role of the Islamic Audit

Wilson (2012) argues that the Islamic bank has a responsibility to assure customers and other stakeholders of its compliance with Shariah principles and rules. To provide a reasonable level of assurance, appropriate mechanisms have to be established. To achieve this, Islamic banks establish SSBs[6] whose primary role is to monitor, oversee, review and report on the banks' compliance with Shariah principles and rules (Grassa, 2013; Injas et al., 2016; Khatib et al., 2022). These boards are supported by Shariah auditors who carry out audits to verify the bank's compliance with Shariah principles and rules and report any noncompliance issues (Grassa, 2013; El-Halaby and Hussainey, 2015; AlQassar and Ahmed, 2022). Studies suggest that having an internal Shariah audit department plays an important role in the overall governance structure of Islamic banks and affects the level of transparency of Islamic banks (Daud, 2019; Sencal and

[6] The role and impact of the Shariah supervisory board on the extent of disclosure is discussed in more detail in Chapter Four.

Asutay, 2021; AlQassar and Ahmed, 2022). However, to be effective, it is critical that Islamic banks provide support to the Shariah auditing function to ensure they perform their audits independently and with the highest professional standards (AlQassar and Ahmed, 2022; Khatib et al., 2022).

The SSB plays a crucial role in the Islamic bank and form an important element within the Islamic corporate governance structure (Al Mannai and Ahmed, 2018; Abdullah and Asutay, 2021). For the SSB to function effectively, governance arrangements must ensure their independence, confidentiality, competence, consistency and disclosure (Askari et al., 2011; AlQassar and Ahmed, 202). However, the extant literature suggests significant gaps between the ideal role expected of SSB and their actual practice on the ground (Khatib et al., 2022). Numerous studies highlight significant issues about the role the SSB plays in Islamic banks and their ability to properly monitor Shariah compliance and ensure adequate disclosure and transparency not only about Shariah violations, but also about the nature and basis of the *fatwas* issued by the SSB (Al Mannai and Ahmed, 2018; Sencal and Asutay, 2021; AlQassar and Ahmed, 2022). Askari et al. (2011) raise serious concerns about the state and practice of SSBs. For example, they highlight the SSB's approval of questionable practices by Islamic banks, such as *tawarruq*, as well as the lack of transparency and standardized approach to the issuance of fatwa rulings. Farook and Farooq (2011) argue that *fatwas* issued by the SSB are not often disclosed, and there is a lack of transparency with regard to the nature, basis and evidence from which the fatwas are derived. Moreover, their findings suggest that errors or controversies over the fatwas issued by the SSB are not publicly acknowledged by the SSB to ensure transparency.

In summary, while the studies cited here provide valuable insight into some of the important elements which make up Islamic corporate governance, more work needs to be done to

provide a comprehensive framework and coherent picture of the elements that make up the Islamic corporate governance framework. While the conceptual framework for Islamic corporate governance is an important step, significant challenges remain in implementing this framework and turning it into an operational reality within Islamic financial institutions. The extant literature suggests that, for the most part, the Islamic corporate governance model has not been successfully implemented, and Islamic banks are still governed according to conventional corporate governance structures and arrangements (Bhatti and Bhatti, 2010). One of the few exceptions is Malaysia, where the central bank (i.e., Bank Negara Malaysia) as well as the Malaysian government have made notable progress in establishing governance standards and structures for the Islamic finance industry. This research aims to contribute to the existing literature and fill the gaps highlighted above by shedding light on the corporate governance structure of Islamic banks and examining its impact on the transparency and level of disclosure.

2.1.2.6. Corporate Governance and Culture – Important Considerations

Hofstede (1984, p. 82) defines culture as 'the collective programming of the mind which distinguishes the members of one group of society from those of another'. Culture can further be described as the learned, socially acquired traditions, lifestyles and set of beliefs of members of a society, including the ways in which they think, feel and act (Hofstede, 1980; Harris, 1987, p. 6, as cited in Haniffa, 2002; Baydoun and Millet, 2000). Hofstede postulates that culture has a profound impact on the way firms are managed, and since people's values, beliefs and expressions differ from one country to another, it is paramount that the governance style adopted by a firm reflects the country's cultural values.

Culture is arguably one of the main factors that explain the different models of corporate governance such as the Anglo-American, Continental European, and Japanese models that are present in different parts of the world. Clarke and Dela Rama (2008) point out that in economies such as Japan and other Asian countries, cultural and social norms play an extremely important role in business dealings, and the corporate governance model reflects those norms. Millar et al. (2005) suggest that cultural factors play an important role in understanding business systems and modes of organization and strategy, including corporate governance structures. Claessens and Yurtoglu (2012) argue that Western approaches to corporate governance, including the mechanisms for decision-making and the assignment of roles and responsibilities used in developed countries, may not be transferable to other countries due to differences in cultural and social norms. To illustrate this point, the authors use Muslim countries as an example. They argue that corporate governance in Muslim countries must reflect and consider Shariah law, given the central role that Shariah law plays in many aspects of Muslim life. One of these considerations is related to the formation of business entities as corporations with its own legal personality, apart from its owners. Today, Islamic banks are generally registered in the form of a modern corporation which has its own legal identity and independent financial liability. However, while this form of modern corporate entities was not known in the early Muslim societies, both AAOIFI standards and the OIC's International Fiqh Academy state that it is permissible for Islamic banks to be formed as corporations. According to AAOIFI[7], modern corporations are permissible on the basis that human activities are generally permissible (*mubah)* so long as there are no specific and clear injunctions which prohibit it. In Similar vein, the OIC International Fiqh Academy[8] issued a *fatwa*

[7] See AAOIFI Shariah standard No. 12 on *Sharikah* (*Musharaka)* and Modern Corporations.

[8] Refer to the International Islamic Fiqh Academy Resolution No. 130 (4/14) issued during the 14th session in Doha, State of Qatar, held on 7–13 Dhū al-Qi'dah 1423h (11–16 January 2003).

confirming that the modern corporation form is permissible for Islamic banks as long as the business does not engage in any impermissible activities.

2.1.3. Information Disclosure: An Overview

2.1.3.1. Definition

Disclosure means revealing information or making something known (Rizkiningsih and Dewi, 2015). Disclosure of information and transparency play central roles in capital markets (Bushman and Smith, 2001; Healy and Palepu, 2001; Gul and Leung, 2004; Di Guida et al., 2022), contribute to economic growth (Bushman et al., 2004) greatly enhance shareholder protection (Cheung et al., 2007), and they are often the purpose of many corporate governance reforms (Hermalin and Weisbach, 2012; Shehata, 2014; Ibrahim et al., 2022; Zamil et al., 2023). For the banking industry, one of the most comprehensive disclosure requirements was introduced in 2010 as part of Basel III in response to the 2008 financial crisis (BCBS, 2010). The Basel Committee has issued Pillar 3 Disclosure Requirements – Consolidated and Enhanced Framework with the purpose of restoring investor confidence, strengthening financial institutions, and putting measures in place to prevent future financial crises. More recently,[9] BCBS updated its Pillar 3 of Basel III, which deals with the disclosure requirements aimed at enhancing transparency in financial institutions, especially in areas related to the bank's risk governance, capital quality, liquidity management, and loss-absorbing capacity. These new standards and regulatory requirements underscore the importance of effective corporate governance and transparency in restoring

[9] It is worth noting the BCBS's disclosure requirements, which were first issued as part Basel III in 2010, underwent a number of revisions, with the most recent revised document (Pillar 3 Disclosure requirements – consolidated and enhanced framework) being issued by the BCBS in March 2017.

confidence in the markets and enhancing the value and overall performance of financial institutions.

Disclosure is generally classified into two broad categories, namely mandatory and voluntary (Cheynel, 2013; Nugraheni and Anuar, 2014; Rizkiningsih and Dewi, 2015; Zamil et al., 2023). Mandatory disclosure is defined as the information disclosed in the fulfilment of statutory requirements (Hassan and Marston, 2010, p. 7; Shehata, 2014) and it comprises a minimum level of the information required to be disclosed in annual reports (Ousama and Fatima, 2010). On the other hand, voluntary disclosure is defined as the voluntary provision of information deemed relevant to the decision needs of users in annual reports (Meek et al., 1995; Verrecchia, 2001; Zamil et al., 2023). The current study considers both voluntary and mandatory disclosure and develops a disclosure index in line with prior studies to determine the extent of disclosure by Islamic and conventional banks in the sample.

2.1.3.2. Overview of Disclosure Types

Voluntary disclosure may be financial or nonfinancial in nature (Cotter et al., 2011; Zamil et al., 2023) and may be historical, current or forward-looking (Akhtaruddin and Rouf, 2012). Financial information covers foreign currency information and stock prices, while nonfinancial information may include strategic, corporate governance, CSR and other value-added information (Cotter et al., 2011). More recently, CSR has been expanded to include comprehensive environmental, social and governance (ESG) factors in the overall assessment of the firm's commitment to social responsibility (Bassen and Kavocs, 2008; Tsang et al., 2023). Strategic information may include acquisitions and disposal, research and development, and general corporate information. Other nonfinancial disclosure items include, governance, risk management,

environmental and social responsibility and, in the case of Islamic banks, compliance with Shariah rules and principles. Disclosing information about Shariah compliance is extremely important for customers and other stakeholders of Islamic banks, and represents a significant strategic imperative, thus requiring sound and effective disclosure policies. For the Muslim customer, compliance with the Shariah is a matter of religious duty, as Muslims are not permitted to claim any revenue or income earned in a manner that violates Shariah rules and principles (Kasim, 2012; Nomran and Harun, 2019; Ghani et al., 2023).[10]

2.1.3.3. Disclosure in Developed Countries

The study of corporate voluntary disclosure has interested researchers for several decades, and numerous studies have been conducted in developed countries examining the extent of disclosure in annual reports (e.g., Cerf, 1961; Singhvi and Desai, 1971; Alchian and Demsetz, 1972; Buzby, 1975; Barrett, 1977; Firth, 1979; Cooke, 1989; Belkaoui and Karpik, 1989; Wallace et al., 1994; Meek et al., 1995; Allegrini and Greco, 2013; Alini et al., 2016; Al-Shaer and Salama, 2017; Appuhami and Tashakor, 2017; Manita et al., 2018; Baalouch et al., 2019; Husted and Sousa-Filho, 2019; di Guida et al., 2022).

Studies in developed countries examining the determinants of corporate disclosures go back to several decades. For instance, Cerf (1961), one of the very early pioneers in the field of corporate disclosure, examines the characteristics of companies in the United States and the extent of their corporate disclosure as reported in their annual reports. In his seminal study, Cerf concludes that company characteristics such as size, profitability and number of shareholders are

[10] Shariah rules specify that such income has to be excluded from the bank's revenues, and the Shariah Supervisory Board must ensure that the income is donated to a charity (Kasim, 2012).

positively associated with the extent of the firm's disclosure in their annual reports. Studies show that there is disparity in the level of disclosure among the developed countries. In a cross-country studies comparing the disclosure levels of firms located in each of the United States, Japan, the United Kingdom, France, Germany, and Sweden, and the Netherlands, Barrett (1977) reports that of all seven developed nations examined, firms in the United States and United Kingdom had the highest levels of disclosure while France had the least disclosure, which the author attributes to the inefficiency of the French financial markets in the dissemination of complete and timely information.

Most studies examining the determinants of disclosure use corporate governance mechanisms and firm characteristics. Lang and Lundholm (1993) empirically investigate the determinants of voluntary disclosure for a sample of 732 U.S. firms and find that, overall, voluntary disclosures are higher for larger as well as better-performing firms. While their findings are consistent with the theories used in the study as well as those in prior studies, the study also reports that disclosure level decreases in relation to the standard deviation of the firm's return of equity. Meek et al. (1995) study the impact of certain firm characteristics, namely size, country/region of origin, industry, leverage, profitability and international listing status, on the extent of voluntary disclosure for a sample of 226 firms listed in the USA, UK and continental European markets. Their study finds that overall, larger firms make significantly greater disclosures than smaller firms, and the extent of their disclosure is affected by country/region of origin as well as international listing status.

However, other studies consider factors other than corporate governance and firm related characteristics. For instance, Belkaoui and Karpik (1989) conducted an empirical study on a sample of U.S. firms and found a significant positive relationship between social disclosure and

social performance, suggesting that firms are eager to make disclosures and capitalize on social improvement programs in order to impress their shareholders. More recently, Al-Shaer and Salama (2017) conduct study to examine the determinants of the volume and quality of disclosure for a sample of UK firms. Their study finds that audit committee quality plays significant role in improving the quality of disclosure. Husted and Sousa-Filho (2019) perform a study to examine the determinants of ESG disclosure for a sample of 176 of Latin American listed firms. Their study finds that the level of ESG disclosure is affected by certain board characteristics such as board size and board independence. Di Guida et al. (2022) examine the determinants of CSR disclosure for a sample of 483 European listed firms. They find that the extent of CSR disclosure is affected by a number of corporate governance mechanisms such as board diversity, independence, and existence of CSR committee.

2.1.3.4. Disclosure in Developing Countries

While a significant amount of research has examined the disclosure practices of firms in developed countries as discussed in the previous section, similar research in developing countries is lagging, with a limited number of studies focusing on these countries (Singhvi, 1968; Chow and Wong-Boren, 1987; Wallace, 1987; Ahmed and Nicholls, 1994; Chau and Gray, 2002; Naser et al., 2002; Akhtaruddin and Rouf, 2012; Uyar et al., 2013; Alhazaimeh et al., 2014; Rouf, 2017; Alnabsha et al., 2018; Milad et al., 2020; Zamil et al., 2023).

Disclosure practices in developing countries, including the GCC and Malaysia, are different from those in developed countries (e.g., North America and Europe) mainly because of cultural and regulatory factors (Uyar et al., 2013; Zamil et al., 2023). For example, the disclosure practices of companies in Asian countries are significantly influenced by the cultural environment

in which they operate, which is characterized by collectivism and an aversion to uncertainty, resulting in less transparency and voluntary disclosure (Chau and Gray, 2002; Huafang and Jianguo, 2014). The regulatory environment in many developing countries is not well-developed (Uyar et al., 2013; Farah et al., 2021) and often lacks effective enforcement mechanisms (Ahmed and Nicholls, 1994). This has led some companies to fail to comply with mandatory disclosure requirements, let alone disclosing voluntary information (Wallace, 1988; Ahmed and Nicholls, 1994; Uyar et al., 2013). However, while voluntary disclosure in developing countries is weak when compared to that in developed countries, some studies do show a recent trend towards an increase in the level of disclosure due to improved corporate governance and regulatory environment (Zamil et al., 2023).

These studies also show that corporate governance is one of the main determinant of disclosure along with firm characteristics such size and profitability. Barako et al. (2006) investigate the extent of corporate disclosure in 43 Kenyan listed companies listed. Their longitudinal examination considers three independent variables, namely corporate governance attributes, ownership structure, and company characteristics (e.g., size, leverage and profitability), in assessing the impact of these variables on corporate disclosure. The study finds that corporate governance attributes have significant effect on the extent of corporate disclosure. On the other hand, Haniffa and Cooke (2002) study the impact of corporate governance and culture on the extent of voluntary disclosure in Malaysian-listed companies. Their study finds that firms with a greater number of family board members tend to disclose less information, which is consistent with prior studies. Other studies consider firm characteristics as the determinants for disclosure. For instance, Naser et al. (2002) conduct an empirical study using a sample of 84 companies listed in the Amman Stock Exchange for the year of 1998/1999 to examine the relationship between the extent of

disclosure and firm characteristics. The study finds a positive and significant relationship between firm size, auditor type and profitability.

In a more recent study, Zamil et al. (2023) conduct a systematic literature review to analyse the determinants of disclosure for firms in various regions including Europe, Asia and GCC markets. The findings are generally consistent with those of similar studies conducted in developed countries. The conclusion drawn is that the variables that influence the extent of disclosure are the same in developed and developing countries.

In summary, it can be observed that disclosure in developing countries, including the GCC, is generally weak (Azid and Alnodel, 2019). The cultural environment in Asian countries tends toward secrecy and a lack of transparency (Millar et al., 2005), which accounts for some measure of that lack of disclosure. Moreover, incentives for transparency are lacking in comparison to their corporate counterparts in Western countries (Alhazaimeh et al., 2014).

Despite the prevailing weak disclosure environment in the GCC, some studies indicate an upward trend in the level of disclosure reported in annual reports. For example, Qu and Leung (2006), who study disclosure practices of a sample of 120 Chinese firms, find that disclosure among Chinese-listed firms is on the rise. The authors attribute this to the changing cultural landscape, characterized by more openness to the information needs of Western investors. In a similar vein, Al-Shammari and Al-Sultan (2010) also report improvement in the extent of disclosure in the annual reports of Kuwaiti-listed companies, where their disclosure index has increased from 15% to 19% for the period between 2008 to 2010. Similar results are reported by Grassa and Chakroun (2016), who perform a study of GCC Islamic and conventional banks' corporate governance disclosure practices.

2.1.3.5. Disclosure and Transparency – an Islamic Perspective

Transparency in Islam is rooted in key Islamic values such as honesty, truthfulness, and accountability to God, which Muslims are expected to adhere to as articulated in numerous verses in the Quran and in the prophetic tradition (Bhatti and Bhatti, 2010; Ishak and Osman, 2015; El-Halaby and Hussainey, 2015; Sencal and Asutay, 2021). Lewis (2001) cites at least six verses in the Quran which emphasize the importance of full disclosure in a manner that is truthful, fair, and accurate. Choudhury and Hoque (2006) argue that the prevalence of transparency and business disclosure in Islamic financial institutions increases institutional effectiveness, enhances stakeholders' trust and helps promote and expand their business. The AAOIFI states in its Financial Accounting Standard No. 1 that information disclosure and transparency play crucial roles in creating trust between the Islamic bank and its stakeholders and provide the investment community much-needed assurance about the Islamic bank's ability to achieve its objectives.

In order to understand the role of disclosure in Islam, it is important that we first shed some light on the relationship of the Islamic faith as a religion and its impact on Muslims. Unlike other religions, Islam does not recognize the separation between religious and worldly affairs (Karim, 1995; Lewis, 2005), and therefore, the main purpose of Islamic businesses (including Islamic banks) is to satisfy the will of God through their adherence to Shariah teachings and principles (Maali et al., 2006; Abdullah and Asutay, 2021). Ousama and Fatima (2010) argue that Islam has a significant impact on the lives of Muslims, including business activities and disclosure of information. The authors further explain that transparency and disclosure of information are considered important higher purposes (*maqasid*) of the Shariah that are specific to financial transactions.

It is important to highlight that the types of disclosure made, the criteria used, and the extent of such disclosure are influenced by, and tend to be in harmony with, the philosophical and ethical principles of the society in which such disclosures take place (Baydoon and Willet, 2000). Karim (1995) asserts that Islam views commerce, including financial transactions, as a matter of morality and therefore subject to the principles and rules of the Shariah. Islam puts an emphasis on providing sufficient, truthful information and on making full disclosure of that information to allow market participants to make informed business decisions. Moreover, Islam encourages social accountability to the Muslim *Ummah*, whereby businesses and companies are obliged to be transparent and make full disclosure with regard to their business transactions in a manner that allows the community to make informed decisions while assisting management to fulfil their accountability to God and society (Haniffa and Hudaib, 2002; Ousama and Fatima, 2010; Meutia and Febrianti, 2017).

Shariah teachings imply that Islamic banks make full disclosures about their business transactions and how these transactions are complying with Shariah rules and principles (Baydoun and Willett, 1997; Haniffa and Hudaib, 2001; Maali et al., 2006; Ousama and Fatima, 2010; Aribi and Gao, 2010; Farook et al., 2011; Harun et al. ,2020). In line with these requirements, a number of standard-setting bodies for the Islamic finance industry have issued principles and standards concerning the disclosure of information by Islamic banks. These bodies include the Bahrain-based AAOIFI and the Malaysia-based Islamic Financial Services Board (IFSB). For instance, the AAOIFI requires that, generally, Islamic banks adequately disclose all material information necessary for users of the bank's annual reports to make informed business decisions (Abdul

Rahman and Bukair, 2013). The AAOIFI has issued financial accounting standards[11] which require Islamic banks to fully disclose, among other things, basic information about the bank (name, nature of business activities, financial products and services, etc.), its financial information (e.g., assets, liabilities, revenues, expenditures, and financial ratios) and its compliance with Shariah rules and principles (e.g., gains from prohibited sources or methods, spending on prohibited activities, and ways in which illegal income is disposed).

2.1.3.6. Disclosure in Islamic Banks

Disclosure and transparency are of significant importance to Islamic banks. By being more transparent, the Islamic bank can gain the confidence of its stakeholders, enhance its credibility, and earn greater acceptance from the community (Ariffin et al., 2007; Harun et al., 2020). Similar to conventional banks, Islamic banks have to comply with regulatory requirements and meet market expectations in order to remain competitive. However, in addition to that, Islamic banks have to comply with Shariah rules and principles, including the need for full disclosure and transparency (Abdullah and Asutay, 2021). Therefore, it can be argued that Islamic banks have a greater responsibility in ensuring that they adopt effective disclosure policies. Moreover, the Islamic model of profit-sharing creates a greater need for the disclosure of information that will enable the bank's IAHs to monitor their risk exposures and make informed business decisions (Ariffin et al., 2007; CIBAFI, 2017).

Though limited in rigour, there is a growing body of studies found in the literature which examine information disclosure and transparency from an Islamic perspective (Baydoun and

[11] For further details, refer to the AAOIFI's Statement of Financial Accounting No. 1: Objectives of Financial Accounting for Islamic Banks and Financial Institutions and the Statement of Financial Accounting No. 2: Concepts of Financial Accounting for Islamic Banks and Financial Institutions.

Willet, 1997; Haniffa and Cooke, 2002; Maali et al., 2006; Haniffa and Hudaib, 2007; Ariffin et al., 2007; Al Shammari and Al-Sultan, 2010; Hassan and Harahap, 2010; Zubairu et al., 2011; Farook et al., 2011; Aziah, 2012; Abdul Rahman and Bukair, 2013; Wan Abdullah, 2015; Abdalla et al., 2015, Rizkiningsih and Dewi, 2015; El-halaby and Hussainey, 2015; Albassam and Ntim, 2017; Meutia and Devi, 2017; Neifar and Jarboui, 2018; Rafay and Farid, 2018; Aribi et al., 2019; Ridwan and Mayapada, 2020; Ghani et al., 2023). A review of these studies reveals overall that disclosure in Islamic banks is significantly lagging, and, in some cases, very poor (Azid and Alnodel, 2019). Some of these studies are discussed next.

Using a sample of seven Islamic GCC banks, Haniffa and Hudaib (2007) conduct a longitudinal study to examine the ethical identity of Islamic banks and to determine whether there is a gap between the information communicated and the ideal ethical identity. The results indicate variations and inconsistencies between the information communicated and the ethical identities of Islamic banks. Furthermore, the researchers find that six of the seven Islamic banks examined scored below average on the ethical identity index, suggesting that Islamic banks are not disclosing sufficient vital information to support their compliance with Shariah principles or their commitment to social goals. Aribi and Gao (2010) also report that the extent of CSR disclosure by Islamic banks still falls short of fully discharging their accountability toward God and meeting their stakeholders' expectations.

In similar vein, Abdallah et al. (2015) study the corporate risk disclosure practices of a sample of 424 Islamic and non-Islamic firms listed in the GCC markets and find that Islamic banks make less corporate risk disclosure than their non-Islamic counterparts. The findings are consistent with previous studies (e.g., Maali et al., 2006; Ariffin et al., 2007; Farook et al., 2011), which also suggest that Islamic banks are lagging in their disclosure policies. In a comprehensive study, which

uses a sample of 67 Islamic banks in Southeast Asian and GCC countries, Wan Abdullah et al. (2015) find that the level of corporate governance disclosure in Islamic banks is below 40%. Their result further confirms that voluntary disclosure in Islamic banks is significantly lagging. More recently, Aribi et al. (2019) conduct a study of a sample of Islamic banks in the GCC and Malaysia to explore the extent of Shariah disclosures by Islamic bank. Their study concludes that, overall, Islamic banks are lagging in their Shariah disclosures and fall short in fulfilling stakeholder expectations.

2.2. THEORETICAL FRAMEWORK

2.2.1. Introduction

This section presents theories relevant to corporate governance and disclosure and develops an integrated theoretical framework based on the researcher's understanding of how corporate governance affects the extent of disclosure. A theory can be defined as a set of ideas or related concepts which can be used to explain and understand an event, situation or social phenomena (Matthews and Ross, 2010, p. 32). On the other hand, Bhattacherjee (2012) defines theory as systematic explanations of an underlying phenomenon or behaviour. Neuman and Robson (2014, p. 56) posit a similar view and further illustrates that a theory is a system of interconnected ideas which provide the researcher insight, explanations and directions for the research study.

Theories associated with corporate governance and disclosure are extensively discussed in the literature (Ross, 1973; Jensen and Meckling, 1976; Watts and Zimmerman, 1978; Fama, 1980; Jensen and Fama, 1983; Hughes, 1986; Trueman, 1986; Eisenhardt, 1989; Freeman, 1989; Hill and Jones, 1992; Donaldson and Preston, 1995; Hart, 1995b; Clarke, 1998; Fama and Jensen, 1998; Sarker, 1999; Lazonick and O'Sullivan, 2000; Bonazzi and Islam, 2007; Kaler, 2006; Ayuso et al.,

2007; Filatotchev, 2008; Safieddine, 2009; Jensen, 2010; An et al., 2011; Connelly et al., 2011; Cotter, et al., 2011; Mansell, 2013; Mason and Simmons 2014; Shehata, 2014; Omran and El-Galfy, 2014;). These theories are agency theory, signalling theory, stakeholder theory, legitimacy theory, political economy theory, resource dependence theory and property rights theory (Cotter et al., 2011; Zamil et al., 2023). While each of these theories sheds light on some aspects related to corporate governance and voluntary disclosure, the extant literature suggests that agency, stakeholder, legitimacy and signalling theories are the theories upon which the study of corporate governance is predicated, thus providing a theoretical framework for understanding its impact on information disclosure (An et al., 2011). Zamil et al., (2023) conduct a systematic literature and analyse the most used theories in examining the determinants of disclosure and conclude that agency theory, stakeholder theory, legitimacy theory, signalling theory and institutional theory are the most widely used theories in the prior studies. Almaeeni et al., (2020) adopt a theoretical framework comprised of agency, stakeholder, and legitimacy theories, noting that these theories provide powerful explanations for the effect of corporate governance on CSR disclosure. Harun et al., (2020) develop an integrated theoretical framework which is comprised of agency, stakeholder, legitimacy and signalling theories. These studies show that the four theories noted above are the most widely used theories in the study of corporate governance and disclosure and, together, they provide rationale for adopting an integrated theoretical framework. Accordingly, in line with prior studies and consistent with the research question, this research employs the four aforementioned theories to develop a comprehensive theoretical framework for understanding and explaining the impact of corporate governance on disclosure by Islamic and conventional banks. This study also considers the specific nature of Islamic banks and how these theories apply to such banks.

2.2.2. Agency Theory

2.2.2.1. Definition and Overview of Agency Theory

Agency theory is the most widely accepted theoretical perspective applied to the study of corporate governance (Daily et al., 2003). It provides a framework for understanding corporate governance issues which arise within the firm (Hart, 1995) and has been recommended for the study of corporate governance issues related to principal-agent relationships (Eisenhardt, 1989). In general, agency theory is concerned with the separation of ownership and control in firms (Bonazzi and Islam, 2007). In this theory, the firm is viewed as a nexus of contracts among individuals with conflicting objectives (Jensen and Meckling, 1976) where a framework of contractual relationships is created covering the way inputs are joined to create outputs and the way receipts from outputs are shared among inputs (Fama, 1980, p. 290).

In agency theory, management acts as an agent of control for their stockholders (Al Hussein, 2009), which creates an agency relationship between the management and the owners of the firm. Ross (1973) states that the agency relationship arises when one party, known as the agent, acts for or represents another party, known as the owner. Jensen and Meckling (1976) posit a similar definition, explaining that the agency relationship is contractual, in which one or more persons (the principal) engage another person (the agent) to manage the firm and make decisions on their behalf. Hence, managers have exclusive responsibility and the mandate to make decisions that maximize economic return for their principals (Del Baldo, 2012). However, under agency theory, it is assumed that the managers and owners of the firm have different interests (Hill and Jones, 1992). Similarly, Healy and Palepu (2001) point to the divergent interests between principals and agents where agents engage in self-enriching activities such as shirking

responsibilities or empire building (Barros et al., 2013). This conflict of interests creates an agency problem (Healy and Palepu, 2001). Besides the divergence of interests and goals, Eisenhardt (1989) suggests that there is also a divergence of attitudes toward risk, meaning that the principal and the agent may conflict over actions or business decisions due to their different risk preferences.

The separation of owners from managers within a firm may give rise to agency problems (Jensen and Meckling, 1976; Fama, 1980; Al-Hussein, 2009). Fama argues that a firm's principals are generally too diverse and are therefore unwilling to take any direct interest in managing the firm. Since the principals are not typically active in managing the firm, that role is left to managers (Healy and Palepu, 2001). As Shleifer and Vishny (1997) point out, a concern is whether managers direct the firm's finances properly or invest in unproductive projects, resulting in losses or misappropriations. In a similar vein, Hart (1995) suggests that in the absence of proper monitoring (e.g., by the board), managers may pursue their own goals at the expense of the owners of the firm, indulge in extravagant perks, engage in unprofitable investments, or undertake projects that are not aligned with the firm's values or goals. Additionally, Hart (1995) points out that without proper monitoring, managers may be reluctant to lay off poorly performing workers or perhaps assert themselves as the most effective persons to run the company when in reality they are not. Accordingly, this study argues that an effective board of directors contributes to greater transparency and information disclosure. Other monitoring activities discussed in the literature include auditing, incentive plans, budget restrictions and operating provisions (Boonyawat, 2013, p. 14).

Information asymmetry is another issue which arises from agency problems. Information asymmetry exists between two parties where one party (e.g., managers) has private information that is not available to the other who could potentially make better decisions if they had access to

that information (Connelly et al., 2011). Managers in the firm are perceived to have more insider information about the firm and its activities than the owners (Htay and Salman, 2013). The private information available to managers creates the opportunity for them to abuse their power and pursue their own interests at the expense of the firm owners, thus resulting in moral hazards (Htay and Salman, 2013). Furthermore, information asymmetry can also lead to adverse decisions, such as hiring inexperienced managers or investing in unprofitable projects based on incomplete or misleading information (ibid.). Information disclosure is important for reducing information asymmetry between the owners and the firm's managers. With full disclosure of information, managers can demonstrate that they are working for the best interests of the firm's owners.

2.2.2.2. Agency Theory and Separation of Ownership and Control

The separation of ownership and control is at the centre of the study of agency theory. The issues that arise from the modern diffuse corporate ownership structure are intimately associated with agency problems (Jensen and Meckling, 1976) and are the main reason why establishing corporate governance arrangements is necessary (John and Senbet, 1998). Hart (1995) argues that since it is impossible to write a complete and comprehensive contract between the owners and management, agency problems are bound to arise, thus necessitating governance structures to minimize problems. Agency problems can also arise between majority and minor shareholders. To reduce such agency conflicts, La Porta et al. (1999) suggest a number of potential solutions, including improving the legal system to better protect minority shareholders as well as providing greater disclosure. Monitoring by the board is one of the most important aspects of corporate governance mechanisms which can help reduce the agency conflicts (Bonazzi and Islam, 2007). Without effective monitoring, agents are likely to pursue actions that are not in the interest of the principals (Fama and Jensen, 1983).

2.2.2.3. Agency Theory and Islamic Banks

Agency theory issues are generally applicable to Islamic banks. Islamic banks, like their conventional counterparts, have relationships which create problems that arise from the separation of ownership and control. The governance arrangements of Islamic banks resemble the modern corporate structure in which shareholders appoint a board of directors who are responsible for governance oversight and monitoring management, hence creating agency problems which are similar to their conventional counterparts. In addition to these general agency problems, Islamic banks have some specific additional problems, such as the rights of IAHs,[12] ensuring compliance with Shariah rules and principles, and establishing an SSB to oversee Shariah compliance (Safieddine, 2009; CIBAFI, 2017).

Safieddine (2009) conducted one of the few studies that the researcher is aware of that examines how agency theory is different in the context of the Islamic banking industry. The study, which explores governance issues in Saudi Arabia, Kuwait, Qatar, Bahrain and United Arab Emirates, highlights issues that are unique to Islamic banks, which must comply with Shariah principles and rules. Safieddine (2009) finds that while Islamic banks recognize the importance of governance, they are weak in a number of crucial areas such as audit, control, and transparency. He further explains that the agency problems faced by Islamic banks are complicated by the nature and structure of Islamic banks, which necessitates particular examination. Two important issues are worthy of mention in this regard. First, unlike other banks where shareholder wealth

[12] IAHs in Islamic banks are exposed to risks greater than those faced by normal depositors in conventional banks but do not enjoy the rights afforded to equity investors (e.g., voting rights). In an IAH arrangement, the customer deposits funds in a profit-sharing account, which gives the Islamic bank the freedom to invest the funds on behalf of the customer and share the profits with the customer based on pre-agreed ratios. However, losses are entirely born by the customer (Alhammadi et al., 2018).

maximization is the primary goal, Islamic bank management has a mandate to ensure compliance with Shariah principles and rules in all transactions. It can be argued that management may deviate from this mandate by engaging in noncompliant transactions in order to pursue their own interests. Second, since Shariah principles prohibit Islamic banks from dealing with *riba* (interest), a contractual relationship based on equity participation (*mudarabah* or *musharaka)* is created in which depositors do not receive interest payments but rather are entitled to a share of the Islamic bank's profits. Chapra and Ahmed (2002) argue that this equity participation structure makes the depositors in Islamic banks key principals and stakeholders in the bank.

Depositors in Islamic banks, known as IAHs, provide the largest portion of the bank's funds, and hence have a significant interest at stake (Chapra and Ahmed, 2002). Understandably, IAHs are concerned about the bank's compliance with Shariah principles and rules; however, they have no control over management as they do not have voting rights or representation on the board. They are thus deprived of the monitoring rights afforded to the bank's shareholders. This results in unique agency problems where IAHs are exposed to risks without having control rights. Therefore, *mudarabah* IAHs are particularly vulnerable to significant agency problems when compared to their counterparts in conventional banks who enjoy a guaranteed return without risk (Safieddine, 2009; Alhammadi et al., 2018).

The contractual relationship between the IAHs and the bank is often based on a one-tier *mudarabah* contract, which is a partnership between a capital owner (*rabb al-mal*) and manager (*mudarib*) who manages the investment for the purpose of making a profit (Kahf, 2013, p. 151). Under the unrestricted *mudarabah* contract arrangements, Islamic bank management acts as an agent for the IAH, with complete freedom to manage the investments. The profits are distributed based on a mutual agreement; however, the IAH is expected to bear all the losses. Under such

contractual arrangements where the cash flows and control rights of IAHs are separate, Islamic bank management may exploit the opportunity by putting less effort into managing the investments, by reporting less profit, or by extracting personal benefits at the expense of the IAH (Safieddine, 2009). The agency problems between IAHs and the management of Islamic banks are compounded by the existence of information asymmetry whereby Islamic bank management has superior and private information about the bank's operations and activity that is not available to IAHs (Farook et al., 2011). These issues highlight the importance of information disclosure in Islamic banks in order to enable IAHs to effectively monitor bank management and exercise their rights to protect their interests (Belal et al., 2015; CIBAFI, 2017).

From this analysis, it can be argued that agency theory helps us understand the agency relationships within Islamic banks and identify unique agency problems (e.g., role of the IAH) that exist within Islamic banks, and how additional governance mechanisms can be established to minimize these problems while addressing the concerns of the IAH. Safieddine (2009; CIBAFI, 2017) reports several corporate governance mechanisms suggested by researchers, including board representation of the IAH, enhancements to the role of the Shariah supervisory board, and involving the IAH in the strategic management of the bank.

Though agency theory is one of the most important theories of corporate governance, it has been criticized for being too narrow and focused on the shareholders and on profit-maximizing goals. Clarke and Rama (2008) argue that agency theory is almost entirely focused on listed companies, which does not describe the majority of business organizations, as most businesses around the world are not listed in stock exchanges.

Market-based agency theory has also been criticized for not considering the interests of other stakeholders of the firm. These concerns gave rise to the call to adopt a corporate governance model based on stakeholder theory, which is discussed in the next section.

2.2.3. Stakeholder Theory

2.2.3.1. Definition and Overview

The term "stakeholder theory" was first used in 1963. Alkhafaji (1989) defines stakeholders as those groups who have a direct interest in the survival of the organization, and without whose support the organization would cease to exist. This definition limits stakeholders to those with a direct interest in the organization, which arguably excludes stakeholders with indirect interests in the organization, such as society. A more encompassing definition is offered by Freeman (1984, p.91), who defines stakeholders as 'any group or individual who can affect or is affected by the achievement of the organization objectives. This definition considers not only groups but also individuals as stakeholders in the firm. This means that stakeholders include shareholders, employees, customers, suppliers, lenders and society (Freeman, 1984, p. 32; Hill and Jones, 1992). Hill and Jones state that each of the above stakeholders is a significant contributor to the firm's achievement of its objectives; in exchange, they expect the firm to serve their interests.

More general and comprehensive than shareholder theory, which focuses on value maximization, stakeholder theory is held to be the main alternative to shareholder theory (Donaldson and Preston, 1995; Filatotchev, 2008). Stakeholder theory is viewed as more equitable and as creating value for the firm in the long term. While shareholder theory is solely concerned with profit maximization for shareholders, stakeholder theory advocates for profit maximization and long-term value for the firm that pursues the interests of other stakeholders such as customers,

suppliers, employees and the community. Simply put, stakeholder theory is about how customers, suppliers, employees, financiers, communities and managers come together to create value for the firm (Freeman et al. 1997). In the literature, stakeholders are divided into internal and external stakeholders. Internal stakeholders are classified as those who are directly connected to the company, such as employees, managers, and shareholders. External stakeholders are those who are not directly linked to the company but somehow have an interest in it, such as customers, suppliers, communities and government entities (Htay and Salman, 2013).

Donaldson and Preston (1995) argue that under the stakeholder approach, the corporation is seen as an organizational entity through which numerous and diverse participants accomplish multiple, and not always entirely congruent, purposes. Also, it is crucial that clearly established principles and values are put in place in order to ensure that the interests of all stakeholders are dealt with fairly. Phillips (2003) argues that stakeholder theory deals with organizational management and ethics, addressing morals and values explicitly. At the centre of the discussion are key principles and values such as stakeholder fairness, which asserts that firms engage in cooperative activities that generate benefits and fulfil obligations toward their stakeholders in recognition of the benefits generated by those stakeholders.

Kaler (2006) goes even further to suggest that corporations have obligations that go beyond their shareholders and, as such, should be run for the benefit of their stakeholders. The stakeholders have a morally legitimate claim to have their interests served by the corporation (ibid.). Omran and El-Galfy (2015) assert that to ensure their ongoing survival, organizations need to seek the support of their stakeholders and to adjust their corporate activities accordingly. Advocates for the stakeholder approach argue that equal priority should be given to all parties with legitimate interests in the firm (Donaldson and Preston, 1995). Hence, under the stakeholder approach, the

interests of various stakeholders will gain prominence, and firms will be inclined toward greater transparency and better disclosure policy. Stakeholder theory is also more aligned with Islamic banks and the general objectives of Shariah (Hasan, 2011).

While stakeholder theory has received significant attention and much has been written in its favour, the theory is not without criticism. The theory has been criticized for being too broad, giving arbitrary powers to managers and encroaching on the rights of shareholders (Iqbal and Mirakhor, 2004). Jensen (2000) argues that the theory has been used to justify and provide an excuse for managerial opportunism. According to Kaler (2006), opponents of the stakeholder approach argue that companies are the properties of shareholders, and therefore requiring them to benefit other stakeholders violates property rights and constitutes a breach of trust towards shareholders. Iqbal and Mirakhor (2004) posit a similar argument, noting that proponents of stakeholder theory fail to provide convincing evidence for why a firm's management should look after the interest of all stakeholders and why stakeholders should participate in decision-making and control of the firm.

2.2.3.3. Stakeholder Theory and Corporate Governance

Stakeholder theory helps us understand how corporations are governed and how corporate decision-making powers are shared among various stakeholders, including shareholders, employees, customers and the community. As noted earlier, stakeholder theory asserts that, in addition to shareholders, organizations must consider the interests of other stakeholders and develop effective strategies for managing those relationships whose interests may be different, and sometimes irreconcilable (Islam and Kokubu, 2018). One of the key issues at the centre of the stakeholder model is whether all stakeholders are regarded equally, or whether some have higher

rights and claims to the corporation than others. Jensen (2010) argues that it is unproductive to frame the discussion around groups of stakeholders. Rather, he suggests that the focus should be on corporate behaviour, determining what behaviour will result in the optimal use of society's limited resources with the least social waste.

2.2.3.4. Stakeholder Theory and Disclosure

Stakeholder theory maintains that firms are accountable to their stakeholders and are responsible for reporting their performance to these stakeholders. According to Alam (2006), stakeholder theory requires the firm to disclose social, environmental and financial information to all stakeholders, keeping them well-informed about the firm's operation. Through voluntary disclosure firms can attract investors, enhance employee retention, and gain access to new markets or customers (Fernando and Lawrence, 2014).

A substantial body of the literature suggests that stakeholder theory provides valuable insights into the disclosure practices of firms (Ayuso et al., 2007; Islam and Deegan, 2006; Farook et al., 2011; Binh and Mai, 2013; Chiu and Wang, 2015; Ching and Gherab, 2017). For instance, Chiu and Wang (2015) use stakeholder theory to study the determinants of social disclosure quality for a sample of 246 listed firms in Taiwan. In their study, the researchers tested stakeholder theory empirically to explain the quality of information disclosure in an emerging economy. Their results suggest that certain characteristics, such as the stakeholder's power, strategic position, and economic resources, influence the quality of information disclosure, thus lending support to the relevance of stakeholder theory to corporate governance and voluntary disclosure.

A question arises as to whether the firm should disclose and respond to the information needs of all stakeholders in the same manner. Some researchers hold the view that firms respond

to different stakeholders differently. According to Islam and Deegan (2006), stakeholder theory suggests that firms give priority to responding to the demands of powerful stakeholders. Therefore, if powerful stakeholders demand particular disclosures, the firm would revise its policy in order to provide the requisite disclosures. In this case, the firm's disclosure is motivated not by a genuine desire to be transparent and provide information useful to end users but rather to satisfy the demands of powerful stakeholders. However, in the context of Islamic banks, it is crucial that they are genuinely motivated by the desire to fulfil Shariah principles and rules and to deliver on their responsibility toward all of their stakeholders, including shareholders, customers, employees and the community at large.

2.2.3.5. Stakeholder Theory and Islamic Banks

Due to the narrow focus on agency theory and its emphasis on shareholder wealth maximization, some researchers have promoted stakeholder theory as an alternative for Islamic banks. Stakeholder theory, which emphasizes fairness and consideration for all stakeholders, appears to be more closely aligned with the Islamic model of corporate governance (Htay and Salman, 2013). However, as rightfully pointed out by Sencal and Asutay (2021), the corporate governance model adopted by Islamic banks in their current practice is mostly aligned with the shareholder model of corporate governance. In spite of this, it is important to note that Islamic moral economy calls for incorporating the stakeholder model into the Islamic corporate governance structure due to the Shariah's emphasis on adhering to Islamic norms, morality and values (Sencal and Asutay, 2021). This will help safeguard the rights and interests of stakeholders, preserve property rights and contribute to greater social justice (Abdullah and Asutay, 2021).

Van Greuning and Iqbal (2008) classify stakeholders within Islamic banks into three categories, namely internal stakeholders, multilateral institutions, and regulatory, oversight and monitoring entities. Internal stakeholders include the board of directors, SSB, executive management, IAH, shareholders, and employees. Multilateral institutions are entities such as the Islamic Development Bank, Accounting and Auditing Organizations for Islamic Financial Institutions (AAOIFI), Islamic Financial Services Board (IFSB), and International Islamic Financial Markets (IIFM). Regulatory and oversight entities include government regulators and supervisors such as central banks.

In line with the principles of stakeholder theory, Islamic banks are accountable to their stakeholders and must give due consideration to their interests and needs, including the disclosure of information that demonstrates that the bank has discharged its responsibilities.

2.2.4. Legitimacy Theory

Legitimacy theory explains why firms make voluntary disclosures (Tilling, 2004; Kent and Stewart, 2008; Fernando and Lawrence, 2014). Deegan (2002) argues that firms choose to make voluntary disclosures in order to gain legitimacy, protect their reputation and ensure the ongoing survival of their organization. This section provides an overview of legitimacy theory, discusses its main concepts and analyses its relevance to corporate governance and voluntary disclosure.

2.2.4.1. Definition

Legitimacy theory is a system-oriented theory with roots in political economy theory (Deegan, 2002). One of the principal corporate governance theories, legitimacy theory is relevant to understanding the motivation behind the disclosure practices of firms (Kent and Zunker, 2013).

The Merriam-Webster English Dictionary[13] defines legitimacy as the state or condition of being legitimate, that is, what is allowed according to rules or laws, real, accepted, or reasonable. Lindblom (1994) defines legitimacy as the situation in which the firm's value system is in alignment with society's value system. A more comprehensive definition is provided by Suchman (1995, p. 574), who defines legitimacy as a generalized perception or assumption that the actions of an entity are desirable, proper or appropriate within some socially constructed system of norms, values, beliefs and definitions.

2.2.4.2. Overview of Legitimacy Theory

According to Islam and Deegan (2006), legitimacy theory holds that firms continually attempt to ensure that they are perceived as operating within bounds and norms accepted by the societies in which they do business. It is important to note that what is acceptable, or considered within social bounds and norms, is subject to change and that which is perceived to be legitimate and appropriate in one society may not be appropriate in another (Islam and Deegan, 2006). Therefore, firms need to adopt and develop strategies for protecting their legitimacy and ensuring that they continue to be perceived as operating within the bounds and norms accepted by society (ibid.).

Under legitimacy theory, organizations do not have an inherent right to resources in society such as human capital, raw materials and customers. An organization's survival will be jeopardized if it is perceived to be operating in a manner that is not acceptable or legitimate (Lindblom, 1994; Deegan, 2002). Legitimacy theory is based on the assumption that there is a social contract that exists between the organization and the society within which it operates (Kent and Stewart, 2008;

[13] Refer to the Merriam-Webster Dictionary, version 2016.

Omar and El-Galfy, 2015). The social contract stipulates that the organization delivers socially desirable ends, provides benefits to society, and in return gets society's acceptance to operate and use its resources (Guthrie and Parker, 1989; Omar and El-Galfy, 2015). Legitimacy theory deals with society as a whole and does not differentiate between different organizational stakeholders. Organizations are expected to take into account not only the rights and interests of investors, or other powerful stakeholders, but also the rights of society as a whole (Yusoff and Alhaji, 2012). According to Suchman (1995), organizations seek legitimacy in order to gain the acceptance of their stakeholders, enhance organizational stability and maintain credibility within society. By maintaining their legitimacy, organizations are able to ascertain access to key resources vital to the organization's survival such as human and financial capital and attract customers for their products and services (Tilling, 2004).

2.2.4.3. The Legitimacy Gap and the Legitimization Process

The literature indicates that in order to gain and maintain legitimacy, organizations engage in four legitimization stages, namely: establishing, maintaining, extending and defending their legitimacy (Tilling, 2004; Umoren et al., 2015). Islam and Deegan (2008) argue that this process is continuous, with the organization engaged in one or more of the above stages at any given time. In each of these phases, disclosure is critical in enabling the organization to maintain its operational legitimacy. Regardless of these aforementioned phases, an organization may still experience threats to its legitimacy due to unexpected scandal or to an incident that negatively affects its reputation (Fernando and Lawrence, 2014).

The legitimacy gap can be described as the difference that exists between society's beliefs about how an organization should act and how the organization is perceived to have acted (Deegan,

2006). Omar and El-Galfy (2015) note that a legitimacy gap may arise due to an incongruence between the organization's values and those of society. A gap can also arise as a result of changes in society's expectations, though the organization has not changed the way it operates (Deegan, 2006). Social expectations evolve continuously, and values and norms may change over time (Fernando and Lawrence, 2014). Failure to adapt and address legitimacy gaps or threats may ultimately result in the forfeiture of the organization's right to exist (Tilling, 2004). As a result, managers strive to ensure that they operate within the boundaries of their social contract. This creates an incentive for greater voluntary disclosure and demonstrating adherence to the firm's social contract (Kent and Stewart, 2008). Disclosure provides an important avenue for social acceptance and an enhanced reputation (Deegan, 2002). By providing greater disclosure, a firm can reduce the legitimacy gap and safeguard its ability to operate and access society's resources (Gray et al., 1995; Deegan, 2006).

A number of prior studies suggest that firms voluntarily disclose information in order to gain and maintain legitimacy in the society in which they operate. For instance, Haniffa and Cooke (2005) conduct a longitudinal study to examine the impact of culture and corporate governance on the extent of social disclosure by a sample of 160 Malaysian-listed companies. Using legitimacy theory as the basis for their study, the authors find that companies provide social disclosures as part of their strategy to gain and maintain their legitimacy in society and influence in government circles. Kent and Zunker (2013) examine the annual reports of a sample of 970 Australian-listed firms to determine whether the firms' disclosure practices are driven by efforts to seek legitimacy in society. Their study found that companies provide voluntary disclosure of employee information to gain and maintain legitimacy in society. Similarly, Ching and Gerab (2017) find that a sample

of 46 Brazilian-listed firms for the period from 2008 to 2012 disclosed quality information to legitimize their firms in society.

Despite its wide acceptance, there has been some criticism raised against the effectiveness and usefulness of legitimacy theory. For instance, Guthrie and Parker (1989) examine the disclosure practice of a major Australian monopoly company, Broker Hill Proprietary Company Ltd (BHP), using the company's annual reports over a period of 100 years. Their study does not find strong evidence of legitimacy theory as a primary explanation for the disclosure practices of the company. Fernando and Lawrence (2014) point out that legitimacy theory has been criticized for its vagueness and limitations in explaining why organizations choose not to disclose information or why they disclose information selectively.

2.2.4.4. Legitimacy Theory and Islamic Banks

Notwithstanding the concerns noted above, legitimacy theory has important implications for Islamic banks, given the social expectation that they operate in accordance with Shariah rules and principles and uphold the higher objectives of Shariah (*maqasid al Shariah*). Farook et al. (2011) postulate that the need for Islamic banks to operate within the value system of Muslim society is vital to the survival of Islamic banks and to their ability to gain legitimacy. Islamic banks are accountable to society, and to discharge this responsibility and maintain their legitimacy they need to demonstrate compliance with Shariah rules and principles through full disclosure (Farook et al., 2011). Failure to adhere to Shariah rules and principles is likely to erode society's confidence in Islamic banks, and, over time, threaten their legitimacy to operate. Therefore, the current study argues that Islamic banks should give greater importance to disclosure and transparency to demonstrate to society in general and to the Muslim community in particular that they are operating

within the boundaries and values of their community, including full adherence to Shariah rules and principles.

2.2.5. Signalling Theory

Signalling theory has gained significant attention in recent years as a means of shedding light on the voluntary disclosure practices of organizations and how that information is interpreted by the receiving party. Signalling theory, which is mainly concerned with how to reduce information asymmetry between two parties, has been used in various disciplines, including management, marketing, human resources and accounting (Connelly et al., 2011). This section discusses how signalling theory helps explain important aspects surrounding the extent of information disclosure made by Islamic and conventional banks. Annual reports provide users with important information about the bank, its management and its board. Accordingly, the current research uses signalling theory to help explain the determinants of voluntary disclosure in firms in general and the banking sector in particular.

2.2.5.1. Definition and Overview

Signalling theory is mainly concerned with information asymmetry problems in markets and helps explain how the asymmetry can be reduced (Morris, 1987; An et al., 2011). Signalling theory is used in the literature to gain an understanding of management's motivation to disclose information (Omran and El-Galfy, 2014; Bae et al., 2018). Generally, signalling theory assumes that the information disclosed conveys positive attributes and qualities about the firm which outsiders may find useful (Connelly et al., 2011). While signalling theory has its roots in the labour

markets,[14] the theory can be applied wherever there are information asymmetry issues (Spence, 1973; Morris, 1987). Accordingly, the theory has been used in various disciplines, including management, human resources, marketing and accounting, to explain information asymmetry (Spence, 1973; Ross, 1977; Grossman, 1981; Hughes, 1986; Trueman, 1986; Zhang and Wiersema, 2009; Connelly et al., 2011; Bae et al., 2018).

Connelly et al. (2011) explain that signalling theory's primary elements comprise the signaller, the receiver and the signal itself. The signaller consists of insiders, such as executives or managers, who possess insider information about the organization or product (ibid.). Insiders, including managers, have access to a wide range of information about the company which is not available to investors, such as the quality of a product, the soundness of new investment projects, the future profitability of the firm, as well as risks (An et al., 2011; Kent and Zunker, 2013). Managers can enhance their firm's value through useful voluntary disclosures that reduce investor uncertainty (Omran and El-Galfy, 2015). Voluntary disclosures provide an opportunity for the firm's management to disclose useful and credible information that will in turn enhance the firm's competitive positioning and its ability to attract investors, while reducing uncertainty in the market (Omran and El-Galfy, 2014).

Signalling theory assumes that managers tend to disclose positive information to enhance the firm's value and its reputation in the marketplace (Kent and Zunker, 2013). Accordingly, managers who choose to voluntarily disclose both positive and negative information are likely to be perceived by the market as providing superior information (ibid.). Besides disclosure, the

[14] For instance, in his seminal work, Spence (1973) extensively discusses how signalling in job markets can help reduce information asymmetry between job applicants and potential employers and distinguish high-quality candidates from those of low quality. Spence explains that job applicants use their educational qualifications to signal their quality and productivity to potential employers.

quality of a firm's corporate governance may also enhance the firm's value in the market. Zhang and Wiersema (2009) argue that the quality of the corporate governance, including the prestige of the board of directors and the characteristics of senior management, provides a signal about the firm's quality to investors, and in turn affects the stock price of the firm.

2.2.5.2. Prior Studies on Signalling Theory

An examination of the extant literature suggests that a significant number of studies in various disciplines have used signalling theory to explain information disclosure by companies. For instance, Hughes (1985) examines the information asymmetry found between managers with insider information and investors of the firm to determine whether the information is credible and can be relied upon by investors to make appropriate decisions. Based on the results of the study, Hughes concludes that the disclosure is credible because any false disclosures would result in significant detrimental penalties to the firm. Zhang and Wiersema (2009) investigate the signalling role of the CEO to investors and the effect of signalling on the firm's quality. The results, which are consistent with prior studies, indicate that the characteristics of the firm's board of directors and top management provide a signal to investors about the firm's quality, which in turn affects the firm's stock valuation. Bae et al. (2018) analyse a sample of Global Initiative Reports (GRI) from Bangladesh, India, and Pakistan for the period from 2009 to 2016 using signalling theory. The authors document that the governing bodies have strong effect on using these GRI reports as a signal to the market and shareholders.

2.2.6. Proposed Integrated Theoretical Framework

Based on the examination of the theories discussed within this chapter, the current study puts forth a combination of agency, stakeholder, legitimacy and signalling theories in order to

understand the determinants of information disclosure and address the research question. This integrated approach is consistent with previous studies (Morris, 1987; Gray et al., 1995; Deegan, 2002; An et al., 2011; Yusoff and Alhaji, 2012; Fernando and Lawrence, 2014) that hold that the overlapping nature of these theories provides valuable insight, and therefore, it is incorrect to treat them as separate and distinct theories (Deegan, 2002).

For example, Gray et al. (1995) point out that there is a considerable overlap between legitimacy theory and stakeholder theory. Researchers suggest that these two theories are complementary rather than competing (Islam and Deegan, 2008). Similarly, Morris (1987) studies the relationship between signalling theory and agency theory and finds that both theories are consistent and have a considerable amount of overlap between them. An et al. (2011) argue that an integrated theoretical framework based on agency, stakeholder, legitimacy and signalling theories provides a sound foundation for examining the determinants of intellectual capital disclosure. The current study builds on this approach and makes further contributions to the literature by applying the integrated theoretical framework to explain the determinants of comprehensive categories of firm disclosure, including strategic, governance, risk, financial and Shariah compliance information.

By adopting the integrated theory approach, the researcher seeks to better understand the nature of corporate governance, its role in the firm, and how it affects the extent of information disclosure and transparency. Agency theory provides us with insight to understand problems and conflicts between owners and management. Moreover, it helps us understand how conflicts and information asymmetry between owners and managers can be reduced through effective disclosure strategies (Donnelly and Mulcahy, 2008). With greater information disclosure, managers can reduce uncertainty and demonstrate to owners and other stakeholders that management is acting

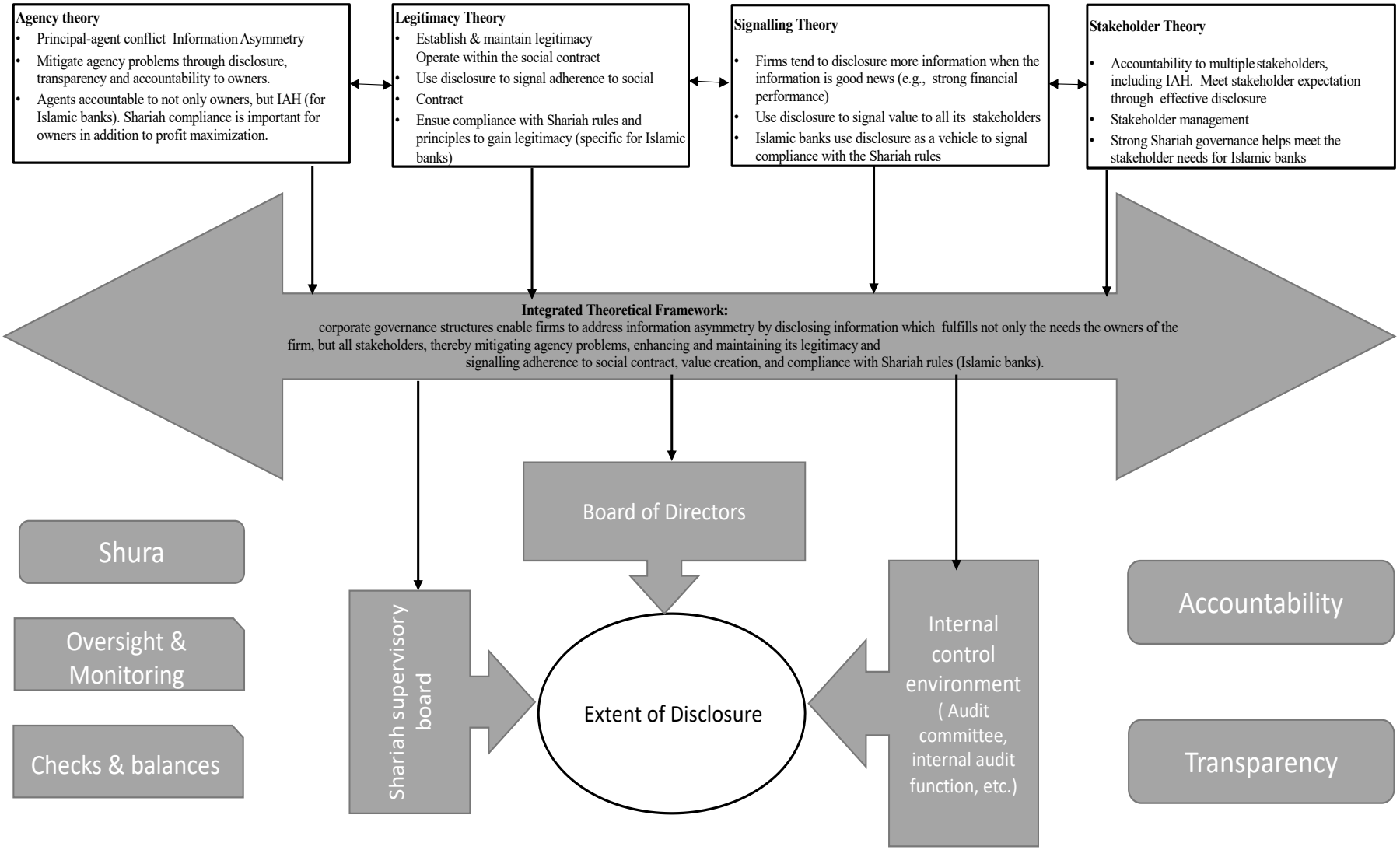
in their best interest. Stakeholder theory goes beyond the firm's owners and management, which is the main concern of agency theory, and helps us understand how the firm can discharge its responsibilities toward various stakeholders, such as shareholders, employees, customers and the community. Stakeholder theory explains how information disclosure can help a firm demonstrate its commitment to meeting stakeholder expectations and enhance the relationship between the firm and its stakeholders. Legitimacy theory helps us explain the role of information disclosure in helping organizations gain legitimacy and acceptance in the society where they operate in order to sustain and preserve their existence. Moreover, it sheds light on how information disclosure enhances management's opportunities to maintain organizational legitimacy. Finally, signalling theory helps us understand how information disclosure provides organizations opportunity to enhance their value by signalling useful information to their stakeholders and society at large.

These four theories combined provide an integrated theoretical framework to comprehensively examine the determinants of information disclosure and adequately address the research questions. The integrated framework explains how the governance system of the firm can promote disclosure and transparency policies aimed at reducing information asymmetry not only between the principal and the agent, but more importantly between the firm and its stakeholders and the society in which it operates. Furthermore, the integrated theoretical framework enables the current study to understand how effective information disclosure policies can help firms meet stakeholder expectations, discharge accountability toward society, and maintain their legitimacy.

The integrated theoretical framework provides powerful, coherent, and unified model for understating the relationship between corporate governance and disclosure, including those governance elements that are specific to Islamic banks. In this regard, the framework considers elements such as *shura* and its role in the Islamic corporate governance structure. *Shura* helps

Islamic banks engage with its stakeholders and provide them with the opportunity to offer consultations and participate in the decision-making process, thereby ensuring just and fair decisions (Abdullah and Asutay, 2021). Incorporating the *shura* into the governance structure enhances the Islamic bank's ability to manage the stakeholder relationships, reduce agency problems, maintain its legitimacy, and signal to the community their commitment to the Islamic values. Accordingly, the current study expects that *shura* will result in more effective corporate governance and greater transparency when applied properly in the internal governance processes of Islamic banks (e.g., boards, SSBs, etc.). The Figure 2.1 depicts the integrated theoretical framework adopted for the current study.

Figure.2.1
Integrated Theoretical Framework



Source: Self-developed model in line with prior studies.

2.2.7. Conclusion

In summary, this chapter provides an overview of the main concepts, definitions and existing literature on corporate governance and disclosure. Additionally, the chapter examines the different corporate governance models used in different countries while focusing on the two main approaches, namely the shareholder and stakeholder models. The chapter also examines cultural and Islamic perspectives of corporate governance. The chapter also presents an overview of the main theories of corporate governance and voluntary disclosure, namely agency, stakeholder, legitimacy and signalling theories. The chapter provides definitions and overviews of the main concepts of the above theories and how they relate to the study's research questions. Relevant prior studies are also discussed and critically examined. The chapter concludes by analysing these theories and proposing an integrated framework for the current study in order to answer the main research question.

CHAPTER THREE

LITERATURE REVIEW: THE EFFECT OF CORPORATE GOVERNANCE ON THE EXTENT OF DISCLOSURE PRACTICE

Chapter two discussed the conceptual background and theoretical framework for understanding and analysing the relationship between corporate governance and voluntary disclosure. Using an integrated theoretical framework derived from the combination of agency, stakeholder, legitimacy and signalling theories, this study investigates the impact of corporate governance mechanisms such as the board of directors and the audit committee on the extent of voluntary disclosure by Islamic and conventional banks. This chapter surveys the extant literature on the impact of corporate governance on the extent of disclosure by Islamic and conventional banks and examines prior studies relevant to the research questions. More specifically, the chapter focuses on the board characteristics and internal control elements that are the most studied aspects of corporate governance (Wan-Hussin, 2009). The chapter examines in detail their impact on the extent of disclosure. The chapter also discusses prior studies specific to Islamic banks and the role of Shariah governance on the extent of disclosure. The chapter then presents the hypotheses developed for the current study in line with the relevant literature and the integrated theoretical framework discussed in chapter three. The chapter concludes with remarks on key points from the literature review.

3.1. Introduction

Research interest in studying the association between corporate governance and the extent of disclosure has been on the rise, especially in the conventional industry. Research indicates that

corporate governance mechanisms such as boards of directors are important determinants for information disclosure because the board is responsible for overseeing key policies, including those related to disclosure (Gul and Leung, 2004). A survey of the literature reveals many studies that examine the relationship between corporate governance characteristics and the extent of disclosure by firms (Forker, 1992; Healy and Palepu, 2001; Ho and Wong, 2001; Eng and Mak, 2003; Cohen et al., 2004; Dey, 2005; Cheng and Courtenay, 2006; Huafang and Jianguo, 2007; Natarajan, 2007; Said et al., 2009; Hermalin and Weisbach, 2011; Akhtaruddin and Rouf, 2012; Del Baldo, 2012; Htay et al. 2012; Sacconi, 2012; Durney; 2013; Barros et al., 2013; Khan et al., 2013; Jizi et al., 2014; Alhazaimeh et al., 2014; Appuhami and Tashakor, 2017; Garassa et al., 2018; Garas and ElMassah, 2018; Neifar and Jarboui, 2018; Husted and Sousa-Filho, 2019; Tessema, 2019; Milad et al., 2020).

A closer examination of these studies suggests several determinants of disclosure, including the impact of corporate governance characteristics, such as board independence, size, meeting frequency, CEO duality, internal control and Shariah governance strength on the extent of disclosure. The studies indicate the existence of a relationship between these corporate governance characteristics and the extent of disclosure (Khan et al., 2013). However, it is worth noting that most prior studies examining the relationship between corporate governance and disclosure focus on developed countries (Barako et al., 2006) and cover financial and nonfinancial companies. Studies which examine developing countries often use samples of nonfinancial companies and do not undertake comprehensive analysis of various types of disclosures, including strategy, corporate governance, risk governance, CSR and Shariah governance (for Islamic banks). This study seeks to fill this gap by comprehensively examining the impact of corporate governance on the extent of disclosure by GCC Islamic and conventional banks.

3.2. Board of Directors and Disclosure

The board of directors is an integral part of corporate governance, providing crucial oversight and monitoring roles in firms (Hart, 1995; John and Senbet, 1998; Abdelsalam and El-Masry, 2008; Di Guida, et al., 2022). The board is responsible for deciding on the compensation, hiring and firing of senior management and provides valuable input into the firm's strategic planning process (Bushman and Smith, 2001). Overall, the board of directors has an oversight role in critical areas related to the firm, including strategy, governance, talent, integrity and performance (Fucci and Cooper, 2019).

The board is the ultimate internal monitor, charged with scrutinizing the highest decision makers within the firm (Fama, 1980) and ensuring that management protects the firm's constituents (Williamson, 1984), particularly in firms where there is diffuse ownership whose stockholders cannot readily scrutinize management themselves (John and Senbet, 1998). Donnelly and Mulcahy (2008) posit similar points and further emphasize the need for the board to establish appropriate mechanisms to ascertain effective management of the firm and assess the performance of top executives towards achieving the firm's objectives. Prior studies have found a relationship between corporate failures and the absence or ineffectiveness of board monitoring. For instance, in examining the reasons behind the collapse of HealthSouth[15] in 2001, Larcker and Tayan (2011) report that the board's compensation committee and the audit committee met only once during the same year. The lack of effective monitoring by these two important board committees allowed

[15] HealthSouth was a Fortune 500 U.S. company providing healthcare services, headquartered in Alabama, USA. The company collapsed in 2001 following accusations of overstating earnings by $1.4 billion in order to meet market expectations and paying millions of dollars in bonuses to senior management (Larcker and Tayan, 2011).

management to overstate earnings and pay themselves hefty bonuses, which resulted in one of the most publicized corporate fraud cases in the United States.

On the other hand, having independent board members plays a critical role in enhancing board effectiveness. The role of independent board members in corporate governance has become increasingly important in recent decades. As a result, some countries have enacted laws stipulating the inclusion of independent board members. Bebchuk and Weisbach (2010) suggests that, following accounting scandals, one of the main corporate governance changes has been to strengthen the independence of boards of directors. For instance, the USA enacted the Sarbanes-Oxley Act of 2002, which requires that all members of the audit committees of listed companies be independent directors (Wan-Hussin, 2009; Bebchuk and Weisbach, 2010). Similar regulations have been adopted in other parts of the world, including Europe and Australia, requiring companies to appoint independent board members as a means of improving the corporate governance practices of their companies. Independent board members are widely accepted as an indicator of best practices for corporate governance and are required by most capital markets, especially for the banking industry (Hawkamah, 2017). The CIBAFI's study on corporate governance suggests that independent board members play a significant role in strengthening the overall effectiveness of corporate governance in Islamic banks and financial institutions (CIBAFI, 2017).

Research indicates that information disclosure and transparency are important parts of the board's monitoring and oversight roles (Gul and Leung, 2004; Allegrini and Greco, 2011; Barros et al., 2013). Cheng and Courtenay (2006) argue that, as part of its monitoring responsibilities, the board of directors helps establish internal mechanisms that ensure adequate information disclosure in line with the interests of shareholders. Greuning and Iqbal (2008) suggest that the key responsibilities of the board are to maintain transparency, make accurate disclosures, and ensure

the integrity of disclosed information. By doing so, the board helps minimize information asymmetry, strengthen its monitoring ability and enhance management's business decision-making (Donnelly and Mulcahy, 2008). In addition to the research community, standard-setting bodies have also recognized the crucial role that the board of directors plays in the disclosure policy of Islamic financial institutions. For example, the IFSB has stressed in its disclosure standards[16] the need for the board of directors to establish disclosure policies that promote transparency.

Numerous studies, especially in Western countries, have investigated the effect of board characteristics on disclosure (Chen and Jaggi, 2000; Gul and Leung, 2004; Cheng and Courtenay, 2006; Lim et al., 2007; Akhtaruddin and Rouf, 2012; Allegrini and Greco, 2013; Jizi et al., 2014; Albassam and Ntim, 2017; Grassa et al., 2018; Sulub et al., 2020). These studies show that board characteristics are generally associated with the extent of disclosure by firms and that effective boards contribute to the enhancement of the firm's transparency and disclosure practices. The characteristics most frequently cited are board independence, size, meeting frequency and CEO role duality. However, while significant number of studies show that board independence has positive effect on the level disclosure, the findings related to the other board characteristics (size, meeting frequency, CEO duality, etc.) show mixed results. Chen and Jaggi (2000) study a sample of 87 Hong Kong firms to examine the effect of board characteristics on disclosure. The study controls for firm size, sales volumes, profitability, leverage, liquidity, auditor type, etc. Using ordinary least squares (OLS) regression analysis, the authors find that the proportion of independent board members is positively associated with the extent of financial disclosure,

[16] The IFSB's standard on disclosures, issued in 2007, details the disclosures recommended by the IFSB to promote transparency and market discipline. In particular, section 2 of the standards details the general principles of the recommended disclosure policies for Islamic financial institutions.

suggesting that the presence of independent board members enhances the firm's disclosure quality and contributes to an increased level of information disclosure. Gul and Leung (2004) study a sample of 385 Hong Kong-listed companies to investigate the effect of board characteristics on the extent of voluntary disclosure. The results indicate that CEO role duality is strongly and negatively associated with the extent of disclosure. Moreover, the authors find that the proportion of expert independent board members has a significant negative association with the extent of disclosure. While the study makes interesting observations about the role of expert independent directors being a substitute for more disclosure, the result should be approached with caution, as the study suffers from the limitation of relying on rather old data with a limited number of corporate governance-related proxies.

In contrast, Cheng and Courtenay (2006) study a sample of 104 firms listed on the Singapore Stock Exchange to examine the impact of several board-related characteristics on the extent of disclosure. The authors find a significant positive association between board independence and level of disclosure. The findings suggest that firms with boards with a majority of independent members have a higher level of voluntary disclosure than firms with a minority of independent board members. However, the authors find that board size and CEO role duality are not associated with the extent of disclosure. Overall, the main finding of the study emphasizes the central role that independent board members play in monitoring management and encouraging greater disclosure to minimize information asymmetry between the firm's managers and the owners.

Mixed results are also reported by Cheung et al. (2007) who empirically examine the impact of board characteristics, including board size and independence, on the extent of corporate disclosure for a sample of 337 and 168 listed firms in Thailand and Hong Kong, respectively. The

result of regression analysis indicates a significant and positive association between board size and the extent of voluntary disclosure in Thailand, but no such association in Hong Kong. Moreover, the authors find that board independence has a significant and positive association with the extent of disclosure for Thailand. Akhtaruddin et al. (2009) investigate the impact of corporate governance on the extent of voluntary disclosure for a sample of 110 Malaysian-listed companies. The authors find a significant positive association between board size and the extent of voluntary disclosure. The authors suggest that a larger board size is more effective in influencing management to disclose more information. Further, the authors find a significant positive association between board independence and extent of disclosure.

Besides Asian markets, studies in other parts of the world also show mixed results. Lim et al. (2007) examine a sample of 181 Australian companies to determine the impact of board independence on the extent of voluntary disclosure made in the company annual reports. Using a two-stage multivariate analysis, their study finds an overall significant positive association between board independence and extent of disclosure. In similar vein, Kent and Stewart (2008) examine the impact of corporate governance characteristics on the extent of disclosure for a sample of 965 Australian-listed companies for the year 2004. The authors use board and audit committee characteristics and auditor type as proxies for corporate governance quality. Overall, the results of the regression analysis indicate that board effectiveness contributes to greater levels of disclosure. With regard to individual board characteristics, the study finds that board size and board meeting frequency have a significant positive association with the extent of disclosure. This seems to suggest that larger boards which meet more frequently are more likely to promote greater disclosure. No association is reported between CEO duality and extent of disclosure.

A number of studies conducted in the Americas and Europe also suggest that board characteristics are associated with extent of disclosure. However, the result is mixed. Hidalgo et al. (2011) conduct a study with a sample of 100 Mexican-listed firms to examine the effect of corporate governance mechanisms on the extent of intellectual capital disclosures. The result of the regression analysis reveals that board size is significantly and positively associated with the extent of disclosure. Husted and Sousa-Filho (2019) perform a study to examine the impact of board characteristics on the extent of ESG disclosure for a sample of 176 firms listed in Latin American countries. The results of the study reveal that board size and board independence have positive and significant effects on the level of ESG disclosure, thus indicating that larger and more independent boards are likely to provide greater ESG information. The authors also find that CEO duality is negatively and significantly associated with ESG disclosure. This finding, which is consistent with some studies, suggests that powerful CEOs tend to provide less ESG disclosure. However, unexpectedly, the study reports that the number of women on the board is negatively associated with the extent of disclosure. The authors provide a number of explanations, including the lack of an adequate number of women on the board (i.e., three or more women on the board) to have a positive impact on ESG disclosure, and the cultural setting of Latin American countries which are characterized by a greater degree of collectivism, thus diminishing the ability of individual women board members to positively influence the firm's ESG disclosure policies. Similar results to this study are reported by Muttakin et al. (2015), who find that the number of women on the board is negatively associated with the extent of CSR disclosure for a sample of nonfinancial firms in Bangladesh.

On the other hand, Jizi et al. (2014) conduct study of a sample of large US listed banks to examine the effect of board characteristics on CSR disclosure and find that both board size and

independence have a positive and significant association with the extent of CSR disclosure. The authors note that firms with larger and more independent boards are more likely to provide greater disclosures. They also examine the impact of CEO role duality on the extent of CSR disclosure and find that it is positively and significantly associated with a bank's CSR disclosure. The authors suggest that the positive association provides evidence that powerful CEOs do encourage greater transparency of a bank's CSR activities for their own benefit and in an effort to appease their stakeholders.

For the Italian markets, Allegrini and Greco (2013) examine the impact of corporate governance on the extent of disclosure for a sample of 177 Italian-listed firms. The result of their study shows that board size has a positive and significant impact on the extent of disclosure. Moreover, the study finds that board meeting frequency is positively and significantly associated with the extent of disclosure. CEO role duality is found to have a marginally significant and negative association with the extent of disclosure, whereas board independence is found to have no impact on the extent of disclosure. In contrast, Allini et al. (2016) examine the impact of board characteristics on the extent of risk disclosure for a sample of state-owned Italian firms and find that board diversity is significantly and positively associated with the extent of disclosure. The authors report that the remaining board characteristics do not have a significant association with the extent of risk disclosure by firms.

For sample of 206 French listed firms, Barros et al. (2013) study the effect of corporate governance practices on the extent of voluntary and find a significant and positive association between board independence and level of disclosure. They also find that board meeting frequency is significantly and positively associated with the level of disclosure, thus suggesting that boards which meet more often contribute to higher disclosure and promote greater transparency. The

study, however, finds a negative association between the board members' participation in board meetings and extent of disclosure. Kilic et al. (2015) study the annual reports of 25 Turkish banks for the period from 2008 to 2012 to examine the impact of certain board characteristics including board size, independence, and diversity on the extent of CRS disclosure. The authors find a positive and significant relationship between board independence and the extent of CRS disclosure. The authors also report that board diversity is positively and significantly associated with the extent of CSR disclosure. The remaining variables are not found to have any significant impact on the extent of CRS disclosure.

Several recent studies examine board characteristics and its impact on disclosure for the GCC and other emerging markets, showing overall that board characteristics are associated with disclosure. Grassa and Chakroun (2016) conduct a study on a sample of 72 Islamic and conventional banks within GCC countries to examine the impact of ownership structure and board characteristics on the extent of corporate governance disclosure. The study finds that board size and independence are positively associated with the extent of corporate governance disclosure. CEO role duality is also reported to have a significant and positive association with the extent of disclosure. In similar vein, Shehata (2017) studies a sample of 270 nonfinancial firms listed in GCC markets and finds that board independence has a significant positive association with the extent of corporate governance disclosure. The remaining board characteristics (board size, CEO duality, etc.) are not associated with the extent of corporate governance disclosure. The author also finds that board diversity is positively associated with the extent of corporate governance disclosure. Garas and ElMassah (2018) examine the impact of corporate governance on the extent of CSR disclosures for a sample of 147 firms in the GCC countries and find that board independence and CEO role duality are significantly and positively associated with the extent of

CSR disclosure. Overall, the findings of these studies provide evidence that effective boards contribute to enhancing the transparency and level of CSR disclosure in firms that operate in the GCC environment. However, even though the study considers different proxies of corporate governance such as board of directors, ownership structure and audit committee, the study focuses on CSR disclosure as the dependent variable and does not consider other types of disclosure, thus limiting the ability to be generalized.

For other emerging markets, Alnabsha et al. (2018) conduct a study to investigate the impact of board attributes, ownership structure, and firm-related characteristics on the extent of disclosure with a sample of Libyan companies. The study finds that board meeting frequency is significantly and positively associated with the extent of disclosure. CEO duality is found to have no significant association with the extent of disclosure. On the other hand, contrary to their hypotheses, the study finds that board size and independence have a significant negative association with the extent of disclosure. Though unexpected, the authors provide an explanation for the negative association between board size and independence and the extent of disclosure, citing some prior studies which have found similar results (e.g., Eng and Mak, 2003). While the study considers various proxies of corporate governance, it has limitations as it is based on one country only. Therefore, the results may not be generalizable to other regions. Khandelwal et al. (2020) conduct a study of a sample of 205 nonfinancial Indian-listed firms to examine the impact of board characteristics on the extent of risk disclosure. The findings reveal that board diversity as well as non-executive and multiple directorships have a significant positive impact on the extent of risk disclosure. However, the study finds that board size, board independence, and executive directorship have no impact on the extent of risk disclosure.

In summary, from the review of a substantial body of literature, it can be understood that prior studies provide strong support for the impact of corporate governance mechanisms such as board of directors on the extent of disclosure. However, most of these studies are focused on specific types of disclosure rather than considering various strategic, financial, and nonfinancial disclosures, as is the case with the current study. This gap demonstrates the need for further research to build on the prior literature and examine the impact of board characteristics on the extent of a comprehensive disclosure index which is comprised of various disclosure categories.

3.3. Internal Control and Disclosure

Internal control is essential to the establishment of strong corporate governance and significantly enhances information disclosure (BCBS, 2015; Agyei-Mensah, 2016; Chalmers et al., 2019). Internal control is defined as a set of structures and processes, which are affected by the organization's board, audit committee, management, and other personnel, designed to provide assurance about the achievement of objectives. Internal controls enable the organization to effectively govern its operations, ensure proper checks and balances, and establish appropriate processes to mitigate risk and support the achievement of organizational objectives (BCBS, 2015). Both the audit committee and the internal audit function are key components of the internal control environment (Jiang et al., 2018). Together these bodies provide oversight, monitoring and independent assurance regarding the control activities and processes established by management in support of the achievement of organizational objectives (Al-Zwyalif, 2015; Mihaela and Iulian, 2012). These components of the firm's internal control environment are discussed next.

3.3.1. Audit Committee Characteristics and Disclosure

The audit committee, which is charged with the responsibility of supporting the board in monitoring the integrity of the financial reporting process and the strength of the internal control environment of the firm, is one of the most important board committees (Klein, 2002; Akhtaruddin and Haron, 2010; Li et al., 2012; Allegrini and Greco, 2013; Madi et al., 2014; Othman et al., 2014; Samaha et al., 2015; Kusnadi et al., 2016; Appuhami and Tashakor, 2017; Buallay and Al-Ajmi, 2020). DeZoort et al. (2002, p.41) define an audit committee as 'qualified members with the authority and resources to protect stakeholder interests by ensuring reliable financial reporting, internal controls, and risk management through its diligent oversight efforts'. To properly discharge their oversight responsibility, the audit committee must be given unfettered access to information and be empowered with the authority to act. It is also crucial that the audit committee members are independent and honest and have expertise in financial matters. (DeZoort et al., 2002; BCBS, 2015; CIBAFI, 2017).

The crucial role of the audit committee has been brought to the forefront following high-profile corporate governance failures such as Enron and the 2008 financial crisis. As a result, many countries around the world have introduced laws and regulations aimed at strengthening the corporate governance structure, including the requirement to establish an audit committee which is largely made up of independent members. The audit committee is instrumental in the governance of firms and supports the board's efforts to ensure effective monitoring of management.

The existence of an audit committee demonstrates the firm's commitment to sound corporate governance practices (Ho and Wong, 2001; Kent and Stewart, 2008; BCBS, 2015; CIBAFI, 2017), greatly enhances transparency and disclosure and significantly improves the quality of monitoring and financial reporting (Buallay and Al-Ajmi, 2020). Klien (2002) asserts

that the primary role of the audit committee is to oversee and monitor the firm's financial reporting, auditing processes and internal controls. Similarly, DeZoort et al. (2002) suggest three important responsibilities for audit committees: financial reporting, internal controls and risk management, and overseeing audit activities. Samaha et al. (2015) suggest that audit committees play a crucial role in promoting greater disclosure, clarity, and dissemination of accurate and useful information to investors and other stakeholders of the firm. More recently, the role of audit committees includes ascertaining the integrity of the firm's financial systems and controls, transparency, risk governance, compliance and dealing with ethical issues.

An examination of the extant literature suggests that a strong and effective audit committee plays a crucial role in enhancing a firm's overall corporate governance environment (DeZoort and Salterio, 2001; Akhtaruddin et al., 2009; Appuhami and Tashakur, 2017; Buallay and Al-Ajmi, 2020). Moreover, an effective audit committee is one of the variables used to examine the impact of corporate governance on such aspects of the firm as performance (Kajola, 2008), earnings management (Klein, 2002), corporate fraud (Beasley, 1996) and financial reporting and disclosure (Forker, 1992; Ho and Wong, 2001; Anderson et al., 2004; Barako et al., 2006; Kent and Stewart, 2008; Akhtaruddin et al., 2009; Al-Shammari and Al-Sultan, 2010; Li et al., 2012; Allegrini and Greco, 2013; Samaha et al., 2015; Appuhami and Tashakur, 2017; Buallay and Al-ajmi, 2020). Select prior studies related to the audit committee characteristics considered for the current study are discussed next.

In the UK markets, Mangena and Pike (2005) examine the impact of certain audit committee characteristics on the extent of interim financial reporting disclosure for a sample of 262 UK-listed firms. The results indicate that audit committee financial expertise is found to have a significant positive association with the extent of disclosure. The authors note that audit

committees that have financial expertise are able to discharge their monitoring role more effectively and provide greater interim reporting. On the other hand, shareholding by audit committee members is negatively associated with the extent of internal financial reporting. The authors explain that higher levels of ownership by audit committee members results in fewer interim report disclosures, thus suggesting that audit committee shareholding is undesirable from a corporate governance perspective. The study does not find any relationship between audit committee size and the extent of interim financial reporting. In contrast, Li et al. (2012) examine the impact of audit committee characteristics on the extent of intellectual capital disclosure based on a sample of 100 UK-listed firms. The result shows that audit committee financial expertise has a significant negative association with the extent of disclosure. The authors explain that the negative association may suggest that having members with financial expertise is more effective in influencing more financial disclosure than intellectual capital disclosure. Additionally, the authors report that audit committee size and meeting frequency have a significant positive association with the extent of disclosure. The authors also find that audit committee directors' shareholding is negatively associated with the extent of disclosure.

For a sample of 965 Australian-listed firms, Kent and Stewart (2008) examine the impact of corporate governance characteristics on the extent of disclosure and find a positive association between overall audit committee effectiveness and extent of disclosure. As for individual audit committee characteristics, the study finds that audit committee meeting frequency is significantly and positively associated with the extent of disclosure while audit committee size and financial expertise are negatively associated with the extent of disclosure. No association is found between audit committee independence and the extent of disclosure. Appuhami and Tashakor (2017) study a sample of 300 Australian-listed firms to examine the impact of several audit committee

characteristics on the extent of CSR disclosure. The result of a multiple regression analysis documents that audit committee size, independence, meeting frequency, and gender diversity have a significant positive impact on the extent of disclosure. However, the study finds no impact for financial expertise or the independence of the audit committee chair. The overall findings of these studies contribute to advancing the literature and provide evidence that a larger and more effective audit committee enhances the level of transparency and results in higher disclosure.

A number of studies in the Southeast Asian markets show that audit committee characteristics have impact on the extent of disclosure. For a sample of Hong Kong-listed firms, Ho and Wong (2001) examine the impact of board characteristics and audit committees on the extent of disclosure. The results of their regression analysis reveal that the existence of an audit committee is strongly and positively associated with the extent of disclosure. The authors argue that the result of their study provides support regarding the need for regulatory bodies to require firms to have an audit committee, as this will likely enhance the transparency and information disclosure policies of firms. Akhtaruddin and Haron (2010) conduct a study on a sample of 124 Malaysian-listed firms to examine the effect of audit committee independence and financial expertise on the extent of disclosure. The result shows that audit committee independence has a moderating effect on the extent of disclosure where it is found to reduce the negative effect between board ownership and the extent of disclosure, thus resulting in increased disclosure level and reduction in information asymmetry. Audit committee financial expertise is not found to be associated with the extent of disclosure.

For a sample of 146 Malaysian-listed firms, Madi et al. (2014) study the impact of audit committee size, independence, multiple directorship, meeting frequency and financial expertise on the extent of voluntary disclosure. The result reveals that audit committee size, independence, and

multiple directorships of audit committee members have a significant positive impact on the extent of disclosure. Audit committee financial expertise and meeting frequency are found to have no impact on the extent of disclosure. In contrast, Kusnadi et al. (2016) study the impact of audit committee characteristics on the quality of financial reporting for a sample of 423 Singaporean-listed firms. The study finds that audit financial expertise has a significant positive association with the quality of financial reporting. However, audit committee independence and cross-membership are found to have no association with financial reporting quality.

In the GCC markets, a number of studies explore the role of the audit committee on disclosure. For instance, Habtoor et al. (2019) examine the impact of audit committee characteristics such as size and meeting frequency on the extent of corporate risk disclosure for a sample of 307 Saudi-listed firms for the period from 2008 through 2011. The authors report that audit committee meeting frequency is significantly and positively associated with the extent of corporate risk disclosure while no association is found between audit committee size and the extent of corporate risk disclosure. Similarly, Buallay and Al-Ajmi (2020) examine the impact of audit committee characteristics (size, independence, financial expertise, and meeting frequency) on the extent of corporate sustainability disclosures based on a sample of 59 GCC banks for the period from 2013 to 2017. The study finds that audit committee independence and meeting frequency have a significant positive impact on the extent of sustainability disclosure. On the other hand, contrary to their hypothesis, the authors document a negative association between audit committee financial expertise and the extent of sustainability disclosures.

In summary, prior studies examining the impact of audit committee characteristics on the extent of disclosure demonstrate that, overall, audit committee characteristics such as size, independence, meeting frequency and financial expertise are associated with the information

disclosure. However, the studies reviewed show mixed results. Moreover, it can be observed that most of these studies are focused mostly on European or other Asian regions. The current study aims to fill this gap and examine the impact of audit committees on the extent of disclosure for Islamic and conventional banks in the GCC countries.

3.3.2. Internal Audit Function and Disclosure

The Internal audit function (IAF) is a critical component of the internal control environment and plays an important role in the overall governance structure of a firm (Jiang et al., 2018). The independence of the IAF and its direct reporting line to the board enable it to be an effective monitoring tool, which addresses gaps and weaknesses, including those related to the firm's disclosure practices (Al-Shetwi et al., 2011). Despite its importance, however, a review of the extant literature indicates that there is scarcity in research related to the role of the internal audit and that the effect of the IAF on disclosure is mostly unexplored, especially within the context of Islamic banks and developing countries (Sulub et al., 2020). The few relevant studies identified show mixed results regarding the impact of the IAF on the extent of disclosure. Al-Shetwi et al. (2011) conduct a study of a sample of 44 Saudi-listed firms to examine the impact of the IAF on financial reporting quality. The study, which develops a composite comprised of several IAF attributes, including independence and proficiency concludes that there is no significant association between the IAF and financial reporting quality.

On the other hand, Lin et al. (2011) find that IAF has impact on the extent of material weakness disclosure for a sample of 214 U.S. firms. In similar vein, Razek (2014) studies the impact of corporate governance characteristics on the extent of CSR disclosure for a sample of Egyptian firms. The study finds that internal audit quality has a significant impact on the extent of

corporate social disclosure. mechanism to enhance transparency and increase disclosure levels. Ganesan et al. (2017) examine the impact of several corporate governance attributes on sustainability disclosure with a sample of 120 Malaysian-listed firms and finds that the IAF has a moderating effect on the relationship between corporate governance attributes and the extent of sustainability disclosure, thus suggesting that the internal audit contributes to greater disclosures. Sulub et al. (2020) find a significant association between the IAF and the extent of corporate governance disclosure, thus providing support for the important role that the IAF plays in enhancing transparency and the level of disclosures. Overall, these studies provide support for the effective role that internal audit plays as a corporate governance. Similar results are also reported by Tumwebaze et al. (2022) who find that quality of the IAF has a significant positive impact on the sustainability disclosure practices of Ugandan financial firms.

In summary, the prior studies examined show that internal control elements such as audit committee characteristics and IAF are associated with the extent of disclosure. However, the result is mixed, with some studies finding a significant positive effect while others find a negative or no impact. Based on the overall results of the studies examined, the current study aims to examine the impact of audit committee and IAF characteristics on the extent of disclosure by Islamic and conventional banks.

3.4. Shariah Governance and Disclosure

Effective Shariah governance is central to ensuring compliance with Shariah principles and rules, earning the trust of stakeholders, and achieving the higher objectives of the Shariah (Obid and Naysary, 2016; Al Mannai and Ahmed, 2018). Therefore, it can be argued that effective Shariah governance is essential to the survival of Islamic banks (Grais and Pellegrini, 2006;

AlQasasr and Ahmed, 2021). The whole business model of the Islamic bank requires that the bank's transactions be conducted in accordance with the principles and rules of Shariah (Grais and Pellegrini, 2006; AlQasasr and Ahmed, 2021).

There is a growing call for Islamic banks to embrace comprehensive Shariah governance aimed at putting in place appropriate arrangements to ensure compliance with Shariah rules and contribute to the achievement of the higher objectives of the Shariah. In addition to industry stakeholders, regulators are also putting forth requirements which demand that Islamic banks establish proper Shariah governance. In this regard, some of the key regulators in the GCC have introduced a new Shariah governance model, requiring Islamic banks to take a more holistic approach to their Shariah governance. As part of these initiatives, the central banks demand that Islamic banks be more transparent and report their adherence to the new Shariah governance model. For instance, in 2017, the Central Bank of Bahrain published a new Shariah governance Standards which introduced several new requirements for Islamic banks, including the requirement to be subjected to an independent external Shariah compliance audit (IESCA) on an annual basis. Other requirements included enhanced disclosures for the effectiveness and performance of the SSB.

3.4.1. Shariah Supervisory Board (SSB)

One of the key governance mechanisms for ensuring strict adherence to Shariah law is the SSB (Karim, 1995; Alnasser and Muhammed, 2012). The SSB is an integral part of the Islamic bank's corporate governance structure and contributes to enhancing its overall performance

(Mollah and Zaman, 2015). According to the AAOIFI standards,[17] the SSB is defined as an independent body of specialized jurists in fiqh al muamalat[18] (Islamic commercial jurisprudence).

The extant literature suggests that the SSB is an integral part of the Islamic bank's governance system (Hassan, 2011) and is entrusted with monitoring management and overseeing full compliance with Shariah principles and rules (Grais and Pellegrini, 2006). Karim (1995, p. 288) notes that the SSB is responsible for ensuring that all the bank's transactions, new products, and contracts are in conformity with Shariah rules and issuing fatwas on the permissibility of transactions. As stipulated by the AAOIFI governance standards, the fatwas and rulings of the SSB are binding on the Islamic bank. The SSB also works with external auditors and the bank's management in setting the bank's accounting policy on issues which are either not covered by the accounting principles enforced in the country or are in violation of the Shariah (Karim, 1995, p. 288).

The SSB's role is crucial as it provides assurance to the Islamic bank customers that the bank's transactions are conducted according to Shariah principles, and any transactions violating the Shariah rules are properly addressed and disclosed (Suleiman, 2000). Hence, an important aspect of the assurance provided by the SSB is to ascertain that the transactions identified as being in violation of Shariah rules are properly addressed and disclosed in a transparent manner. For instance, let us assume that the SSB, through its Shariah audits or review of transactions and contracts, finds that certain income generated by the bank is illegal according to Shariah rules. In this case, it becomes extremely important that the SSB ensure that the bank not only excludes this

[17] Source: AAOIFI Governance Standards, section 2, page 4.
[18] It is worth noting that, according to the AAOIFI governance standards, the SSB can have members other than those with a specialty in *fiqh al muamalat*. However, they have to be experts in the field of Islamic banks with knowledge about *fiqh al muamalat.*

illegal income from its profits and disperses the income to charitable causes under the supervision of the SSB, but also makes adequate disclosures about these transactions to customers and other stakeholders.

An examination of the literature on Islamic corporate governance reveals that transparency and disclosure are important principles of Islamic corporate governance (Baydoun and Willet, 1997; Grais and Pellegrini, 2006). Ariffin et al. (2007) argue that information disclosure in Islamic banks is crucial as it enables the bank's stakeholders to assess the bank's compliance with Shariah rules and principles. Moreover, one of the key responsibilities of the SSB is to advocate for transparency and disclosure not only about the Islamic bank's financial information, but also about such nonfinancial information as CSR and Shariah compliance. It is also crucial that the Islamic bank discloses the SSB's duties, decision-making process, composition, and areas of expertise, hence enhancing the confidence of stakeholders and strengthening the credibility of the SSB (Grais and Pellegrini, 2006).

Numerous studies examine the role of Shariah governance characteristics (SSB, Shariah audit department, external Shariah audit, etc.) and its impact on different aspects of the Islamic bank, including the extent of voluntary disclosure (Archer et al., 1998; Suleiman, 2000; Chapra and Ahmed, 2002; Grais and Pellegrini, 2006; Nathan and Ribiere, 2007; Ghayad, 2008; Hasan, 2011; Elamer et al., 2019; Neifar et al., 2020). Selected prior studies examining the impact of Shariah governance elements on the extent of disclosure by Islamic banks are discussed next.

While most prior studies show that Shariah governance is associated with disclosure, however, the result is not conclusive. On other hand, some studies develop a Shariah governance index while others use individual SSB related characteristics. For instance, Farook et al. (2011)

study a sample of 47 Islamic banks in 14 countries, including GCC countries, to examine the determinants of social responsibility disclosure by Islamic banks. The authors consider, among other factors the impact of Shariah governance strength on the extent of CSR disclosure. Overall, the authors find that social responsibility disclosure in Islamic banks is very low (with a mean of 16.8%, approximately). Further, the result of OLS regression analysis reveals that the Shariah governance strength index is significantly and positively associated with the extent of CSR disclosure. El-Halaby and Hussainey (2015) conduct a study of 138 Islamic banks located in 25 countries, including the GCC and find that the existence of the Shariah audit function in the Islamic bank is positively associated with the extent of CSR disclosure. However, Rizkiningsih and Dewi (2015) find no association between Shariah governance strength and extent of Islamic social reporting for a sample of 47 Islamic banks in Southeast Asia and GCC countries for a period of 3 years (2008 through 2010).

Besides the composite Shariah governance strength, other studies use individual SSB characteristics as explanatory variables. For instance, Wan Abdullah et al. (2013) conduct a study of a sample of 23 Islamic banks in Malaysia and Indonesia to investigate the impact of Shariah governance on the extent of Shariah-related disclosures. The study finds that cross-membership and SSB financial expertise have a strong and positive association with Shariah-related disclosures. However, no association is found between SSB size and Shariah disclosures. The study concludes that a more effective SSB with members who are sitting on various Shariah boards and who have financial expertise are more likely to encourage greater Shariah disclosures. Grassa et al. (2018) study a sample of 78 Islamic banks from 11 countries, including GCC countries, for the period from 2004 to 2012 and find that SSB size has positive and significant effects on the extent of product and service disclosure by Islamic banks.

In a longitudinal study, Elamer et al. (2019) investigate the effects of SSB characteristics on the extent of operational risk disclosure for a sample of 63 banks in 10 countries, including the GCC. The result shows that SSB characteristics (SSB existence, size, and meeting frequency) are significantly and positively associated with the extent of operational risk disclosure. The authors postulate that effective SSBs play an important governance role in Islamic banks and are likely to promote transparency and greater risk governance disclosure. In more recent work, Ridwan and Mayapada (2020) examine the effect of SSB characteristics on the extent of CSR disclosure for a sample of Indonesian Islamic banks. The SSB characteristics used in the study are SSB size, educational background and the reputation of the Shariah scholars in the SSB. The results of their regression analysis show that SSB characteristics (SSB size, educational qualifications, and member reputations) have no impact on the extent of CSR disclosure by Islamic banks.

In summary, the extant literature provides support that Shariah governance, such as SSB size, meeting frequency and financial expertise and a Shariah audit unit, do have an effect on the Islamic bank's disclosure practices. However, most of these studies are focused on specific aspects of disclosure, such as Shariah or CSR disclosure. The current study aims to fill this gap by considering various categories of disclosure, including Shariah, CSR, governance, risk, and financial information.

3.5. Firm And Country-Level Characteristics

Firm- and country-level characteristics provide important explanations and have been used in the literature as control variables. A review of the extant literature reveals that there are several firm- and country-level characteristics which have an effect on the extent of disclosure. These include size, profitability, leverage, cost-to-income (C2INC) ratio, and capital adequacy ratio

(CAR). Besides the firm-level, country-level characteristics such as regulatory quality are also discussed in the literature and considered in prior studies, as these characteristics have an influence on the level of disclosure (Ernstberger and Gruning, 2013; Elamer et al., 2019). The regulatory environment of a country plays an important role and has a macro-level impact on the overall governance of firms. Legal and regulatory environments can provide an explanation for a firm's disclosure practices. Cheng and Courtenay (2006) assert that the legal and regulatory environment affects how the board monitors various aspects of the firm, including disclosure practices. They further postulate that in regulatory regimes where transparency is promoted, independent board members generally push for more disclosure by the firm. Beekes et al. (2016) argue that disclosure and transparency is likely to be higher in countries where there is a legal system that provides greater protection for investors and effective enforcement of rules. They further assert that firms are likely to provide timely and greater levels of disclosure to avoid potential penalties which may be imposed on them if they fail to disclose.

Numerous studies have examined firm characteristics such as size, performance, and leverage to determine their impact on the extent of corporate disclosure (Sighvi and Desai, 1971; Buzby, 1975; Belkaoui and Kahl, 1978; Chow and Wong-Boren, 1987; Cooke, 1989; Ahmed and Nicholls, 1994; Wallace et al., 1994; Meek et al., 1995; Hossain et al., 1995; Owusu-Ansah, 1998; Chow and Gray, 2002; Naser et al., 2002; Barako et al., 2006; Uyar et al., 2013; Baldini et al., 2018; Al-hadi et al., 2019). A select number of these studies are discussed next.

Several studies done in the US and European markets show that firm characteristics have impact on disclosure. In his seminal work, Cerf (1961) examines a sample of U.S. firms to determine the impact of characteristics such as size on the extent of disclosure. Using an index of 31 items, his study finds a positive association between firm size and the extent of disclosure.

Buzby (1975) studies a sample of 88 U.S. companies and finds a significant positive relationship between company size and the extent of disclosure in the annual reports. In similar vein, Firth (1979) studies a sample of 180 U.S. companies and finds a significant positive relationship between company size and the extent of voluntary disclosure. Similar result is also reported by Chow and Wong-Boren (1987). Hossain et al. (1995) conduct a study of a sample of 55 New Zealand-listed firms to examine the impact of firm characteristics on the extent of disclosure. The result indicates that firm size, leverage, and foreign listing have a significant positive impact on the extent of disclosure.

Similarly, studies done in other developing countries, including GCC also show that firm and country level characteristics have impact on disclosure. AlSaeed (2006) performs a study of a sample of 40 Saudi-listed firms to investigate the impact of firm characteristics such as size, profitability, and leverage on the extent of disclosure. The analysis of the disclosure levels reveals that the level of disclosure is relatively low for the sample firms tested (the mean score is 33%). The results indicate that firm size has a significant positive association with the extent of disclosure. However, the study finds no significant association for the remaining variables. In similar vein, Mohamed and Basuony (2015) examine the impact of several firm characteristics on the extent of financial disclosure for a sample of 266 GCC firms. These characteristics include firm size, profitability, leverage, industry type and audit firm size. The result of their regression analysis finds that firm size has a significant positive impact on the extent of disclosure. However, the remaining firm characteristics are found to have no significant impact on the extent of Internet financial disclosure. On the other hand, the study reports that there is a significant difference in disclosure practices among the GCC countries in the sample. In particular, the study finds that there is a significant difference in disclosure practices between Saudi and Omani firms.

For a sample of Turkish-listed manufacturing companies, Uyar et al. (2013) conduct a study to examine the impact of firm characteristics on the extent of disclosure and find that firm size and auditor type have a significant positive impact on the extent of disclosure. On the other hand, leverage is found to be negatively and significantly associated with the extent of disclosure. However, no significant impact is found for either listing age or profitability. Baldini et al. (2018) conduct a cross-country study to examine the impact of firm- and country-level characteristics on the extent of ESG disclosures for a sample of 14,174 observations for the period from 2005 to 2012 from firms of various industries, including financials, consumer goods, industrials, and basic materials. The firm-level characteristics considered in the study are firm size, leverage, analyst coverage and cross-listing. The country-level characteristics used in the study are political system (level of corruption, strength of legal framework), labour system (degree of labour protection, unemployment rate) and cultural system (social cohesion, equal opportunities). The result shows that firm-level characteristics, namely, firm size, leverage, analyst coverage, and cross-listing, have a significant positive association with the extent of ESG disclosures. Moreover, the study finds all three country-level characteristics have a significant impact on the extent of ESG disclosures.

In summary, the survey of the prior studies reveals that, overall, country- and firm-level characteristics (e.g., firm size, profitability and leverage) and country-level characteristics (political system, regulatory quality, GDP growth rate, etc.) have an effect on firm disclosure and transparency. Further, the extant literature provides support that these firm- and country-level characteristics have been used as control variables due to their association with disclosures.

3.6. Identifying The Gap in the Literature

The current study aims to examine the impact of corporate governance on the extent of disclosure for Islamic and conventional banks in the GCC countries. While a significant number of studies have been done on the impact of corporate governance mechanisms on disclosure, which contribute greatly to advance research on the subject, a survey of the extant literature reveals notable gaps. First, it is observed that most studies, especially those related to GCC countries, are focused on examining specific types of disclosure, such as risk, corporate governance, intellectual property or CSR-related information. The current study fills this gap by examining six categories of disclosure, specifically strategy, governance, risk, CSR, Shariah and financial information.

Second, prior studies have mostly used a limited number of corporate governance dimensions as explanatory variables and have not considered a comprehensive set of dimensions to fully determine their impact on disclosure. The current study attempts to fill this gap by considering a comprehensive set of corporate governance dimensions as proxies, including board, internal control, and Shariah governance characteristics.

Third, most prior studies, especially those related to the GCC countries, examine corporate governance characteristics such as board size, independence and meeting frequency as individual variables and do not consider their aggregate impact. Even the few studies which develop an index of corporate governance (e.g., Al-Hadi et al., 2019) tend to focus only on the impact of overall corporate governance quality. The current study aims to extend the literature and address this gap in two ways. First, the study develops an index for three main thematic areas of corporate governance, which are: board effectiveness, internal control strength and Shariah governance strength (specific to Islamic banks). For each of the three thematic areas, an empirical analysis is

performed at two levels, first at the composite level and then at the individual variable level. Moreover, the current study considers various corporate governance characteristics, some of which are less explored in prior studies related to the GCC countries, such as the existence of an independent internal audit function.

3.7. Hypothesis Development

The current study examines the impact of certain corporate governance characteristics on the extent of disclosure by Islamic and conventional banks in GCC countries. The main question that the study aims to answer is: How does corporate governance affect the extent of disclosure by Islamic and conventional banks in GCC countries? Based on a review of the extant literature, the current study identifies certain corporate governance characteristics as independent variables that affect the extent of disclosure by Islamic and conventional banks. These are classified into three main categories, namely board effectiveness, internal control strength and Shariah governance strength. Board effectiveness characteristics include board size, independence, meeting frequency, diversity, and CEO role duality. The internal control strength characteristics include audit committee size, independence, meeting frequency, financial expertise, internal audit existence and independence. Shariah governance characteristics comprise SSB size, meeting frequency, educational qualifications, financial expertise, and internal and external Shariah audits. To answer the research questions, the current study develops three main hypotheses and sub-hypotheses, based on the independent (i.e., the corporate governance mechanisms described above) and dependent (i.e., the extent of disclosure) variables which are considered in the current study, in line with prior studies.

3.7.1. Board Effectiveness and Extent of Disclosure

Following methods used by prior studies (e.g., Beekes and Brown, 2006; Ishak and Al-Ebel, 2013; CIBAFI, 2107; Al-hadi et al., 2019; Sulub et al., 2020), the current study develops an index to measure board effectiveness, comprised of several board characteristics which are commonly associated with disclosure in the extant literature. These include board size, independence, meeting frequency, CEO duality and board diversity. These board characteristics, which are discussed in further detail in the following subsections, have been identified in the literature as influencing the extent of disclosure. In line with prior studies and drawing from agency theory, which postulates that effective boards promote higher disclosure as a means of mitigating agency problems between management and stakeholders (Kent and Steward, 2008), the current study expects that board effectiveness has a positive association with the extent of disclosure by Islamic and conventional banks. Accordingly, the following hypothesis is formulated:

H_1: *Board effectiveness is positively associated with the extent of disclosure.*

3.7.1.1. Board Size

Board size is seen as an important determinant of effectiveness in monitoring, oversight, and decision-making (Yermack, 1996; Anderson et al., 2004; Allegrini and Greco, 2011; Kilic et al., 2015; Allini et al., 2016). However, as there is no globally agreed-upon specific board size, different views have been put forth in the extant literature about the ideal board size, with some researchers arguing for small board sizes while others suggest larger board sizes (Hawkamah, 2017). For instance, some research studies (Yermack, 1996; John and Senbet, 1998; Cheng and Courtenay, 2006) contend that smaller boards (i.e., fewer than 10 members) are more effective. These studies argue that large boards lead to slower decision-making, poorer communication, and

other inefficiencies. However, most studies (Akhtaruddin et al., 2009; Larmou and Vafeas, 2010; Abeysekera, 2010; Allegrini and Greco, 2011; Al-Musalli and Ismail, 2012; Kilic, 2015) strongly suggest that a larger board is likely to be more effective at discharging its responsibilities, in part because the workload can be distributed in a more manageable way. For instance, Allini et al. (2016) argue that a larger board enhances effectiveness and enables greater monitoring. They conclude that large boards are likely to advocate for greater disclosure. The argument is premised on the postulation that boards with a large number of members are likely to include experienced members who will monitor management more effectively, and promote better governance, including disclosure and transparency. Furthermore, they contend that a larger board is in a better position to distribute roles more effectively and to allocate responsibilities among its members more equitability, thus enhancing board performance.

Hawkamah (2017) reports that the mean global board size is 10.4, suggesting that most companies do maintain a large board. This is especially true in companies with large and complex business operations such as the banking sector. Boone et al. (2007) find that firms tend to increase their board size over time due to growth in the business' scope and complexity or to changes in senior management structure. Large boards increase the capacity to monitor management, provide more effective distribution of the workload, and bring a greater pool of diverse skills and expertise (Al-Musalli and Ismail, 2012).

Prior studies have examined the effect of board size on different aspects of the firm, such as performance (Yermack, 1996; Dalton et al., 1998; John and Senbet, 1998), firm value (Mak and Kusnadi, 2005), executive compensation (Laksmana, 2008), CEO monitoring (Hermalin and Weisbach, 1998) and voluntary disclosure (Eng and Mak, 2003; Gul and Leung, 2004; Cheng and Courtenay, 2006; Cheung et al., 2007; Boone et al., 2007; Lim et al., 2007; Donnelly and Mulcahy,

2008; Akhtaruddin et al., 2009; Abeysekera, 2010; Akhtaruddin and Rouf, 2012; Barros et al., 2013; Uyar et al., 2013; Jizi et al., 2014). Overall, these studies, including those that examine a board's impact on the extent of disclosure, show mixed results, as discussed below.

For instance, Cheung et al. (2007) empirically examine the impact of board characteristics, including size, on the extent of corporate disclosure for listed firms in Thailand and Hong Kong. The study finds a significant and positive association between board size and the extent of voluntary disclosure in Thailand, but no such association in Hong Kong. In a similar vein, Kent and Stewart (2008) find a positive association between board size and the extent of voluntary disclosure, postulating that an increase in the number of board members is likely to enhance the extent of disclosure by a firm. Akhtaruddin et al. (2009) investigate the impact of board size on the extent of voluntary disclosure for a sample of 110 Malaysian-listed companies. The result of their study reveals a significant positive association between board size and the extent of voluntary disclosure. The authors suggest that a larger board size is more effective in influencing management to disclose more information.

For a sample of 26 Kenyan-listed firms, Abeysekera (2010) examine the impact of board size on the extent of intellectual capital disclosure. Using the annual reports of the sample firms for 2002 and 2003, the author finds that board size is positively and significantly associated with the extent of disclosure. Hidalgo et al. (2011) find that board size is significantly and positively associated with the extent of disclosure. The authors further postulate that the maximum board size should be 15 members, as recommended by corporate governance codes and best practices. Akhtaruddin and Rouf (2012) study the impact of board characteristics, including board size, on the extent of disclosure by a sample of 94 companies listed in the Bangladesh market. Their study finds that board size is positively associated with the extent of disclosure. Allegrini and Greco

(2013) examine a sample of Italian-listed firms and find that board size is positively associated with the extent of voluntary disclosure. Jizi et al. (2014) study the effect of board size on CSR disclosure in the U.S. banking sector and find a positive and significant relationship between board size and CSR disclosure, noting that firms with larger board sizes are more likely to make greater disclosures.

In a meta-analysis Samaha et al. (2015) examine the link between board and audit committee characteristics and voluntary disclosure and conclude that board size has a significant positive association with the extent of disclosure. Grassa and Chakroun (2016) find that board size is associated with higher corporate governance disclosure. Ghabayen et al. (2016) find that board size is significantly and positively associated with the extent of disclosure for a sample of Jordanian banks. Albassam and Ntim (2017) examine a sample of 75 Saudi-listed firms from 2004 to 2010 in order to study Islamic value and corporate governance characteristics. Using multivariate regression analysis, their study reveals that a larger board size is associated with a greater level of corporate governance disclosure. Grassa et al. (2018) examine a sample of 78 Islamic banks located in 11 countries to determine the impact of corporate governance mechanisms on product and service disclosures. Their study concludes that board size has a positive association with the extent of product and service disclosures by Islamic banks. In line with the above studies, the current study postulates that board size contributes to an increased level of disclosure.

While a significant number of studies seem to suggest a positive association between board size and the extent of voluntary disclosure, several other studies report either an insignificant or a negative association. For example, Cheng and Courtenay (2006) study a sample of 114 firms listed on the Singapore Stock Exchange and find no association between board size and the extent of disclosure. Similarly, Arouri et al. (2011) find no significant relationship between board size and

performance of banks in the GCC markets. Saha and Akter (2013) study a sample of financial and nonfinancial firms listed in the Dhaka Stock Exchange and also find no significant association between board size and the extent of voluntary disclosure. Shehata (2017) also examines a sample of GCC banks and finds that board size is not associated with the extent of corporate governance disclosure. Ridwan and Mayapada (2020) find that board size has a significant negative impact on the extent of CSR disclosure for a sample of Indonesian Islamic banks.

In summary, overall, the extant literature suggests that board size is an important variable which sheds light on the relationship between corporate governance and the extent of disclosure. While some studies have found a negative or insignificant relationship, most studies suggest that board size positively influences the extent of voluntary disclosure. Accordingly, the following hypothesis is postulated:

H_2: *There is a positive association between board size and the extent of disclosure.*

3.7.1.2. Board Independence

Independence is the cornerstone to effective control and governance of firms (Hopt and Leyens, 2004), helping to address agency problems[19] that arise from the separation of ownership and management of a firm (Dalton et al., 1999). Fama (1980) defines independent directors as professional referees whose primary task is to monitor management and stimulate and oversee

[19] See Chapter Two for extensive discussion on agency theory and agency problems and its impact on the firm's governance structure and disclosure policies.

competition among the firm's top management. Cheng and Courtenay (2006) describe independent directors as board members who are not directly involved in the firm's operations.[20]

A substantial body of studies (Fama, 1980; Forker, 1992; Chen and Jaggi, 2000; Klein, 2002; Haniffa and Cooke, 2005; Cheng and Courtenay, 2006; Huafang and Jianguo, 2007; Barros et al., 2013; Kilic et al., 2015; Allini et al., 2016) suggest that independent board members play an instrumental role in monitoring management, contributing to the effectiveness of boards in discharging their responsibilities. Fama (1980, p. 293) posits that independent board members enhance the viability of the board of directors and provide a low-cost internal mechanism for monitoring management. Cheng and Courtenay (2006) argue that independent directors play a vital role in enhancing board effectiveness because they are seen as neutral and do not have a vested interest in the firm or its management. Haniffa and Coke (2005) argue that independent board members provide important checks and balances for the company and are vital to ensuring the protection of the interests of all stakeholders.

While these studies strongly argue that independent directors are indispensable, not all researchers agree. Some studies hold the view that independent board members are not effective at monitoring management's behaviour. For instance, Hart (1995) argues that independent board members may not be effective for several reasons, including lack of time, a financial interest in the firm, or loyalty to the management that appointed them. Larcker and Tayan (2011) give other reasons that may render independent directors ineffective, such as inadequate business acumen,

[20] The literature distinguishes between independent directors who are affiliated with management through family or business relations and those who have no relationship with management. The former group are known as "grey directors" while the latter group are considered "independent directors" (Cheng and Courtenay, 2006).

irrelevant professional background, lack of ethical standards, an ongoing relationship with the CEO, or financial dependence on their directorship fees.

Critical responsibilities of independent board members include advocating for a better disclosure policy and monitoring the firm's financial reporting. Klein (2002) asserts that independent board members are more effective than their non-independent counterparts at scrutinizing the financial accounting and reporting processes of firms. Haniffa and Cooke (2002) suggest that, as part of their role, independent board members are expected to campaign for more disclosure, and that the higher the number of independent board members (i.e., more than 50%), the greater the extent of voluntary disclosure made by the firm. Lim et al. (2007) postulate that independent board members argue for more voluntary disclosure to reduce information asymmetry between shareholders and managers and are likely to avoid risks of reputational damage and/or legal liabilities. Moreover, Allegrini and Greco (2013) suggest that independent board members are motivated to encourage greater disclosure so as to send a message to the market that they are not in collusion with any dominant personalities on the board, and also to enhance their own professional reputation.

A review of the extant literature reveals several research studies that examine the association between board independence and disclosure (Chen and Jaggi, 2000; Ho and Wong, 2001; Haniffa and Cooke, 2002; Eng and Mak, 2003; Cheng and Courtenay, 2006; Lim et al., 2007; Donnelly and Mulcahy, 2008; Wan-Hussin, 2009; Jizi et al., 2014; Samaha et al., 2015; Kilic et al., 2015; Grassa and Chakroun, 2016; Gharassa and Elmassah, 2018). While the majority of these studies report a positive association between board independence and voluntary disclosure, other studies report a negative or no association. Some of these studies are discussed next.

Chen and Jaggi (2000) find that the proportion of independent board members is positively associated with the extent of financial disclosure. This indicates that independent board members do enhance both the quality and quantity of disclosure. The study also reveals that this positive association is weaker among family-controlled firms than among firms where family control is not dominant. The authors attribute this to the controlling family's powerful influence over management, which hinders independent board members' ability to influence disclosure policies. Cheng and Courtenay (2006) examine the association between board monitoring and the level of voluntary disclosure and find a significant positive association between board independence and level of disclosure. They assert that firms with boards with a majority of independent members have a higher level of voluntary disclosure than firms with a minority of independent board members. Similarly, Huafang and Jianguo (2007) investigate the effect of board composition on voluntary disclosure for a sample of 559 Chinese-listed firms for the year 2002. Their study finds that board independence is positively associated with the extent of voluntary disclosure. The results of the study suggest that a higher proportion of independent board members leads to a greater level of voluntary disclosure.

For a sample of 181 Australian companies, Lim et al. (2007) conduct a study to determine the impact of board independence on voluntary disclosure. The result of the findings reveals a significant positive association between board independence and the extent of disclosure overall. The authors also examine the impact of independent board members on specific categories of information and find that boards composed of largely independent board members tend to disclose more forward-looking and strategic information. Donnelly and Mulcahy (2008) find a strong positive association between the number of independent board members and the extent of disclosure, noting that the extent of voluntary disclosure increases with the number of independent

board members. Moreover, Donnelly and Mulcahy report that firms with independent chairpersons have higher voluntary disclosure than those without, which seems to further corroborate their findings that board independence significantly contributes to greater transparency. Akhtaruddin et al. (2009) examine the impact of corporate governance on the extent of voluntary disclosure for a sample of 110 companies listed in Bursa Malaysia at the end of 2002. The results of the analysis reveal a positive association between the proportion of independent board members and the extent of voluntary disclosure. Accordingly, the authors conclude that a higher percentage of independent board members results in enhanced transparency and a greater level of information disclosure. Jizi et al. (2014) find a positive and significant relationship between board independence and size and CSR disclosure. They also suggest that firms with independent board members are likely to focus on long-term sustainability and are therefore more engaged in CSR disclosure. Kilic et al. (2015) find a positive and significant relationship between board independence and the extent of CRS disclosure. Nerantzidis and Tsamis (2017) examine a sample of Greek-listed firms and find that board independence has a significant positive impact on the extent of corporate governance disclosure.

Despite the research findings listed here, the overall results are not conclusive. Some studies suggest a negative association, while others do not find any relationship. For example, Haniffa and Cooke (2002) use a sample of 167 Malaysian-listed firms to examine the impact of corporate governance and cultural factors on the extent of voluntary disclosure by Malaysian companies. The study finds a negative association between an independent chairperson and the extent of disclosure, which indicates that the presence of an independent chairperson results in lower levels of disclosure. Similarly, Eng and Mak (2003) report a negative association between independent board members and the extent of disclosure, in which an increased level of board

independence results in reduced disclosure. In a similar vein, Barako et al. (2006) examine the annual reports of Kenyan-listed companies from 1992 to 2001 to determine the impact of independent board members on the extent of disclosure. Their study also finds a negative association between the number of independent board members and the extent of disclosure. Ghabayen et al. (2016) find that board independence is negatively associated with the extent of disclosure for a sample of Jordanian banks. Al-Hadi et al. (2019) examine a sample of GCC-listed financial firms to determine the impact of corporate governance on the extent of risk disclosure. Their study finds that board independence is negatively associated with the extent of disclosure.

While the above studies report a negative relationship, there are a number of other studies that find no significant relationship between independent board members and voluntary disclosure. For instance, Wan-Hussin (2009) investigates the effect of board composition on the extent of disclosure. The study, based on a sample of 32 Malaysian firms, finds no evidence to support the idea that independent board members promote greater disclosure or enhance corporate transparency. Similar results are also reported by Ho and Wong (2001), who examine the effect of independent board members on the extent of voluntary disclosure by using a sample of 98 firms listed on the Hong Kong Stock Exchange. They develop a disclosure index that takes into account the user's perceptions about the value of the items included in their index. Their study finds no significant association between the number of independent board members and the extent of disclosure by the firm.

The negative association between board independence and disclosure may be attributed to undue influence of the management of the firm. Of particular concern is the role that the CEO plays in appointing board members. Research indicates that CEOs play a crucial role in the selection of board members. Hermalin and Weisbach (1988) cite several previous studies, such as

Mace (1971) and Vancil (1987), which suggest that the CEO plays a significant role in choosing the board of directors. Farinha (2003) suggests that the inherent domination of boards by managers may limit the ability of independent board members to effectively discharge their monitoring role. These studies underscore the challenge posed by managers and the undue influence that they can exert, thus hindering an independent board member's ability to monitor management objectively and effectively and influence the firm's disclosure practices.

In summary, while the evidence is inconclusive, it appears that the majority of studies investigating the impact of board independence on disclosure support the view that independent board members enhance board effectiveness and contribute to a greater level of disclosure. Consistent with prior studies, the current study anticipates the existence of a positive relationship between board independence and the extent of disclosure by Islamic and conventional banks. Accordingly, the following hypothesis is postulated:

H_3: *The proportion of independent board members is positively associated with the extent of disclosure.*

3.7.1.3. Board Meeting Frequency

The board of directors are ultimately responsible for monitoring the firm's management. Board meetings[21] provide a crucial venue for members to conduct business in a formal setting, review and approve key strategies and policies, and ratify decisions. Board meetings provide members the opportunity to have direct, face-to-face discussion and exchange of ideas on

[21] Generally, boards of listed firms, including banks, are required to meet on a quarterly basis. Also, most corporate governance codes, including Sarbanes Oxley in the USA and the Cadbury Report in the UK, require that boards hold at least four (4) meetings annually. Nevertheless, the global practice of companies appears to be converging on having eight (8) meetings annually (Adawi and Rwegasira, 2011).

important strategies and policies, thus enhancing the board's effectiveness (Adawi and Rwegasira, 2011). Therefore, the frequency of board meeting is considered an indication of the board's commitment, diligence and effectiveness in discharging its governance responsibilities (Vafeas, 1999; Abbott et al., 2003; Laksmana, 2008; Brick and Chidamabaran, 2010; Barros et al., 2013). Board members who meet more frequently are able to demonstrate greater commitment and diligence to the firm's business. Accordingly, a limited number of studies have used the frequency of board meetings in examining various aspects of the firm, including performance and the extent of voluntary disclosure. These studies are discussed below.

For a sample of 307 firms from 1990 to 1994, Vafeas (1999) perform a study to examine the impact of the board's meeting frequency on the company's performance. The result of the multivariate study reveals that the number of board meetings during the year is negatively associated with the firm's value. The author suggests that more frequent board meetings are associated with poor performance in part because the market perceives the frequency as a sign of an ineffective board, leading to higher operational costs. Kent and Stewart (2008) examine the impact of frequency of board meetings on the extent of disclosure for a sample of 965 Australian-listed companies. The result of their regression analysis indicates that the frequency of board meetings is positively associated with the extent of the disclosure of information. In a similar vein, Laksmana (2008) studies the impact of corporate governance characteristics such as frequency of board meetings on the extent of voluntary disclosure of executive compensation information for a sample of firms listed on the S&P 500. The author finds a positive association between the board's meeting frequency and the extent of voluntary disclosure of executive compensation information.

In similar vein, Barros et al. (2013) find a positive association between meeting frequency and the level of disclosure, thus suggesting that boards which meet often have a positive effect on

the firm's disclosure practice and greater transparency. Nerantzidis and Tsamis (2017) examine a sample of Greek-listed firms and find that board meeting frequency has a significant positive impact on the extent of corporate governance disclosure. Alnabsha et al. (2018) examine the impact of several corporate governance characteristics, including frequency of board meetings, on the extent of disclosure for a sample of Libyan companies. Their study concludes that board meeting frequency has a significant impact on the extent of voluntary disclosure. Ridwan and Mayapada (2020) find that board meeting frequency has a significant positive impact on the extent of CSR disclosure for a sample of Indonesian Islamic banks.

On the other hand, Allini et al. (2016) examine the impact of board meeting frequency on the extent of risk disclosure for a sample of state-owned Italian firms and find no significant association between the board's meeting frequency and extent of risk disclosure by the firm. Based on the above studies, the current research takes the position that board meeting frequency is associated with the extent of voluntary disclosure and, therefore, proposes the following hypothesis:

H_4: *There is a positive relationship between number of board meetings and extent of disclosure.*

3.7.1.4. CEO Duality

CEO duality refers to the phenomenon in which the CEO assumes the role of the board chairman in addition to his or her role as CEO of the firm (Haniffa and Cooke, 2002; Garas and ElMassah, 2018). Numerous studies have taken the position that combining the roles of CEO and chairman is unhealthy because it allows the CEO to control the board's agenda and hinders the board's ability to monitor management's performance (Haniffa and Cooke, 2002; Wan Abdullah

et al., 2015), resulting in poor disclosure, thus further exacerbating information asymmetry among management, the board, and stakeholders (Al-Shammari and Al-Sultan, 2010). On the other hand, agency theory suggests that when the CEO and board chairmanship are combined it creates an environment in which the CEO could potentially engage in opportunistic behaviour, thereby advancing his or her interests at the expense of shareholders (Al-Shammari and Al-Sultan, 2010; Jizi et al., 2014). Therefore, it can be observed from the review of the literature that separating the roles of CEO and board chairmanship enhances the firm's corporate governance environment, particularly for the Islamic banking sector, which has additional agency relationships due to the nature of its business model (Wan Abdullah et al., 2015; CIBAFI, 2017).

On the other hand, some studies do suggest that combining the roles of CEO and board chairmanship leads to greater efficiency, streamlines the decision-making process, and creates a more unified and coherent board. These studies are premised on the view that management has stewardship responsibility and is genuinely pursuing the interest of the firm's shareholders. Therefore, the board and management function most effectively when they are combined, with oversight and decision-making processes under one leader (i.e., the CEO) in order to deliver on the firm's objectives (Haniffa and Cooke, 2002; Gul and Leung, 2004). In this regard, a few studies find that this role duality is positively related to the extent of disclosure. For instance, Jizi et al. (2014) examine the impact of corporate governance characteristics, including CEO role duality, on the extent of CSR disclosure in the U.S. commercial banking sector. Their study concludes that CEO role duality is positively and significantly associated with banks' CSR disclosure. The authors suggest that powerful CEOs do encourage greater transparency of a bank's CSR activities for their own benefit. In a similar vein, Grassa and Chackroun (2016) find that CEO duality is

positively associated with the extent of corporate governance disclosure for a sample of 74 GCC banks.

However, overall, a significant body of literature suggests that CEO duality tends to have a negative, an insignificant, or no association with the extent of disclosure. For instance, Gul and Leung (2004) find that CEO duality results in a lower level of disclosure. Other studies that find a negative and/or insignificant association between CEO duality and disclosure are Haniffa and Cooke (2002, Malaysia); Cheng and Courtenay (2006, Singapore); Huafang and Jianguo (2007, China); Donnelly and Mulcahy (2008, Ireland); Al-Shammari and Al-Sultan (2010, Kuwait); Allegrini and Greco (2013, Italy); Giannarakis (2014, USA); Shehata (2017, GCC); Neifar and Jarboui (2018, Middle East and Southeast Asia); and Tessema (2019, GCC). Accordingly, the current study postulates the following hypothesis:

H_5: *There is a negative relationship between CEO role duality and the extent of disclosure.*

3.7.1.5. Board Diversity

Board diversity has gained significant attention in recent years. Research suggests that board diversity contributes to overall effectiveness of boards in discharging their oversight and monitoring responsibilities and contributing to the success of the organization. Gender diversity within the board, which refers to the number of women on the board, is an area that has received significant attention over the last two decades.

While more progress has been made in including female members on the board in Europe and North America, in the Middle East female representation on company boards is lagging significantly. For instance, the percentage of female board members in the Fortune 500 increased

from 15.7% from early 2010 to 22.5% in 2018 (Fucci and Cooper, 2019). On the other hand, the figures in the Middle East remain significantly lower compared to other parts of the world. In United Arab Emirates, females represent only 1.9% of board members of all listed companies (Hawkamah, 2017).

Board diversity has been used in the literature as one of the explanatory variables for board effectiveness. However, the findings of these studies show mixed results. Kilic et al. (2015) find that board diversity is significantly and positively associated with the extent of disclosure for a sample of Turkish listed firms. Allini et al. (2016) report that board diversity has a significant positive impact on the extent of risk disclosure for a sample of Italian-listed firms. Ghabayen et al. (2016) study the impact of board characteristics, including board diversity, on the extent of CSR disclosure for a sample of 16 Jordanian banks. Using content analysis, the authors develop a disclosure index which consists of 100 disclosure items. The result of their empirical analysis reveals that board diversity has a negative significant association with the extent of disclosure. On the other hand, Shehata (2017) examines the impact of board characteristics, including board diversity, on the extent of corporate governance disclosure for a sample of GCC banks. The result of the study indicates that board diversity is not associated with the extent of disclosure. However, Nerantzidis and Tsamis (2017) find that board diversity has a significant positive association with the extent of corporate governance disclosure for a sample of Greece firms. Hollindale et al. (2019) examine the association between board diversity and the extent of greenhouse gas emissions-related disclosure for a sample of Australian-listed firms. Their study finds that companies with a greater number of female board members tend to provide higher greenhouse gas emission disclosures. Based on the prior literature discussed above, the current study expects that board diversity will have a positive impact on the extent of disclosure and that a higher number of women

board members will result in greater disclosure. Accordingly, the following hypothesis is proposed:

H_6: *There is a positive relationship between the proportion of women on the board and the extent of disclosure.*

3.7.2. Internal Control Strength

3.7.2.1. Overall Internal Control Strength Score

The current study develops an index of internal control strength to examine its impact on the extent of disclosure by Islamic and conventional banks in GCC countries. The index is comprised of internal control dimensions which are most commonly associated with disclosure, including audit committee size, independence, meeting frequency, financial expertise and the existence of an independent IAF. Numerous prior studies suggest that audit committee and IAF characteristics are positively associated with the extent of disclosure. Accordingly, an aggregated score comprised of these internal control dimensions is expected to have a positive association with the extent of disclosure. Accordingly, and in line with the findings of the study undertaken by CIBAFI (2017), the current study postulates the following hypothesis:

H_7: *Internal control strength has a positive association with the extent of disclosure.*

3.7.2.2. Individual Dimensions of the Internal Control Environment

3.7.2.2.1. Audit Committee Size

The size of the audit committee, which comprises the total number of audit committee members, is an important element of corporate governance that influences the extent of disclosure by firms (DeZoort et al., 2002). The complexity of the monitoring duties and responsibilities assigned to the audit committee requires that an adequate number of directors be appointed to the committee. Several studies suggest that three members is the minimum size for an audit committee (Abbott et al., 2004).

A substantial body of literature examines the impact of the audit committee, including its size, on the extent of disclosure. Mangena and Pike (2005) find no significant relationship between committee size and the extent of disclosure for a sample of UK listed firms. Hidalgo et al. (2011) conduct a study of Mexican-listed firms and find that more audit committee members result in greater disclosure of information. Akhtaruddin and Abdul Rouf (2012) investigate the impact of size on the extent of disclosure for a sample of Bangladeshi-listed firms. Their results reveal that committee size is positively associated with the extent of disclosure. Li et al. (2012) find that audit committee size is positively associated with the extent of intellectual property disclosure by UK firms. Madi et al. (2014) study the effect of audit committee size on the extent of voluntary disclosure for a sample of 146 Malaysian-listed firms for the year of 2009. Their study finds that audit committee size is positively associated with the extent of voluntary disclosure by firms. Appuhami and Tashakur (2017) conduct study of a sample of Australian-listed firms to examine the impact of several audit committee characteristics, including audit committee size, on the extent of CSR disclosure. Their study finds that the audit committee has a strong positive impact on the extent of voluntary CSR. Ridwan and Mayapada (2020) examine the impact of audit committee

characteristics, including size, on the extent of CSR disclosure for a sample of Indonesian Islamic banks. Their study concludes that audit committee size has no significant impact on the extent of CRS disclosure.

Collectively, the results of the previous studies lend support to the premise that audit committee size strengthens the committee's effectiveness, enhances the firm's transparency and contributes to greater levels of disclosure. Accordingly, the following hypothesis is proposed:

H_8: *The size of the audit committee has a positive relationship with the extent of disclosure.*

3.7.2.2.2. Audit Committee Independence

Independence is essential for the audit committee's oversight role and its ability to monitor effectively. Klien (2002) defines independent audit committee members as those members who have no relationship with the company that may impair their independence from management and the company. The proportion of independent audit committee members is used as a measure for the effectiveness of the committee (Abbott et al., 2004). Studies suggest that the proportion of independent board members is associated with the extent of disclosure (Li et al., 2012).

While most studies find a positive association between audit committee independence and disclosure, the result is not conclusive, as some studies report negative or insignificant relationships. For instance, Kent and Stewart (2008) examine a sample of Australian-listed firms to determine the impact of corporate governance quality on the extent of disclosure. Their study concludes that audit committee independence has no significant impact on the extent of disclosure. In a similar vein, Li et al. (2012) examine the impact of audit committee characteristics, including independence, on the extent of intellectual property disclosure for a sample of UK firms. Their study finds no significant association between audit committee independence and the extent of

intellectual property disclosure. Ridwan and Mayapada (2020) also find no significant association between the independence of the audit committee and the extent of CRS disclosure for Indonesian Islamic banks.

As noted earlier, most studies seem to suggest a positive association between audit committee independence and disclosure. For instance, Madi et al. (2009) find that audit committee independence is positively associated with the extent of voluntary disclosure. Barros et al. (2013) investigate the impact of certain corporate governance characteristics, including audit committee independence, for listed firms in the French markets. They find that audit committee independence is positively associated with the extent of disclosure. Appuhami and Tashakur (2017) find a strong positive association between audit committee independence and the extent of voluntary CSR disclosure for a sample of listed Australian firms. Garas and ElMassah (2018) conduct a study of the impact of corporate governance characteristics including audit committee independence on the extent of CSR disclosure for a sample of 147 firms in the GCC countries. The study reports a positive association between audit committee independence and the extent of CSR disclosure, concluding that an independent audit committee contributes to greater transparency and information disclosure. Buallay and Al-Ajmi (2020) find that audit committee independence is positively associated with the extent of sustainability related disclosures by a sample of GCC banks. Based on the above studies, and in line with the overall direction of the extant literature, this study postulates that an independent audit committee contributes to greater disclosure.

H_9: *The proportion of independent members in the audit committee has a positive relationship with the extent of disclosure.*

3.7.2.2.3. Audit Committee Meeting Frequency

The literature suggests that meeting frequency is one of the key measures for assessing the effectiveness of the audit committee (DeZoort et al., 2002). Meeting frequency refers to the number of meetings held during a given year. The literature suggests that frequent meetings are associated with greater diligence and monitoring (Abbott et al., 2004). Barros et al. (2013) argue that more frequent meetings of audit committees and boards require management to prepare more information, contribute to enhancing the level of monitoring and oversight, and encourage management to be transparent.

A number of studies examine the effect of audit committee meetings on the extent of disclosure. For instance, Kent and Stewart (2008) report that audit committee meeting frequency has a significant influence over the extent of disclosure. Similarly, Li et al. (2012) find that meeting frequency is positively associated with the extent of intellectual property disclosure. Allegrini and Greco (2013) examine the impact of audit committee meeting frequency on the extent of voluntary disclosure for a sample of Italian-listed firms. Their study finds a positive association between the frequency of meetings and the extent of voluntary disclosure. On the other hand, Barros et al. (2013) find that the frequency of audit committee meetings is negatively associated with the extent of voluntary disclosure for French-listed firms. Similarly, Madi et al. (2014) examine a sample of Malaysian-listed firms to determine the impact of audit committee characteristics on the extent of disclosure. Their study finds no significant association between audit committee meeting frequency and the extent of disclosure. Appuhami and Tashakur (2017) report that audit committee meeting frequency has a significant positive association with the extent of voluntary CSR disclosure for a sample of listed Australian firms. In a similar vein, Buallay and Al-Ajmi (2020) report that audit committee meeting frequency is positively associated with the extent of

sustainability disclosure by GCC banks. Considering the overall findings of the above studies, the current study posits that more frequent audit committee meetings will lead to greater disclosure and transparency. Accordingly, the below hypothesis is postulated.

$H_{10:}$ *The number of audit committee meetings held during the year is positively associated with the extent of disclosure.*

3.7.2.2.4. Audit Committee Financial Expertise

The audit committee plays crucial oversight and monitoring roles in management. The increasingly complex business operations and sophisticated financial and accounting issues that organizations face necessitate that audit committees include individuals with appropriate financial expertise and accounting knowledge (Abbott et al., 2004; Kusnadi et al., 2016). A review of the literature suggests that the financial expertise of audit committee members is one of the measures that determines the committee's effectiveness and its ability to duly discharge its oversight and monitoring responsibilities. Research suggests that the financial expertise of audit committee members influences the firm's transparency and disclosure level (Haniffa and Cooke, 2002). For instance, Mangena and Pike (2005) undertake an empirical study to examine the impact of audit committee characteristics, including size and financial expertise, on the extent of disclosure for a sample of 262 UK-listed firms. Their study concludes that an audit committee's financial expertise is positively associated with the extent of the firm's disclosure. In a similar vein, Li et al. (2012) examine the effect of the audit committee's financial expertise on the extent of intellectual property disclosure. Their study reveals that a greater level of financial expertise is associated with increased disclosure. Kusnadi et al. (2016) conduct a study of Singaporean-listed firms to examine the impact of audit committee characteristics on the quality of financial reporting. Their study

finds that audit committee financial expertise has a significant positive association with the quality of financial reporting by Singaporean-listed firms.

While the majority of studies indicate a positive relationship between audit committee financial expertise and the extent of disclosure, some studies find an insignificant or a negative association. For example, Kent and Stewart (2008) find that audit committee expertise has a negative impact on the extent of disclosure. In a study of 124 Malaysian-listed companies, Akhtaruddin and Haron (2010) find no significant association between audit committee expertise and voluntary disclosure. In a similar vein, Madi et al. (2014) examine the impact of audit committee characteristics, including size, independence and financial expertise, on the extent of voluntary disclosure for a sample of 146 Malaysian-listed firms. The study finds no significant relationship between financial expertise and the extent of disclosure. Buallay and Aljmi (2020) find that audit committee financial expertise is negatively associated with the extent of sustainability disclosure. Considering the overall direction of prior studies, the current study expects that audit committee financial expertise does enhance the audit committee's effectiveness and contributes to greater transparency.

$H_{11:}$ *The proportion of audit committee members with financial expertise has a positive relationship with the extent of disclosure.*

3.7.2.2.5. Internal Audit Function Existence and Independence

The internal audit plays a pivotal role in the governance structure of firms and contributes to the establishment of an effective control environment (Hermanson and Rittenburg, 2003; Sarens et al., 2012; BCBS, 2015; Sulub et al., 2020). It operates as the eyes and the ears of the board, providing assurance to the board, the audit committee and senior management on the effectiveness

of the governance processes, risk management and the internal control environment (Hermanson and Rittenburg, 2003; BCBS, 2015). In the past two decades and following high-profile accounting scandals such as Enron and WorldCom, the role of the IAF has taken more prominence, providing valuable advice to management on sound corporate governance practices (Sulub et al., 2020).

The existence of an independent IAF is a crucial part of the governance structure of organizations and enhances both the overall control environment and disclosure of information to stakeholders (Ganesan et al., 2017; Gramling et al., 2004; Karagiorgos et al., 2010; Lin et al., 2011; Zou, 2019). BCBS (2015) asserts in its corporate governance guidelines for the banking sector that banks should establish an independent IAF which reports directly to the board or the audit committee. A review of the extant literature reveals that the existence of an independent IAF has been used as a proxy for effective corporate governance (Sarens et al., 2012). For example, Holt (2012) finds that the disclosure credibility of firms is perceived by investors to be significantly higher when an independent internal audit exists, one which is reporting directly to the audit committee or the board. Ganesan et al. (2017) examine the impact of several corporate governance attributes on sustainability disclosure for a sample of Malaysian firms and use the IAF as moderating the relationship between corporate governance attributes and the extent of sustainability disclosure. Their study concludes that the IAF does have a moderating effect on the relationship between corporate governance attributes and the extent of sustainability disclosure. In line with the literature, the current study uses IAF attributes, namely, the existence of an independent IAF, to examine the impact of such governance attributes on the extent of disclosure. Accordingly, the below hypotheses are postulated:

H_{12}: *The existence of an IAF has a positive association with the extent of disclosure.*

H_{13}: *The independence of the IAF has a positive association with the extent of disclosure.*

3.7.3. Shariah Governance Strength

The survey of the extant literature suggests that strong Shariah governance is of great importance to the overall success and long-term survival of Islamic banks. Further, the literature suggests that Shariah governance is associated with the extent of disclosure. To examine the effect of the SSB on the extent of disclosure of Islamic banks, studies have used several explanatory variables, such as SSB size, meeting frequency, educational qualification and the financial expertise of members (Farook et al., 2011; Abdul Rahman and Bukair, 2013; Wan Abdullah et al., 2013; Abdallah et al., 2015; Nomran et al., 2018; Elamer et al., 2019; Ridwan and Mayapada, 2020). Most of these studies have developed a Shariah governance score which includes these variables and is designed to assess the overall impact of the SSB on the extent of disclosure (Farook et al., 2011). In line with prior studies, this study develops a Shariah governance strength index using the SSB and other Shariah governance-related characteristics which are discussed below. The Shariah governance index enables the researcher to assess the overall impact of Shariah governance on disclosure more effectively and to gain greater insight. Moreover, this approach has been used widely in the literature and is consistent with Farook et al. (2011); Abdul Rahman and Bukair (2013); CIBAFI (2017); and Elamer et al. (2019). Accordingly, the following hypothesis is proposed:

H_{14}: *Shariah governance strength score has a positive relationship with the extent of disclosure.*

3.7.3.1. SSB Size

In general, corporate literature has considered the size of boards as one of the variables which determine their effectiveness. Given the SSB's supervisory and oversight role, similar to the role of the board of directors (Farook et al., 2011), a number of studies have examined the

SSB's size to shed light on its impact on the level of disclosure and transparency by Islamic banks (Farook et al., 2011; Abdul Rahman and Bukair, 2013; Wan Abdullah et al., 2015). For the most part, these studies suggest that a large SSB results in more disclosure. For instance, Wan Abdullah et al. (2013) argue that larger SSBs are better positioned to enhance an Islamic bank's transparency and address the needs of various stakeholders. Moreover, they assert that a large SSB is more likely to contain diverse skills and education, including business and financial expertise, to engage in in-depth discussions and thorough analysis and reviews and to promote greater transparency and better disclosure practices.

The extant literature indicates that there is a relationship between SSB size and the level of voluntary disclosure. Farook et al. (2011) study the impact of the SSB and its characteristics such as size, cross-membership of the directors, their reputations, and educational qualifications on the extent of CSR disclosure, based on a sample of 47 banks from 14 countries. Referring to earlier studies (e.g., Gompers et al., 2003), the authors develop an Islamic governance score consisting of the SSB characteristics noted above. The study reveals that overall, the Islamic governance score is positively associated with the extent of CSR disclosure by Islamic banks. Abdul Rahman and Bukair (2013) examine a sample of 58 Malaysian Islamic banks to determine the impact of SSB size on the extent of CSR disclosure by the bank. Their study shows a significant positive association between the size of the SSB and the extent of CRS disclosure by Islamic banks. Mallin et al. (2014) study a sample of 90 Islamic banks in 13 countries to analyse the CSR disclosure of Islamic banks and its determinants as well as its impact on the performance of Islamic banks. The study finds that CSR disclosure is positively associated with performance. Moreover, the study finds that SSB characteristics such as size have a significant positive impact on the extent of CSR disclosure. Elamer et al. (2019) investigate the impact of SSB and other corporate governance

characteristics on the extent of operational risk disclosure by Islamic banks in the MENA region. The study finds a strong and positive association between SSB characteristics, including size, and the extent of operational risk disclosure by Islamic banks.

3.7.3.2. SSB Meeting Frequency

In general, the meeting frequency of governing bodies has been used widely in the literature as an explanatory for the effectiveness of a governing body in fulfilling its responsibilities (Vafeas, 1999; Abbott et al., 2003; Laksmana, 2008; Brick and Chidamabaran, 2010; Barron et al., 2013; Alnabsha et al., 2018). Being the main governing body responsible for ensuring Shariah compliance, SSBs hold regular meetings in which they review an Islamic bank's financial transactions to ensure compliance with Shariah rules. Several studies use the meeting frequency of SSBs as a proxy for the effectiveness of the SSBs in discharging their oversight responsibilities (Othman et al., 2009; Ousama and Fatima, 2010; Kasim, 2012; Abdul Raman and Bukair, 2013; Nugraheni and Anuar, 2014; Rafay and Farid, 2018; Neifar et al., 2020).

3.7.3.3. SSB Educational Qualifications

The educational qualifications of the SSB play an important role in ensuring that the SSB has the knowledge required to effectively discharge its duties and responsibilities. Accordingly, SSB members who possess a doctoral degree are more capable of performing their duties and discharging their Shariah oversight responsibilities, which often involve analysing complex financial transactions and determining compliance with Shariah rules and requirements (Nomran et al., 2018). Based on this, several prior studies have used educational qualifications (i.e., SSB members having a PhD) as a proxy for measuring the effectiveness and/or strength of the SSB in discharging its duties (Othman et al., 2009; Zirman et al., 2019; Kasim, 2012; Ousama and Fatima,

2010; Nugraheni and Anuar, 2014; Neifar et al., 2020; Abdul Raman and Bukair, 2013). For instance, Nomran et al. (2018) find that the possession of a doctoral degree by SSB members is positively associated with the bank's performance. Accordingly, the current study uses the educational qualifications of the SSB as one of the dimensions for examining the strength of the Shariah governance of Islamic banks and its impact on the extent of disclosure.

3.7.3.4. SSB Financial Expertise

An examination of the extant literature reveals that an SSB member's financial expertise (proxied by holding a business-related educational degree) influences an Islamic bank's level of voluntary disclosure. Farook et al. (2011) argue that SSB members who are equipped with a business-related doctoral degree are in a better position to influence an Islamic bank's disclosure policy than those without one. Wan Abdullah et al. (2013) find that SSB expertise has an influence over the extent of Shariah-related disclosures by Islamic banks.

CIBAFI (2017) highlight in their corporate governance study the lack of diverse expertise among the members of SSBs as one of the most significant challenges facing Islamic banks. In line with prior literature, the current study uses the financial expertise of the SSB as one of the explanatory variables for the impact of the SSB on the extent of disclosure by Islamic banks.

3.7.3.5. SSB Duties and Responsibilities

The SSB plays a central role in ensuring an Islamic bank's compliance with Shariah rules. It is therefore essential that the terms, roles and responsibilities of the SSB are well-defined and formally articulated in the Islamic bank's publications (Al Mannai and Ahmed, 2018). The literature identifies several key responsibilities of the SSB. These include the issuance of clear and detailed fatwas, reviews of the Islamic bank's transactions, as well as overseeing the internal

Shariah review unit. AlQassar and Ahmed (2021) highlight the key roles and responsibilities of the SSB. They state that the SSB's role is to provide direction, conduct ongoing reviews, and closely supervise the activities of the Islamic bank to ensure proper compliance with Shariah rules and principles. Given the significant role that the SSB plays in the overall governance structure of Islamic banks, having well-defined duties and responsibilities for SSBs has been used in the literature as an important measure of SSB effectiveness. For instance, in their seminal Islamic corporate governance work, CIBAFI (2017) performed an analysis of whether Islamic banks have well-defined duties and responsibilities for the SSB members. They report an overall rating score of 69 for Islamic banks having clearly defined roles and responsibilities, suggesting that Islamic banks still have some work to do to enhance the clarity of SSB roles and responsibilities. In line with prior studies, the current study uses SSB duties and responsibilities as an explanatory variable for the strength of the overall Shariah governance of Islamic banks.

3.7.3.6. Internal Shariah Audit Unit

A key aspect of the Shariah governance structure of Islamic banks is having a robust internal Shariah audit unit which carries out audits designed to ascertain that the Islamic bank complies the Shariah rules in all its dealings and transactions (Al Mannai and Ahmed, 2018). The internal Shariah audit unit is also responsible for reviewing and assessing the operations and products of an Islamic bank to ensure that it is fully compliant with Shariah rules and principles (AlQassar and Ahmed, 2022). Moreover, the internal Shariah audit unit must have an adequate level of independence so that it can properly discharge its responsibilities for monitoring the Islamic bank's transactions and report any noncompliance with Shariah rules and principles (AlQassar and Ahmed, 2022). Despite its critical role, a survey of the extant literature suggests that not all Islamic banks maintain an internal Shariah audit unit. For instance, CIBAFI (2017)

conduct an extensive review of governance of Islamic banks and find that only 65% of the Islamic banks examined have an internal Shariah audit unit.

Due to its key role, the Shariah audit unit has been used in the literature as one of the key characteristics for determining the effectiveness of the overall Shariah governance of the Islamic bank. Further, the literature suggests that the existence of an internal Shariah audit unit has an impact on the extent of disclosure. For instance, Sencal and Asutay (2021) find the existence of an internal Shariah audit unit to be associated with the extent of ethical disclosure of annual Shariah reports issued by Islamic banks. In line with these studies, the current study postulates that having an internal Shariah audit in Islamic banks contributes to greater levels of disclosure.

3.7.3.7. External Shariah Audit

In addition to the Shariah audits performed by the internal Shariah audit unit within the bank, there have been growing calls for an external Shariah audit performed by an independent external party with subject matter expertise. It is to be noted that external audit firms (such as the Big 4) are primarily focused on carrying out a financial statement audit and do not perform a separate Shariah audit. Instead, audit firms review the audit reports of the internal Shariah audit unit as part of the reviews they perform for the external financial statement audit (Al Mannai and Ahmed, 2018).

Having an external Shariah audit lends creditability to an Islamic bank's Shariah compliance efforts and provides further assurance to its stakeholders. While the external Shariah audit is not required by standard setters such as AAOIFI (Al Mannai and Ahmed, 2018), there seems to be growing interest in having Islamic banks be subjected to an external audit to ascertain their level of compliance with Shariah rules. For instance, in 2018, the Central Bank of Bahrain

published new Shariah governance standards which introduced a number of new requirements for Islamic banks, including the requirement to be subjected to an independent external Shariah compliance audit on an annual basis. In line with the literature, the current study postulates that the performance of an external Shariah audit contributes to more effective Shariah governance and has an effect on the extent of disclosure.

3.8. Summary and Conclusion

In summary, this chapter provides an overview of the existing literature on corporate governance and voluntary disclosure. Additionally, the chapter has examined earlier studies on the effect of corporate governance mechanisms such as board characteristics (board independence, size, frequency of meetings), internal controls characteristics (audit committee size and independence, existence of internal audit and its independence, type of external audit firm, etc.) and SSB characteristics on the extent of voluntary disclosure by Islamic and conventional banks.

The overall findings of these research studies lend support to the claim that stronger corporate governance leads to a higher level of voluntary disclosure. Similarly, researchers have found a relationship between poor corporate governance and information asymmetry. For example, Chapra and Ahmed (2002) observe that in environments where corporate governance is weak, disclosure quality tends to be poor and lacking. Bonazzi and Islam (2007) also suggest that poor corporate governance leads to market failures, non-existence of markets, moral hazards, asymmetric information, incomplete contracts and adverse selection, among other problems.

CHAPTER FOUR

METHODOLOGY

4.1. Introduction

Chapter Three examined the extant literature on the impact of corporate governance on the extent of disclosure by Islamic and conventional banks. Additionally, the chapter examined in detail the prior studies relevant to the research questions and identified the hypotheses for the study variables. The chapter also discussed prior studies specific to Islamic banks and the role of Shariah governance on the extent of disclosure. The chapter concluded with remarks on key points from the literature review.

Chapter Four presents the methodology adopted for the study which will be used to test the research questions and hypotheses identified in Chapter Three. The main research question that the current study investigates is: How do certain corporate governance mechanisms (e.g., board characteristics such as board size, independence, meeting frequency, CEO role duality, and board diversity) affect the extent of disclosure by Islamic and conventional banks in the GCC? The chapter first provides an overview of the research philosophy and articulates the ontological and epistemological positions considered in the current study. The research design and approach are then discussed. The chapter concludes with a thorough discussion of the data collection method and of data analysis tools and techniques.

4.2. Research Philosophy

Research philosophy enables the researcher to develop a worldview about the relationship between knowledge and how one acquires that knowledge, which, in turn, helps the researcher find a suitable approach to the study (Saunders et al., 2012; Creswell, 2014). The philosophical assumptions that the researcher considers and adopts greatly influence how the research questions are investigated and analysed (Burrell and Morgan, 1979). Therefore, the researcher's methodological choices, the underpinning philosophy, and the specific research methods appropriate for the research questions under investigation all play crucial roles in developing a successful research strategy (Saunders et al., 2012). Creswell (2014) posits a similar view and suggests that the philosophical worldview the researcher espouses significantly influences the research design as well as the specific methods employed in carrying out the study.

The extant literature discusses four philosophical assumptions: ontology, epistemology, human nature, and methodology. Ontology is generally concerned with the nature of being, with what exists, the nature of reality, and its fundamental categories (Burrell and Morgan, 1979; Saunders et al., 2012; Neuman and Robson, 2014). From a social research perspective, ontology is concerned about the way we view the social world, as well as the assumptions we make about the nature and reality of social phenomena (Matthews and Ross, 2010). Two ontological assumptions are discussed in the literature. The first assumption asserts that social reality exists independent of humans and their interpretations of it. The second holds the position that social reality depends on the meanings, perceptions and interpretations social actors associate with such reality. These two ontological positions are called objectivism and subjectivism or constructionism by some researchers (such as Burrell and Morgan, 1979; Saunders et al., 2012; Bryman, 2016) and realism and nominalism by others (such as Neuman and Robson, 2014).

The former ontological position is usually adopted by natural scientists, while the latter is considered a more suitable approach to social science research (Matthews and Ross, 2010). Under the objectivism or realism aspect of ontology, social entities are considered to have an existence outside the social actors concerned with their existence (Saunders et al., 2012, p. 110). In other words, the social phenomena and categories that we use in our daily lives have an existence separate from the actors (Bryman, 2016, p. 33). For instance, a researcher who adopts the objectivist aspect of ontology will view an organization as having a reality that is external to the individuals who occupy that organization (Bryman, 2016). In this example, the organization is endowed with an external, almost tangible, reality of its own independent of its actors, such as management and employees (Bryman, 2016).

Subjectivism or constructivism takes the position that social reality is shaped by the perceptions and actions of the social actors (Saunders et al., 2012). Under this ontological position, understanding the meaning, intentions and motivations that social actors attach to social phenomena is crucial in order to uncover the hidden reality and understand the actions of the social actors (Bryman, 2016). Therefore, the researcher is expected to study the subjective meanings, perceptions, motivations and cultural factors associated with the reality in order to gain valuable insight and fully understand the reality we observe (Saunders et al., 2012). Neuman and Robson (2014) use an example of a rug to bring this point home. They explain that while an objectivist/realist sees a rug as something to cover a floor and walk on, a subjectivist/nominalist will try to figure out why the rug is there, what meanings people attach to the different uses of the rug (e.g., putting on the wall vs. using it as a floor cover), and what artistic and cultural values it signifies for different people.

One of the criticisms raised by some researchers against the subjectivist ontological assumption is that the viewpoint and meaning that social actors attach to a particular reality is likely to vary from one person to another due to differences in their own personal experiences and cultural backgrounds (Neuman and Robson, 2014). Moreover, the meanings attached to certain phenomena change over time, and from one generation to another, thus making it difficult to obtain reliable and consistent research results (Saunders et al., 2012). However, those supporting the subjectivist ontological assumption assert that our experiences shape all our observations, and it is virtually impossible to completely obliterate these factors from the way we see reality or the way we observe the actions of social actors (Neuman and Robson, 2014).

Based on the review of the literature, and consistent with the research question, the current study adopts objectivism as an ontological position for the data analysis. This ontological objectivism addresses the main research question of the current study, which is concerned with how certain corporate governance mechanisms (e.g., board, audit committee and SSB) affect the extent of disclosure in Islamic and conventional banks. However, for the data collection, the current study adopts social constructivism as an ontological position. This is because, the disclosure index used for the data collection is developed as an individual construct, which involves applying interpretivism to understand the perceptions and hidden meanings of the reality underlying the data being collected. Moreover, the study performs content analysis, which by its nature, may not be repeatable in the same way by other researchers.

Epistemology is chiefly concerned with the nature of knowledge, what is considered knowledge, and whether knowledge is something that can be acquired or has to be experienced (Burrell and Morgan, 1979, p. 2). It is the branch of philosophy which deals with the way in which knowledge is created and the valid ways through which knowledge can be gained (Neuman and

Robson, 2014). Saunders et al. (2012) explain that there are two types of epistemological positions, namely positivism and interpretivism, where the former is generally considered more suitable for quantitative research and the latter for qualitative research inquiry. Positivism/postpositivism, sometimes called the scientific inquiry method, is considered most suitable for quantitative research. This epistemological assumption is concerned with identifying and assessing the causes that affect outcomes, developing knowledge based on careful observation and measurement of the objective reality which exists "out there" (Burrell and Morgan, 1979; Creswell, 2014, p. 7). A researcher following this approach is likely to carry out his/her research by first selecting a relevant theory, gathering data, and then analysing the data, which either supports or rejects the theory (Creswell, 2014). Matthews and Ross (2010) posit similar points and further assume that the positivist epistemological assumption often involves a collection of quantitative data, development of an appropriate measurement mechanism for the social phenomena being investigated, and an analysis of large sets of data to identify causal relationships.

Assumptions related to human nature help the researcher understand the relationship between human beings and their environment (Burrell and Morgan, 1979). Generally, determinism and voluntarism are the two types of assumptions made about human nature (Sounders et al., 2012). Determinism deals with how human beings respond to situations they encounter in their external world. Determinism views human beings and their experiences from the perspective of their environment, where they are conditioned by external circumstances (Burrell and Morgan, 1979). In contrast, voluntarism takes the view that human beings play the role of controllers and masters of their environment, rather than being controlled by it (Burrell and Morgan, 1979).

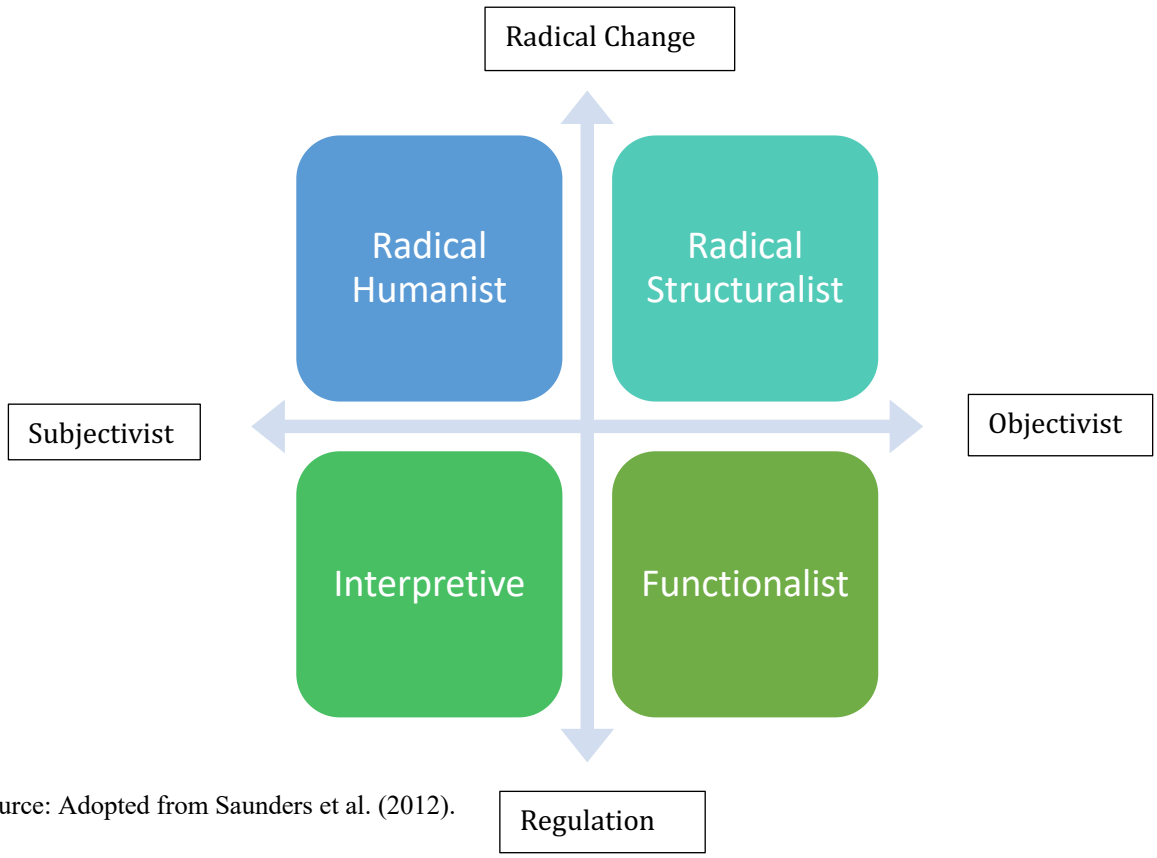
Methodology is concerned with the ways in which the researcher conducts a study in order to gain knowledge, learn about the social world, and address the research questions. These include

ontological and epistemological positions considered for the study as well as the methods followed to conduct it. A review of the literature suggests that there are two approaches to gaining an understanding of social phenomena, namely ideographic and nomothetic. Ideographic research focuses on specific cases and seeks a full explanation to satisfy the researcher's investigation. Nomothetic research, on the other hand, has a broad scope and seeks general answers and patterns instead of peculiar individual cases (Babbie, 2013). The ideographic approach tends to focus on obtaining detailed and full answers, while partial truth is deemed sufficient for the nomothetic approach (Babbie, 2013).

While both positivist and interpretivist camps have their own supporters, it is important to note that the research approach often depends on the nature of the research, its topic, the question to be addressed and the desired outcome. It may be possible, and sometimes even more plausible, to adopt a mixed method to fully address the research questions. Accordingly, and given the nature and focus of the research question, this study takes the following mixed positions: For the data collection, the current study adopts social constructivism as an ontological position and interpretivism as the epistemological position. This is because, the disclosure index used for the data collection is developed as an individual construct, which involves applying interpretivism to understand the perceptions and hidden meanings of the reality underlying the data being collected. Moreover, the study performs content analysis, which by its nature, may not be possible to repeat the exercise in the same way by other researchers. For the data analysis, the study adopts objectivism as an ontological position and a positivist assumption from an epistemological point of view. Accordingly, the study seeks to quantify and measure objectively the impact of corporate governance mechanisms on the extent of disclosure in the annual reports of Islamic and conventional banks.

Other research philosophical assumptions noted in the literature include research paradigms. Saunders et al. (2012, p.118) define a research paradigm as a way of examining social phenomena from which a particular understanding can be gained, and explanations attempted. According to Babbie (2013, p.32), paradigms provide the researcher with a framework for observation and understanding, which shapes both what we see and how we understand it. Drawing from the early work of Burrell and Morgan (1979), Saunders et al. (2012) illustrate that research paradigms can be thought of a model with four dimensions, where they describe subjectivity or objectivity as one of the primary axes of the model and regulation, and radical change on the second primary axes. Subjectivity and objectivity represent the ontological stances where the former takes the view that social entities exist in reality external to social actors, and the latter holds the position that our social reality is shaped by our perceptions and experiences (Saunders et al., 2012). Regulation and radical change refer to the manner in which change to social entities should be approached. Regulation advocates for a less judgmental, less critical approach, and working within the existing framework to bring about change, whereas radical change seeks to make fundamental changes to the current state of affairs (Saunders et al. 2012).

Figure 4.1
The Four Research Paradigms



Source: Adopted from Saunders et al. (2012).

As noted in Figure 4.1, Saunders et al. (2012) illustrate that the four research paradigms: functionalist, interpretivist, radical humanist, and radical structuralist. They explain that the researcher adopts the functionalist paradigm is likely to take the objectivist view in studying a problem to find rational explanation for it and identify systematic solutions to address the problem (Saunders et al., 2012). Interpretivists also see the world as a stable, regulated place, similar to the functionalist. However, the interpretivist differs from the functionalist in that they try to make sense of the world around them and try to uncover hidden explanations or irrationalities (Saunders et al., 2012). The radical humanist takes the view that reality is subjective and should not be limited

by the status quo or existing social settings. However, as part of advocating for radical change to the status quo, the radical humanist is likely to adopt a critical perspective in understanding the business problems, their political nature and the actors involved. Finally, the radical structuralist paradigm seeks fundamental change to the status quo by adopting an objective view of reality and a systematic and structural analysis of the social phenomena under investigation (Saunders et al., 2012).

Of the four research paradigms discussed above, the current study adopts the interpretive paradigm for the data collection as the data collection involves the development of a disclosure index and content analysis. On the other hand, the study adopts the functionalist paradigm for the data analysis as it is the most suitable to the nature of the data analysis, which is concerned with providing rational explanations of how corporate governance affects the extent of disclosure in Islamic and conventional banks.

4.3. Research Design and Approach

4.3.1. Inductive and Deductive Research

To conduct a successful scientific inquiry, the researcher adopts either inductive or deductive research. Inductive research uses empirical data to test concepts or patterns derived from theories, while deductive research uses observed data in order to make inferences about theoretical concepts and patterns (Bhattacherjee, 2012). In other words, deductive research starts with a theory and uses empirical data in order to test the theory, which may either confirm the validity of the theory or lead to further refinement or enhancement of the theory. Deductive research moves from

the general to the specific and develops hypotheses to establish whether the expected general pattern occurs or not (Babbie, 2013).

Deductive research employs the scientific method, moving from theory to data, and is chiefly concerned with finding explanations for causal relationships between variables (Saunders et al., 2012). Inductive research, on the other hand, starts with the observed data in order to build a theory, thus resulting in the development of a new theory (Bhattacherjee, 2012). It moves from a set of specific observations to some general patterns or concepts which share some level of order or regularity among them (Babbie, 2013). Given the focus of the research question on examining the causal relationship between corporate governance and voluntary disclosure, the current study adopts a deductive approach which enables the researcher to first identify the theories most commonly associated with corporate governance and disclosure, then develop and test hypotheses using data collected from the annual reports of Islamic and conventional banks, and finally analyse the results in order to prove or disprove the theories.

4.4. Data Collection Method

One of the most important considerations the researcher needs to undertake is to devise effective and efficient tools for collecting the data required to answer the research questions (Matthews and Ross, 2010). The current study collects secondary data from the annual reports of a sample of Islamic and conventional banks in the GCC by using a disclosure checklist, which comprises various categories of information such as the bank's profile, strategy, governance, risk management, financial, Shariah compliance, and CSR program. The next section discusses the sampling techniques, including the identification of the population of Islamic banks and the steps followed in arriving at the final sample selected for the current study.

4.4.1. Sampling Techniques

Sampling involves using data from a subgroup of a population to make inferences and reach conclusions that can then be applied to the entire population (Saunders et al., 2012). Bryman (2016) defines a sample as a subset or segment of a population that is selected for conducting an inquiry or an investigation. Sampling is an efficient way of conducting research, since examining an entire population, particularly one that is large, is impractical, difficult, costly and time-consuming (Kothari, 1990; Saunders et al., 2012). Sampling techniques discussed in the literature include probability or non-probability approaches (Kothari, 1990; Saunders et al., 2012; Bryman, 2016). Probability sampling is a technique that involves random selection, in which each item in the population has an equal chance of being selected, thus minimizing the likelihood of error and enhancing the chances of the sample reflecting the population (Bryman, 2016). This is particularly important because a sample that accurately reflects the population allows the researcher greater confidence in generalizing the findings (Bryman, 2016). Probability sampling is very commonly used for social research in which surveys are used in order to collect and analyse data (Saunders et al., 2012).

Non-probability sampling, on the other hand, is based on the deliberation and judgement of the researcher (Kothari, 1990; Saunders et al., 2012). This sampling technique, which includes haphazard and judgemental sampling, may provide a viable alternative for research projects where random sampling is not practically feasible.[22] However, a potential downside of this technique is that it is based on the judgement of the researcher (Bryaman, 2016), making it crucial that care is

[22] For instance, in order to answer the research question, the researcher may require selecting a small sample in order to focus specifically on particular cases that will help the researcher derive more insight, or meaningful conclusions (Saunders et al., 2012).

exercised to avoid personal bias, and to ascertain the validity and reliability of the study (Kothari, 1990).

4.4.1.1. Population of Islamic and Conventional Banks

To determine the population of GCC Islamic and conventional banks, the researcher used BANKFOCUS,[23] a comprehensive database that has listings of all Islamic and conventional banks worldwide. To ensure completeness, the researcher compared the listings from this database to another, independently generated, list obtained from Thompson Reuters. The researcher also consulted and checked the population against the list of Islamic banks published in the Islamic Financial Services Industry Stability Report 2020.

4.4.1.2. Sample Size Selection

The sample selected for this study is derived from Islamic and conventional banks in GCC countries. The GCC comprises Saudi Arabia, United Arab Emirates, Qatar, Bahrain, Kuwait and Oman. The GCC region was selected mainly for two important reasons. First, the GCC is a significant player in the global financial industry and is also an important Islamic finance hub where some of the biggest Islamic financial institutions are located.[24] Secondly, GCC countries share similar social and cultural settings, and their political structures and regulatory environments have many aspects in common (Aribi and Gao, 2010; Shehata, 2017). Therefore, studying this important region provides the current study the ability to perform in-depth analyses to understand, gain insight and draw valuable conclusions on how the governance structures and arrangements affect the extent of transparency and disclosure.

[23] Formerly known as "BANKSCOPE".
[24] According to BANKFOCUS, over 60% of Islamic financial institutions are located in the GCC and SEA regions.

The period selected for this study covers 2015 to 2019, with data for this period selected and analysed. The 5-year study allows the researcher to identify trends, thus enriching the research findings and helping to address the research question comprehensively. The period selected for the study is primarily based on the most recent years during which the annual reports and other data are available for the sample selected. Furthermore, during this period, several important developments aimed at enhancing corporate governance in general, and disclosure in particular, have taken place (following the 2008 financial crisis). Corporate governance enhancements, aimed at addressing corporate governance breakdowns, driving greater transparency and restoring investor confidence, were introduced by standard setters. For instance, the BCBS issued detailed and comprehensive Pillar 3 disclosure requirements for banks in January 2015. In 2017, the IFSB issued standards on disclosures to promote transparency and market discipline for institutions offering Islamic financial services. Similarly, in the same year, the CIBAFI published Corporate Governance Practices of Islamic Banks, which cover a wide range of issues, including transparency and disclosure recommendations for Islamic banks. The current study expects these developments to promote greater transparency and encourage banks in general and Islamic banks in particular to disclose more information to their stakeholders.

The initial sample of the Islamic and conventional banks for the GCC countries was 71 banks based on the data collected from BankScope and Refinitiv databases. As annual reports were not available for all the banks, 19 banks were excluded as they did not have available data. The final sample of Islamic and conventional banks with available annual reports became 52 which is 73.2% of the total banks. Table 4.1 provides a breakdown of the final sample by country and bank type (i.e., Islamic or conventional).

Table 4.1
Breakdown of the sample of Islamic and conventional banks by country

No	*Country*	*Islamic Banks*	*Conventional Banks*	*Total*
1	*Bahrain*	*9*	*4*	*13*
2	*Kuwait*	*5*	*5*	*10*
3	*Oman*	*2*	*4*	*6*
4	*Qatar*	*3*	*5*	*8*
5	*Saudi Arabia*	*4*	*4*	*8*
6	*United Arab Emirates*	*2*	*5*	*7*
	Total	*25*	*27*	*52*

4.4.2. Source of Data

Following the approach most commonly used by researchers in examining the impact of corporate governance on voluntary disclosure (Chen and Jaggi, 2000; Haniffa and Cooke, 2002; Eng and Mak, 2003; Barako et al., 2006; Haniffa and Hudaib, 2007; Aribi and Gao, 2010; Al-Shammari and Al-Sultan, 2010; Hassan and Harahap, 2010; Barros et al., 2013; Jizi et al., 2014), the current study performs content analysis using the annual reports of a sample of Islamic and conventional banks in the GCC. Annual reports contain highly credible information, are widely distributed (Rizk et al., 2008) and are most often used by researchers (Gray et al., 2001). Jizi et al. (2014) argue that annual reports are read by a large group, including shareholders, stakeholders and financial intermediaries. Barros et al. (2013) conclude that annual reports are used by various stakeholders to assess company performance.

4.4.3. Content Analysis

In undertaking this inquiry, the current study adopts an archival research strategy and performs content analysis. This strategy relies primarily on administrative records and documents as its principal sources of data and is suited for research about the past and changes over time (Saunders et al., 2012). Content analysis requires the use of a coding mechanism, or a checklist

(Aribi and Gao, 2010). Coding enables the researcher to transform raw data into a standard format that can then be interpreted in accordance with a conceptualized framework (Babbie, 2013). Consistent with prior studies (Meek et al., 1995; Haniffa and Hudaib, 2007), this study develops a disclosure index categorized by information such as strategy, corporate governance, risk management, Shariah governance, financial and CSR. Under each category, subcategories are developed, and the related voluntary disclosure items are listed (for example, the existence of an audit committee under the corporate governance category) in line with prior studies and applicable standard-setting bodies such as the AAOIFI. All available disclosure items will be examined against the independent variables (e.g., board characteristics, audit committee and SSB characteristics) to determine their effect on the extent of voluntary disclosure by Islamic banks.

4.4.4. Reliability and Validity

Establishing the validity and reliability of research data is crucial for the overall quality of the study being conducted (Creswell, 2014). It lends confidence in the research process and greatly enhances the objectivity and integrity of the inquiry. Reliability is mainly concerned with the data or the data collection technique's ability to generate consistent findings (Saunders et al., 2012). It enables the researcher to achieve the same results every time the research technique is applied (Babbie, 2013). Validity is about the extent to which the findings are replicable, and whether the relationship between variables is a causal relationship (Saunders et al., 2012). In other words, when determining validity, the researcher is interested in establishing the extent to which the measurements reflect the true meaning of the concepts being considered (Babbie, 2013). Saunders et al. (2012) identify a number of threats to validity that can significantly undermine the validity of research findings. These include historical events, testing, mortality, maturation and ambiguity of the causal direction. An example of historical events affecting validity might include

researching corporate governance after a year in which significant corporate governance reforms were introduced (Saunders et al., 2012). Mortality occurs when participants decide to withdraw from the study, and maturation has to do with other events happening during the research period which may affect the attitudes of the participants (Saunders et al., 2012). Ambiguity of the causal direction happens when the research is unclear about which variable is affected, thus calling into question the validity of the relationship and the research findings (Saunders et al., 2012).

To ensure validity and reliability, this study retained a coder who is responsible for thoroughly examining all of the annual reports to identify whether the items in the checklist are disclosed or not and completing a disclosure checklist for each bank. The coder is trained and provided with clear guidelines to ensure effective and efficient collection of the data. The work done by the coder and the disclosure checklists completed were reviewed and cross-checked by the researcher to ascertain the accuracy and completeness of the checklists. While an element of judgement is unavoidably present when determining disclosure items in the annual reports, every effort is made by the researcher to carefully analyse and thoroughly examine discrepancies and resolve them appropriately.

4.5. Pilot study

The main objective of the pilot study is to determine if the method adopted for the study's data collection and analysis works according to how it has been envisioned, and whether adjustments need to be made based on the feedback obtained (Kothari, 1990, p. 101). More specifically, the pilot study helps the researcher validate the appropriateness of the disclosure index developed for the current study, while ascertaining that the approach adopted is consistent with

the nature of the information disclosed in the annual reports. Any feedback is used to improve the disclosure index and the overall approach to the data collection and analysis.

The current study carried out a pilot study in which a sample of 20 bank annual reports (10 Islamic and 10 conventional bank annual reports) are selected and data collection and analysis were performed on the annual reports of the selected banks for the 5-year period of the study (2015–2019). The pilot study sample was randomly selected from the population of Islamic and conventional banks obtained from the BANKSCOPE database. The lessons learned from the pilot study were used to enhance the disclosure index and the data collection and analysis techniques.

4.6. Data Analysis Method

The current study employed a quantitative method to empirically investigate the impact of corporate governance on the extent of voluntary disclosure by Islamic banks. The quantitative method is a data analysis technique which involves generating numeric data, while the qualitative method deals with non-numeric data (Babbie, 2013; Saunders et al., 2012). While the choice of method largely depends on the research questions at hand, the researcher must also consider the advantages of using more than a single method. Research seems to suggest that mixed methods can provide complementary data collection techniques, thus resulting in a stronger research strategy (Creswell, 2014; Saunders et al., 2012). This is particularly the case in social science research where quantitative techniques are used to objectively measure observations that are qualitative in nature[25] (Babbie, 2013).

[25] For instance, a statement which describes someone as intelligent may be described as qualitative. However, the research may be strengthened by using a quantitative measure, such as an IQ score, in order to determine someone's intelligence (Babbie, 2013).

This study aims to examine the impact of corporate governance on the extent of disclosure by Islamic and conventional banks. Accordingly, the study aims to answer the following question: How does corporate governance affect the extent of disclosure by Islamic and conventional banks in GCC countries? More specifically, the study investigates the following sub-questions in relation to the main research question:

- How does the effectiveness of a board of directors impact the extent of disclosure?
- Does the strength of the internal control environment affect the extent of disclosure?
- How does the strength of the Shariah governance score affect the level of disclosure by Islamic banks?
- How do board independence, board size and the frequency of board meetings affect the extent of disclosure by Islamic banks?
- How do audit committee size, independence, meeting frequency, and financial expertise affect the extent of disclosure?
- Do firm- and country-level characteristics affect the extent of disclosure?

To answer these questions, and in line with the ontological and epistemological positions adopted, the research inquiry adopts a quantitative method to analyse the quantitative and qualitative information obtained from the annual reports of Islamic and conventional banks.

The current study examines the association between corporate governance and the extent of disclosure at two levels. First, the study examines the impact of the key dimensions of corporate governance on the extent of disclosure. To do this, the study develops three indexes for board effectiveness, internal control strength, and Shariah governance strength (specific to Islamic banks) to measure the impact of each of these corporate governance dimensions on the extent of

disclosure. Second, the study performs further analysis to examine individual corporate governance variables (e.g., board size, independence, CEO role duality, audit committee characteristics) and determine their impact on the extent of disclosure. To examine the extent of disclosure, the study uses a comprehensive disclosure checklist of financial and nonfinancial information broken down into six categories (e.g., corporate governance, risk, CRS, Shariah governance). A disclosure index is developed, and an unweighted score of 1 is given if the information is disclosed, and 0 if not.

4.6.1. Data Analysis Instruments and Tools

To analyse the data collected from the annual reports, the researcher uses statistical tools such as SPSS and PLS-SEM and performs both descriptive and inferential statistical analysis. Statistical analysis allows us to describe the features of the collected data to better understand the research questions and examine the relationships between the different data sets (Field, 2009; Wheeler, D. and Tiefelsdorf, 2005; Matthews and Ross, 2010). Consistent with prior studies, two types of analysis are performed in analysing the data, testing the hypotheses and determining the relationship between dependent and independent variables. First, descriptive statistics are undertaken where the frequency, dispersion and distributions of values in the data are summarized and analysed (mean, median, mode, standard deviation, etc.). Second, inferential statistics are performed to examine the causal relationship between independent and dependent variables, address the research questions and draw conclusions. In this regard, the current study performs multiple regression analysis to test the hypotheses and answer the research questions. Correlation coefficient analysis is also performed as required to validate the results of the study and to determine the level of confidence, significance and direction of the causal relationship. Furthermore, the current study conducts PLS-SEM analysis using bootstrapping techniques to

further validate and confirm the results of the regression analysis (Ganesan et al., 2017; Sarstedt, et al, 2021).

4.6.2. Dependent Variables

Variables are central to quantitative research as they allow the researcher to measure how certain variables change other variables and analyse the nature of the changes (Martin and Bridgmon, 2012). According to Creswell (2014, p. 52) a variable can be defined as a characteristic or attribute of an individual or an organization that can be measured, and that varies among the people or organizations being studied. Dependent variables are those which are the result of the independent variables (Creswell, 2014). In other words, dependent variables change as a result of changes that occur in other variables (Saunders et al., 2012).

The current study adopts the extent of disclosure, which is comprised of the aggregate mandatory and voluntary disclosures made by the Islamic and conventional banks in their annual reports, as the dependent variable. These disclosures, which can be related to a firm's strategy, governance, risk, financials, or CSR program, provide information vital to stakeholders in their assessment of the firm (Meek et al., 1995). Disclosure is chosen primarily because it can provide an important measure in determining the extent to which Islamic bank governing bodies and management are committed to core Shariah values such as truthfulness, honesty and transparency with all their stakeholders. By providing information and being transparent with stakeholders, the Islamic bank demonstrates its commitment to the Shariah values noted above and lives up to the expectations of the stakeholders.

4.6.3. Development of a Disclosure Index

Disclosure is the dependent variable for the current study. The disclosure index includes both mandatory and voluntary disclosure items in various categories, such as strategic, governance, risk, Shariah governance, social responsibility, and financial information, and is designed to measure the extent of disclosure by Islamic and conventional banks. The strategy category comprises disclosure items regarding the bank profile, mission, vision, and strategic direction. The corporate governance category includes information about the board of directors as well as board committees. The risk governance category captures disclosure items such as bank's approach to risk management and existence of risk committee. The Shariah governance category captures information such as SSB names and background, Shariah audit reports, and *zakat* information. The sustainability category is comprised of information such as sustainable business practices, community programs, and environmental policies. The financial information category includes items such as revenues, financial ratios, and cash flow analysis. These categories were selected based on prior studies and to ensure that comprehensive set of items are included in the index to enrich the data analysis and enable rigorous study. Table 4.2 provides summary of the disclosure categories and the number of items for each category of the disclosure index[26].

To measure the extent of disclosure, the study uses the leximetrics method, which has been used in quantifying laws and regulations. It involves the identification of variables that serve as the benchmark and then assesses laws and regulations based on the identified variables (Ahmed et al., 2019). Accordingly, a discretionary item score of 1 will be assigned in the event that it is disclosed and "0" in the event it is not disclosed. This simple unweighted method of scoring is

[26] For a full list of the disclosure categories and items, refer to the Disclosure Index at Appendix 1.

based on the underlying assumption that each item of disclosure is similarly significant. It has been used in many previous studies (Chow and Wong-Boren, 1987; Cooke, 1989; Hossain et al., 1994; Meek et al., 1995; Ho and Wong, 2001; Chau and Gray, 2002; Haniffa and Cooke, 2002; Naser et al., 2002; Cheng and Courtenay, 2006; Allegrini and Greco, 2013). All disclosure items will be examined against the independent variables (e.g., board effectiveness, internal control strength, and Shariah governance-related characteristics) to determine their effect on the extent of disclosure. The final score will be derived by adding all the disclosure items identified (Ahmed et al., 2019).

Table 4.2
Summary of the Self-Developed Disclosure Index

No.	Category Description	Number of Items
1	Bank Profile & Strategic Information	8
2	Corporate governance	11
3	Risk governance	6
4	Shariah governance	15
5	Social Responsibility, Sustainability, and Value Creation	19
6	Financial information	11
	Total	70

4.6.4. Independent Variables

Croswell (2014) defines independent variables as those variables which influence and affect outcomes. Similarly, Saunders et al. (2012) suggest that independent variables cause changes to and influence dependent variables. In this study, a number of corporate governance characteristics are used as independent variables, and their impact on the extent of disclosure (i.e., the dependent variable) is examined. The dependent variable adopted for the current study is the

extent of disclosure, which is measured through the development of a disclosure index. The corporate governance characteristics which are used as independent variables for this study can be classified into three main dimensions, namely board effectiveness, internal control strength and Shariah governance strength. In line with prior studies, an index is developed for each of the three main corporate governance dimensions to measure their impact on the dependent variable (Ishak and Al-Ebel, 2013; CIBAFI, 2017; Al-Hadi et al., 2019). The individual variables considered for the board effectiveness dimension are board size, independence, frequency of meetings, CEO role duality and board diversity (i.e., number of women on the board). The index for the internal control strength dimension is based on audit committee characteristics (e.g., audit committee size, independence, frequency of meetings and financial expertise) and the existence of the internal audit function and its independence. For the Shariah governance strength index, the study uses SSB characteristics (e.g., SSB size, meeting frequency, educational qualifications, financial expertise), the existence of an internal Shariah audit unit and the performance of an external audit. This approach of using a combination of factors is consistent with prior studies (e.g., Wan Abdullah et al., 2014) as it provides a meaningful way of examining the impact of Shariah governance on the extent of disclosure. Figure 4.2 provides a summary of the independent and dependent variables adopted for the current study.

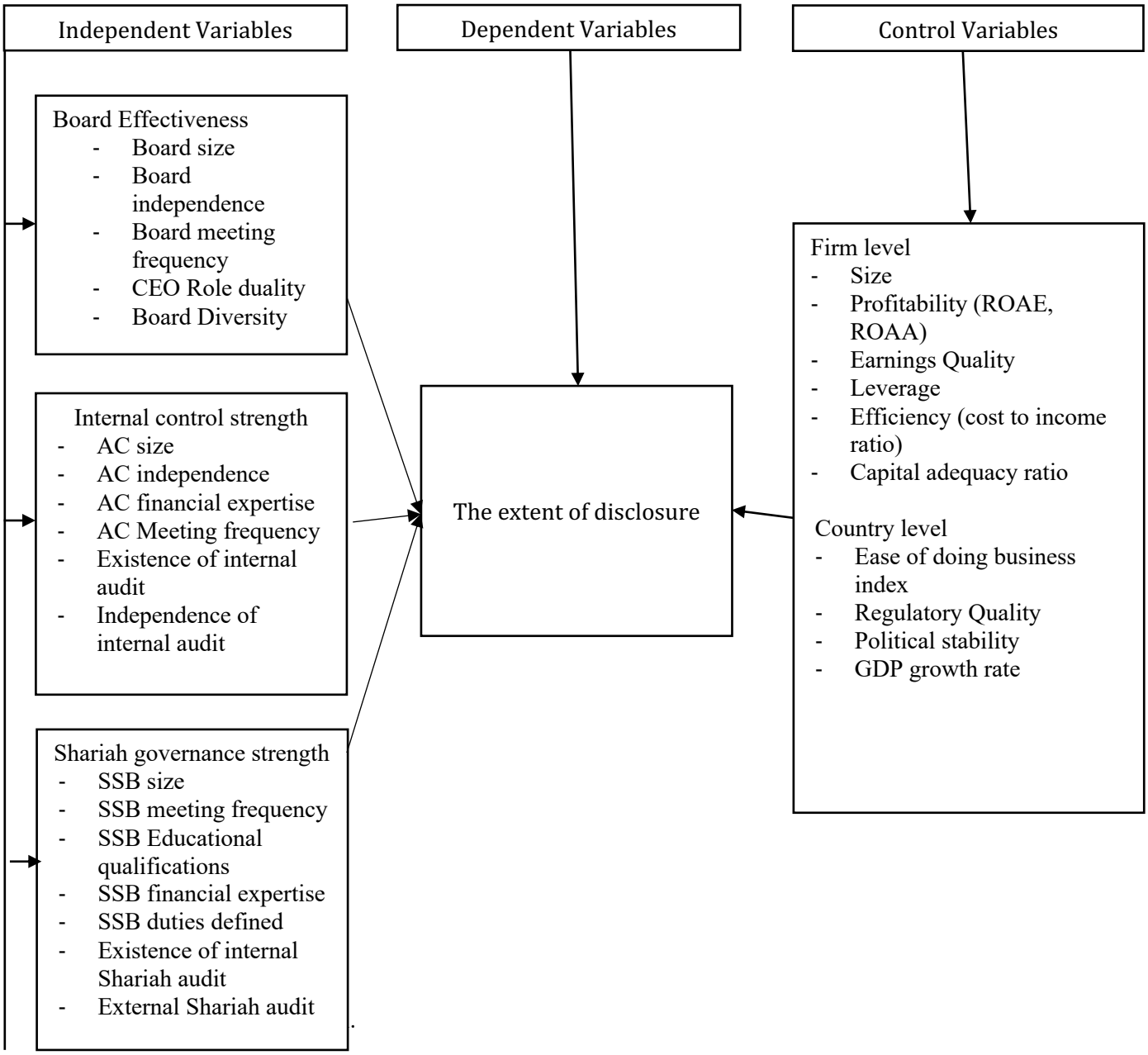
In addition to the above corporate governance characteristics, the study examines certain firm- and country-level characteristics as control mechanisms and examines their impact on the extent of disclosure. Firm- and country-level characteristics provide important explanations and have been used in the literature as control variables (Barako, 2007; Uyar et al., 2013; Baldini et al., 2018; Al-hadi et al., 2019; Abdelsalam et al., 2020). Accordingly, these variables are used in the current study as control variables to ensure that their effects are considered when examining

the determinants of disclosure**.** The firm-level control variables used in the current study include size, profitability, leverage, efficiency ratio, and CAR. The cost-to-income ratio is used to assess the operational efficiency of the firm. The ratio is inversely related to operational efficiency, meaning the higher the ratio, the less efficient the firm is (Abselsalam et al., 2020). The capital adequacy ratio (CAR) is a measure that is used in determining the capital that a bank is required to hold (Abdelsalam et al., 2020). The ratio, which comprises Tier 1 and Tier 2 capital divided by risk-weighted assets, is an important measure that is used by regulators to ensure that banks maintain adequate capital. The higher the CAR, the greater the level of capital maintained by the bank (Abdelsalam et al., 2020).

In addition to firm-level control variables, the current study controls for some macro-level variables which have been associated with the extent of disclosure and used by some prior studies (Ernstberger and Gruning, 2013; El-Halaby and Hussainey, 2015; Elamer et al., 2019). These are the ease of doing business index, regulatory quality, political stability and GDP growth rate. El-Halaby and Hussainey (2015) employ macro-level variables, including GDP growth rate, legal system, culture, and corruption index, to control for their effect on the extent of CSR disclosure by a sample of Islamic banks. Elamer et al. (2019) use in their study some country-level data, mainly from the World Bank and including indicators for political stability, regulatory quality, and GDP growth rate, to examine their impact on the extent of operational risk disclosures for a sample of MENA Islamic banks. Consistent with prior studies, the current study controls for the firm- and country-level characteristics summarized in Table 4.3.

Figure 4.2

Summary of the Independent, dependent, and control variables



4.6.5. Model Specification

The current study uses the extent of disclosure as the dependent variable. Multiple independent variables are used as a proxy for effective corporate governance. Additionally, the study employs several control variables which are used in related prior studies (size, profitability, leverage and GDP growth rate). To perform regression analysis required for examining the impact of corporate governance on the extent of disclosure, the current study develops the following models.

PART I: OLS Regression Equations for Impact of Corporate Governance Dimensions on Disclosure for Conventional & Islamic Banks

Model (1):

$$DISCORE = \alpha + \beta_1 BDEFFCT + \beta_2 SIZE + \beta_3 ROAE + \beta_4 ROAA + \beta_5 EARQ + \beta_6 C2INC + \beta_7 LEV + \beta_8 CAR + \beta_9 DBNDX + \beta_{10} REGQ + \beta_{11} PS + \beta_{12} GDP + \beta_{13} IBDUMMY + \varepsilon$$

Model (2):

$$DISCORE = \alpha + \beta_1 CSTGTH + \beta_2 SIZE + \beta_3 ROAE + \beta_4 ROAA + \beta_5 EARQ + \beta_6 C2INC + \beta_7 LEV + \beta_8 CAR + \beta_9 DBNDX + \beta_{10} REGQ + \beta_{11} PS + \beta_{12} GDP + \beta_{13} IBDUMMY + \varepsilon$$

Model (3):

$$DISCORE = \alpha + \beta_1 BDEFFCT + \beta_2 CSTGTH + \beta_3 SIZE + \beta_4 ROAE + \beta_5 ROAA + \beta_6 EARQ + \beta_7 C2INC + \beta_8 LEV + \beta_9 CAR + \beta_{10} DBNDX + \beta_{11} REGQ + \beta_{12} PS + \beta_{13} GDP + \beta_{14} IBDUMMY + \varepsilon$$

Model (4):

$$DISCORE = \alpha + \beta_1 BDSIZE + \beta_2 BDIND + \beta_3 BDMEET + \beta_4 CDUAL + \beta_5 BDDIV + \beta_6 SIZE + \beta_7 ROAE + \beta_8 ROAA + \beta_9 EARQ + \beta_{10} C2INC + \beta_{11} LEV + \beta_{12} CAR + \beta_{13} DBNDX + \beta_{14} REGQ + \beta_{15} PS + \beta_{16} GDP + \beta_{17} IBDUMMY + \varepsilon$$

Model (5):

$$DISCORE = \alpha + \beta_1 ACSIZE + \beta_2 ACIND + \beta_3 ACMEET + \beta_4 ACEXP + \beta_5 IAEXST + \beta_6 IAIND + \beta_7 SIZE + \beta_8 ROAE + \beta_9 ROAA + \beta_{10} EARQ + \beta_{11} C2INC + \beta_{12} LEV + \beta_{13} CAR + \beta_{14} DBNDX + \beta_{15} REGQ + \beta_{16} PS + \beta_{17} GDP + \beta_{18} IBDUMMY + \varepsilon$$

Model (6):

$$DISCORE = \alpha + \beta_1 BDSIZE + \beta_2 BDIND + \beta_3 BDMEET + \beta_4 CDUAL + \beta_5 BDDIV + \beta_6 ACSIZE + \beta_7 ACIND + \beta_8 ACMEET + \beta_9 ACEXP + \beta_{10} IAEXST + \beta_{11} IAIND + \beta_{12} SIZE + \beta_{13} ROAE + \beta_{14} ROAA + \beta_{15} EARQ + \beta_{16} C2INC + \beta_{17} LEV + \beta_{18} CAR + \beta_{19} DBNDX + \beta_{20} REGQ + \beta_{21} PS + \beta_{22} GDP + \beta_{23} IBDUMMY + \varepsilon$$

PART II: OLS Regression Equations for Impact of Shariah Governance Dimensions on Disclosure for Islamic Banks

Model (1):

$$DISCORE = \alpha + \beta_1 SSBGOV + \beta_2 SIZE + \beta_3 ROAA + \beta_4 ROAE + \beta_5 EARQ + \beta_6 C2INC + \beta_7 LEV + \beta_8 CAR + \beta_9 DBNDX + \beta_{10} REGQ + \beta_{11} PS + \beta_{12} GDP + \varepsilon$$

Model (2):

$$DISCORE = \alpha + \beta_1 \text{SSBSIZE} + \beta_2 \text{SSBEXP} + \beta_3 \text{SSBEDU} + \beta_4 \text{SSBDD} + \beta_5 \text{SSBMEET} + \beta_6 \text{ISAUD} + \beta_7 \text{ESAUD} + \beta_8 SIZE + \beta_9 ROAA + \beta_{10} ROAE + \beta_{11} EARQ + \beta_{12} C2INC + \beta_{13} LEV + \beta_{14} CAR + \beta_{15} DBNDX + \beta_{16} REGQ + \beta_{17} PS + \beta_{18} GDP + \varepsilon$$

Where:

DISCORE = total disclosure score

BDEFFET = Board effectiveness score

CSTGTH = Internal control strength score

BDSIZE = Board Size

BDIND = Board Independence

BDMEET = Board Meeting Frequency

CDUAL = CEO Role Duality

BDDIV= Board Diversity

ACSIZE = Audit Committee Size

ACIND = Audit Committee Independence

ACMEET = Audit Committee meeting frequency

ACEXP = Audit Committee financial expertise

IAEXST = Internal Audit Existence

IAIND = Internal Audit Independence

SSBGOV = SSB Shariah governance score

SSBSIZE = SSB Size

SSBMEET = SSB Diversity

SSBEXP = SSB Financial Expertise

SSBEDU = SSB Educational Qualifications

SSBDD = SSB Duties Defined

ISAUD = Internal Shariah audit exists

ESAUD = External Shariah audit is performed

SIZE = Bank size

ROAA = Return on average assets

ROAE = Return on average equity

EARQ = Earnings quality

C2INC = Cost to income ratio

LEV = Leverage

CAR = Capital adequacy ratio

DBNDX = The Ease of Doing Business Score

REGQ = Regulatory quality

PS = Political stability

GDP = GDP growth rate

IBDUMMY = Islamic bank dummy variable

α = *Intercept*

β_1 to β_{23} = coefficients

ε = *Error term*

4.6.6. Measurement of the Study Variables

Multiple independent variables are used for the current study as a proxy for effective corporate governance. The independent variables can be classified into three main areas, namely board of director effectiveness, internal control environment strength and Shariah governance strength. Additionally, the study uses several bank- and country-level control variables. Table 4.3 provides an overview of the variable name, description and measurement and the source of the data used to measure the study variables.

Table 4.3
Description of the operating variables, their measurements and source of the data

Variable	**Description**	**Measurement**	**Source of data**
Dependent Variable			
DISSCORE	Disclosure Score	The sum of all the items disclosed divided by the total possible items which can be disclosed.	Annual Reports and other Bank reports
Independent Variables			
BDEFFCT	Board effectiveness score	Score calculated based on the individual board characteristics where the value of each characteristic are added and then divided by the total possible points.	Annual Reports, other Bank reports & Refinitiv.
ICSTRENGTH	Internal control strength score	Score calculated based on the individual internal control strength characteristics where the value of each characteristic are added and then divided by the total possible points.	Annual Reports, other Bank reports & Refinitiv.
BDSIZE	Board Size	The total number of the members of the board	Annual Reports, other Bank reports & Refinitiv.
BDIND	Board Independence	The percentage of the independent board members which is calculated by dividing number of independent board members by the total number of board members.	Annual Reports, other Bank reports & Refinitiv.
BDMEET	Board Meeting Frequency	The total number of board meetings held during the year.	Annual Reports, other Bank reports & Refinitiv.
CDUAL	CEO Role Duality	A dummy number of 0 is used if the CEO and Board Chair are separated and 1 if otherwise.	Annual Reports, other Bank reports & Refinitiv.

Variable	Description	Measurement	Source of data
BDDIV	Board Diversity	The percentage of female board members calculated by dividing number of female board members by the total number of board members. Source: Annual Reports & Refinitiv.	Annual Reports, other Bank reports & Refinitiv.
ACSIZE	Audit Committee Size	The total number of the audit committee members.	Annual Reports, other Bank reports & Refinitiv.
ACIND	Audit Committee Independence	The percentage of the independent audit committee members which is calculated by dividing number of independent audit committee members by the total number of audit committee members.	Annual Reports, other Bank reports & Refinitiv.
ACMEET	Audit Committee meeting frequency	The total number of meetings held by the audit committee during the year.	Annual Reports, other Bank reports & Refinitiv.
ACEXP	Audit Committee financial expertise	The percentage of audit committee members with financial expertise. Financial expertise is defined as having a graduate degree in business, economics or financial or accounting designations (CFA, CPA, ACCA, etc.).	Annual Reports, other Bank reports & Refinitiv.
IAEXST	Internal Audit Existence	1 is used if an internal audit function exist, 0 otherwise.	Annual Reports, other Bank reports & Refinitiv.
IAIND	Internal Audit Independence	The dummy number of 1 is used if Internal Audit is independently reporting to the Audit Committee/Board, and 0 otherwise.	Annual Reports, other Bank reports & Refinitiv.
SSBGOV	SSB Shariah governance score	Score calculated based on the seven SSB characteristics where the value of each characteristic are added and then divided by the total possible points.	Annual Reports, other Bank reports, Refinitiv & IslamicMarkets.com
SSBSIZE	SSB Size	The total number of the Shariah Supervisory Board members.	Annual Reports, other Bank reports & Refinitiv.
SSBMEET	SSB Diversity	The percentage of the female members on the Shariah Supervisory Board.	Annual Reports, other Bank reports & Refinitiv.
SSBEXP	SSB Financial Expertise	The percentage of audit committee members with financial expertise. Financial expertise is defined as having a graduate degree in business or economics or financial or accounting designations.	Annual Reports, other Bank reports, Refinitiv & IslamicMarkets.com
SSBEDU	SSB Educational Qualifications	The percentage of SSB members with a PhD degree to the total number of SSB members.	Annual Reports, other Bank reports, Refinitiv & IslamicMarkets.com
SSBDD	SSB Duties Defined	A dummy number of 1 is used if the SSB duties and responsibilities are defined in the annual report, 0 if otherwise.	Annual Reports, other Bank reports.
ISAUD	Internal Shariah audit exists	1 is used if an internal Shariah audit unit exist, 0 otherwise	Annual Reports, other Bank reports

Variable	Description	Measurement	Source of data
ESAUD	External Shariah audit is performed	The dummy number of 1 is used if an external Shariah audit is performed, and 0 otherwise.	Annual Reports, other Bank reports
Bank Level Control Variables			
SIZE	Bank size	Bank size is proxied by the numeric value of the total assets for the bank.	Refinitiv & BankFocus
ROAA	Return on average assets	A measure of profitability proxied by the ratio of net income to the average assets.	Refinitiv & BankFocus
ROAE	Return on average equity	A measure of profitability proxied by the ratio of net income to the average equity.	Refinitiv & BankFocus
EARQ	Earnings quality	A profitability measure developed by Refinitiv which is designed to predict the quality and sustainability of company earnings based on a number of factors such as accruals, cash flow, and operating efficiency.	Refinitiv
C2INC	Cost to income ratio	An efficiency ratio which is calculated by dividing operating expenses by the operating income.	Refinitiv & BankFocus
LEV	Leverage	The final leverage is calculated as the ratio of total assets to total equity.	Refinitiv & BankFocus
CAR	Capital adequacy ratio	A percentage of the bank's risk weighted credit exposures, which is calculated as Tier 1 capital plus Tier 2 capital divided by total risk weighted assets.	Refinitiv & BankFocus
Country level Control Variables			
DBNDX	The Ease of Doing Business Score	A score developed by World Bank, which is designed to measure the regulatory environment performance of a country over time and how closely a country's ease of doing business is to the best regulatory performance.	World Bank
REGQ	Regulatory quality	An indicator score developed by World bank which measures the quality of the regulatory environment of a country.	World Bank
PS	Political stability	An indicator score developed by World bank which measures the level of political stability of a country.	World Bank
GDP	GDP growth rate	The annual percentage of growth rate of the country's GDP.	World Bank
IBDUMMY	Islamic bank dummy variable	A dummy number representing Islamic banks	Self-developed.

4.7. Conclusion

In summary, this chapter discusses in detail the research methodology for the current study and provides an overview of the various research philosophies and approaches discussed in the extant literature and articulates the ontological and epistemological positions adopted for the current study. The current study adopts an objectivist position from an ontological point of view. The current study also takes post positivism as an epistemological position. The chapter also discusses four research paradigms, namely the functionalist, interpretivist, radical humanist, and radical structuralist. The current study adopts the functionalist paradigm as it provides rational explanations for how corporate governance affects the extent of disclosure in Islamic banks.

In addition to the research philosophy, the chapter provides an overview of the methods considered in the current study, including the approach to data collection and data analysis. Sampling techniques and sources of data are discussed. The chapter also illustrates the use of annual reports as a source of data for the study. Finally, the chapter provides an overview of the data analysis methods, including the measurement tools which are considered. The chapter discusses operational definitions of the dependent and independent variables as well as the hypotheses adopted. Relevant prior studies are presented and critically analysed.

CHAPTER FIVE

DESCRIPTIVE STATISTICS

5.1. Introduction

The previous chapter discussed the research methodology adopted for the current study to address the research questions. The chapter surveyed the research philosophies and approaches and discusses the sampling technique. Moreover, the chapter presented and discussed in detail the data collection method as well as the data analysis tools used in the study to analyse the data and report on the results.

This chapter presents the descriptive statistics of the variables included in the empirical part of the research. The chapter starts with an introduction, including an overview of the banks in the sample examined. The second section analyses the disclosure index adopted for the study. While the third section provides detailed descriptive statistics for the study variables for both Islamic and conventional banks examined in the study, the fourth section presents a correlation analysis to determine the intercorrelation among the study variables. The chapter also analyses and discusses the findings with a focus on comparing the differences in the findings between Islamic and conventional banks.

The current study examines a sample of 52 GCC Islamic and conventional banks for a period of 5 years (2015 - 2019), thus resulting in a total of 260 observations. Table 5.1 provides the descriptive statistics of the banks by type (Islamic vs. conventional) as well as by country. A total of 25 Islamic banks are included in the current study, representing 48% of the total sample, while the remaining 27 banks in the sample are comprised of conventional banks, which represent

52% of the total banks in the sample. Table 5.2 provides a breakdown of banks by country. The largest number of banks in the sample are based in Bahrain (25% of the banks in the sample), while Kuwait has the second largest (19%), with Oman having the smallest (11%). The remaining GCC countries each have approximately 15%. It is worth noting that the sample is based on Islamic and conventional banks whose annual reports are published and available.

Table 5.1
Descriptive statistics of the banks by type

Bank Type	Frequency	Percent	Cumulative Percent
Islamic	25	48.1	48.1
Conventional	27	51.9	100
Total	52	100	

Table 5.2

Descriptive statistics of the banks by country

Country	*Frequency*	*Percent*	*Cumulative Percent*
Bahrain	13	25.0	25.0
Kuwait	10	19.2	44.2
Oman	6	11.5	55.8
Qatar	8	15.4	71.2
Saudi Arabia	8	15.4	86.5
United Arab Emirates	7	13.5	100.0
Total	52	100.0	

5.2. Overall Disclosure Index Analysis

The current study develops a disclosure index which is comprised of six categories, namely bank profile and strategic information, corporate governance, risk governance, Shariah governance, social responsibility, sustainability and value creation, and financial information,

which together make up 70 items. Table 5.3 provides a summary of the categories and the number of disclosure items under each category. Moreover, the following subsections provide an analysis of the disclosure scores by country as well as bank type and year.

Table 5.3
Summary of disclosure items by category

No.	Category Description	Number of Items
1	Bank Profile & Strategic Information	8
2	Corporate governance	11
3	Risk governance	6
4	Shariah governance	15
5	Social Responsibility, Sustainability, and Value Creation	19
6	Financial information	11
	Total	70

The extent of disclosure by country measures the average total disclosure score for all 5 years in the current study (from 2015 to 2019) for each of the GCC countries. Table 5.4 provides a summary of the aggregate level of disclosure by country.

Table 5.4
Aggregate disclosure score by country

Oman	**Bahrain**	**Qatar**	**Kuwait**	**United Arab Emirates**	**Saudi Arabia**	**Overall Average for All Countries**
76.79%	73.38%	71.97%	69.35%	66.30%	66.29%	70.74%

Table 5.4 demonstrates that Oman has the highest score (76.79%), followed by Bahrain (73.38%), with both countries scoring higher than the average score across the countries in the sample (70.74%). Qatar also has an average disclosure scores of 71.97%, slightly above the average score for all countries. On the other hand, Kuwait has an average disclosure score of

69.35%, which is marginally lower than the mean score for all countries. However, United Arab Emirates and Saudi Arabia have the lowest average disclosure scores when compared to the remaining countries (66.30% and 66.29% respectively). The higher level of disclosures of the Omani banks (both Islamic and conventional) can provide an important impetus to other GCC countries to analyse and learn from the Omani banks in order to make enhancements to their own disclosure practices.

Table 5.5 illustrates that the aggregate disclosure level for all banks remains steady year over year, with most years having a slight increase, approximating from 69% in 2015 to 72% in 2019. The lowest disclosure is 69.09% for 2016 and the highest level of disclosure is 72.31% for the year 2019.

Table 5.5
The extent of total disclosure year over year

2015	**2016**	**2017**	**2018**	**2019**
69.20%	69.09%	71.58%	71.52%	72.31%

Overall, table 5.5 shows a trend toward greater transparency and a higher level of disclosure, which is consistent with the increasing demand by bank stakeholders for greater disclosure, Table 5.6, provides a detailed breakdown of disclosures by country and year. The table shows that for most countries, the disclosure score over the years remains steady, with a small increase or decrease. However, the disclosure scores for Bahrain, Qatar and Kuwait show a steady increase for the years 2017 through 2019, thus indicating improvement in the level of transparency for these countries.

Table 5.6
Summary of aggregate disclosure scores by country and by year

Country	2015	2016	2017	2018	2019	Total
Oman	76.52%	76.82%	77.90%	76.62%	76.08%	**76.79%**
Bahrain	72.67%	72.37%	73.09%	74.01%	74.78%	**73.38%**
Qatar	71.40%	71.62%	70.91%	72.13%	73.78%	**71.97%**
Kuwait	66.78%	68.75%	69.22%	70.84%	71.17%	**69.35%**
United Arab Emirates	65.75%	62.84%	69.17%	69.05%	64.69%	**66.30%**
Saudi Arabia	61.93%	61.33%	70.10%	66.04%	72.06%	**66.29%**
Total	**69.20%**	**69.09%**	**71.58%**	**71.52%**	**72.31%**	**70.74%**

5.2.1. Aggregate Disclosure Scores by Bank Type

The extent of disclosure can also be analysed based on the type of bank, namely whether the bank is conventional or Islamic. Table 5.7 summarizes the extent of disclosure by bank type.

Table 5.7
Aggregate disclosure by year and by bank type

Bank Type	2015	2016	2017	2018	2019	Overall Average
Islamic	65.83%	65.60%	68.51%	69.49%	70.69%	68.02%
Conventional	72.32%	72.32%	74.41%	73.40%	73.80%	73.25%

Overall, Table 5.7 depicts that conventional banks are more transparent and provide a greater level of disclosure in their annual reports. The overall average for conventional banks for all five years is 73.25% while for Islamic banks it is 68.02%, indicating that Islamic banks have lower disclosure than their conventional counterparts. This trend appears to be consistent over the period of the 5 years of the current study (2015–2019). In 2015, the disclosure level for Islamic

banks was 65.83%, while their conventional counterparts had a 72.32% disclosure level. While the disclosure levels for both Islamic banks and conventional banks remained relatively the same in 2016, in 2017, disclosure increased to 74.4% and 68.51% for conventional and Islamic banks, respectively. In 2018, the overall conventional bank disclosure score decreased slightly to 73.80%, while Islamic banks' overall disclosure score increased to 69.49%. In 2019, the conventional bank disclosure score remained relatively the same, while the Islamic bank disclosure score increased to 70.69%. On the other hand, Table 5.8 shows the disclosure score by bank type and by country. Overall, the data shows that, except for Bahrain and Kuwait, conventional banks provide greater levels of disclosure than their Islamic banks. For Bahrain and Kuwait, Islamic banks provide slightly higher levels of disclosure when compared to the conventional banks.

Table 5.8
Aggregate disclosure by country and by bank type

Bank Type	**Bahrain**	**Kuwait**	**Oman**	**Qatar**	**Saudi Arabia**	**United Arab Emirates**
Islamic	73.87%	69.54%	76%	62.10%	59.86%	55.14%
Conventional	72.27%	69.16%	77.18%	77.89%	72.73%	70.76

However, as noted earlier, the overall result shows that conventional banks provide greater disclosure when compared to Islamic banks. The result is consistent with those of Wan Abdullah et al. (2013) and El-Halaby and Hussainey (2015), who report low disclosure levels for Islamic banks. However, the result contrasts with that of Grassa and Chakroun (2016), who find that Islamic banks provide better corporate governance disclosure than their conventional counterparts.

While Islamic banks are lagging in terms of the extent of disclosure when compared to their conventional counterparts, it is important to note that Islamic banks show a trend of improved

disclosure levels for the study period (i.e., an increase from 65.83% in 2015 to 70.69% in 2019). This trend is consistent with that observed by Grassa and Chakroun (2016), who observe gradual improvement in corporate governance disclosure by Islamic banks in the GCC countries.

It is worth noting that the difference in the extent of disclosure between Islamic and conventional banks is significant. The result of an independent samples t-test test, as shown in Table 5.9, indicates that the disclosure difference between Islamic and conventional banks is significant ($t = -2.867$, $df = 237$, and $p = 0.002$). The findings are consistent with those of Aribi and Gao (2010), who report significant differences in the disclosure of CSR information between Islamic and conventional banks for a sample of GCC banks.

Table 5.9
Independent Sample t-test for the disclosure difference between Islamic and conventional banks.

Dependent Variable	**Bank Type**	**N**	**M**	**SD**	**t**	**df**	***p***
Disclosure Score	Islamic	125	.68	.121	-2.867	237	.002
	Conventional	135	.72	.096			

The above analysis underscores the need for Islamic banks to review their disclosure policies and enhance the level of disclosure to fulfil their responsibilities towards their stakeholders to be more transparent and enable informed decision-making. It is important to note that transparency is deeply rooted in Islamic teachings and as such should be given more priority by Islamic bank management to ensure alignment with the Shariah principles. Moreover, the nature of the Islamic bank governance structure and its stakeholders necessitate that Islamic banks provider greater disclosure. For instance, IAHs, a key stakeholder, are exposed to significant risks

due to nature of their relationship with the Islamic bank where they provide funds but are unable to monitor management. Therefore, providing greater disclosure becomes extremely important to inform the IAHs of the Islamic bank's performance and its compliance with the Shariah rules and principles.

Given the recent establishment of the Islamic banks in Oman, further analysis is performed to determine if the difference in disclosure among the banks in GCC countries is due to the age of the bank. The banks are grouped into two categories: Recent banks, which are in existence for less than 25 years and older banks, which have been in existence for over 25 years. The result in Table 5.10 shows that there is no significant difference in disclosure practices between recent and older banks, indicating that bank age has no significant impact on the bank's disclosure practices.

Table 5.10

Independent Sample t-test for the disclosure difference due to bank age.

Dependent Variable	**Bank Age**	**N**	**M**	**SD**	**t**	**df**	***p***
Disclosure Score	Recent (<25 yrs)	65	.69	.077	1.288	85	.201
	Older (>25 yrs)	60	.67	.154			

5.3. Category level disclosure Index Analysis

The disclosure index developed for the current study consists of six main categories as illustrated in Table 5.3. This section presents the disclosure index analysis for each of the six categories with a focus on comparing Islamic and conventional banks by country and year.

5.3.1. Category Level Disclosure Analysis by Year for All Banks

This section presents the evolution of the category level disclosures over the years for all banks combined. As shown in Table 5.10, the corporate governance and risk governance categories have the highest disclosure scores (mostly 90% or above). The corporate governance disclosure score evolved from 90% in 2015 to approximately 92% in 2019, while the risk governance disclosure score increased from 92% in 2015 to 94% in 2019. On the other hand, the disclosure score for the social responsibility, sustainability and value creation (SRSVC) category has the smallest disclosure score (approximately 50%), followed by the disclosure score for the bank profile and strategic information (BPSI) category, which ranged from 55% in 2015 to 59% in 2019. This suggests that banks in GCC countries are lagging in their disclosure practices regarding SRSVC and BPSI information. Given the growing demand for sustainable business practices, it is a strategic imperative for GCC banks to enhance the level of disclosure in these areas. This is even more important for Islamic banks due to the Shariah's emphasis on sustainability and social responsibility. The financial information category scored approximately 79%. Overall, the result shows a small but steady increase in disclosure scores for all the categories over the years, thus suggesting that there is a trend of incremental improvement in disclosure and transparency.

Table 5.11
Category level disclosure analysis by year for all banks

Category	2015	2016	2017	2018	2019
Bank profile and strategic information	54.84%	55.63%	59.13%	58.38%	59.27%
Corporate governance	89.69%	89.16%	93.18%	91.61%	92.83%
Risk governance	92.31%	93.27%	93.91%	94.55%	94.23%
Shariah governance	64%	64.80%	67.20%	69.87%	70.93%
Social responsibility, sustainability, and value creation	49.60%	49.19	52.02%	52.13%	53.44%
Financial information	79.37%	78.32%	79.37%	79.55%	79.72%

5.3.2. Category Level Disclosure Analysis by Country for All Banks

This section presents the category level disclosures by country for all banks combined. As shown in Table 5.12, for the BPSI category, Bahrain scores the highest (94%), while Oman has the lowest score (40%). For the corporate governance category, Oman and Bahrain have the highest scores (100% and 99%, respectively) and UAE has the lowest score (75%). With regards to risk governance disclosure, Qatar scores the highest (98%), followed by Oman (96%) and UAE (95%), and Bahrain had the lowest score (89%).

On the other hand, Oman has the highest score (87%) for the financial information disclosure category, followed by Qatar (82%) and UAE (80%). Also, for disclosures related to SRSVC information, Oman scores highest (61%). Qatar and Kuwait come after Oman, scoring 54% and 52%, respectively. Overall, the results show that corporate and risk governance information are disclosed more than other categories, especially information related to the BPSI and SRSVC categories, which appear to be disclosed least.

Table 5.12
Category level disclosure analysis by country for all banks

Category	Bahrain	Kuwait	Oman	Qatar	Saudi Arabia	United Arab Emirates
Bank profile and strategic information	63.96%	55.82%	39.88%	58.933%	59.51%	58.72%
Corporate governance	99.16%	89.27%	100%	91.59%	88.86%	74.55%
Risk governance	88.97%	94.67%	95.56%	98.33%	92.92%	94.76%
Shariah governance	85.04%	70.40%	91.33%	52%	34.33%	45.33%
Social responsibility, sustainability, & value creation	47.37%	52.32%	60.70%	53.82%	49.21%	48.42%
Financial information	79.16%	72.18%	87.27%	81.59%	79.32%	79.72%

5.3.3. Disclosure Analysis for the Shariah Governance Category – Specific to Islamic Banks

Table 5.13 provides an overview of Shariah governance-related disclosure by country. The table shows that Oman has the highest Shariah governance disclosure score (91%), followed by Bahrain (85%) and Kuwait (70%). On the other hand, Saudi Arabia has the lowest score (34%), followed by UAE (45%).

Table 5.13
Shariah governance category disclosure analysis by country

Bahrain	Kuwait	Oman	Qatar	Saudi Arabia	United Arab Emirates
85.04%	70.40%	91.33%	52.00%	34.33%	45.33%

Table 5.14 provides an overview of Shariah governance disclosure by year. The results of the disclosure analysis show that the extent of Shariah governance disclosure has steadily increased from 64% in 2015 to 71% in 2019. While the incremental improvement in Shariah governance disclosure is notable, it can also be observed that Shariah governance disclosure is lagging when compared to disclosure of other information by Islamic banks (e.g., corporate and risk governance disclosures). Shariah compliance is the backbone for the survival of the Islamic bank since it is the most salient feature that differentiates Islamic banks from their conventional counterparts. This underscores the need for Islamic banks to enhance their disclosure practices and ascertain that adequate levels of disclosure about their Shariah governance and compliance with the Shariah rules and principles is provided to their stakeholders.

Table 5.14
Shariah governance category disclosure analysis by year

2015	2016	2017	2018	2019
64.00%	64.80%	67.20%	69.87%	70.93%

5.4. Descriptive Statistics for the Study Variables

The variables considered under the current study are broadly categorized into two main categories: explanatory and control. The explanatory variables are those variables that are attributable to corporate governance mechanisms and are used to measure their impact on the extent of disclosure. These variables are further categorized into three main themes: board characteristics, internal control characteristics and Shariah governance characteristics. The descriptive statistics for each of these thematic areas are discussed below. The control variables considered for the current study, which include bank size, profitability, leverage, efficiency and regulatory compliance, are also discussed in this section.

Table 5.15
Descriptive statistics for the study variables

Variables	N	Min	Max	Mean	Median	SD
Board Size	260	4	15	9.36	9	1.562
Board Independence	260	.00	.91	.379	.40	.260
Board Meeting Frequency	260	2	23	7.61	7	3.20
CEO Role Duality	259	0	1	.04	.00	.193
Board Diversity	260	.000	.273	.023	.00	.054
Audit Committee Size	260	2	6	3.49	3	.717
Audit Committee Independence	260	.00	1.00	.563	.667	.340
Audit Committee Meeting Frequency	260	2	28	5.92	6	2.313
Audit Committee Financial Expertise	260	0	1.00	.421	.333	.269
Internal Audit Existence	260	0	1	.96	1	.202
Internal Audit Independence	260	0	1	.77	1	.420
Bank Size	260	46.24	259532.33	32316.80	17475.62	43,505.53
Return on Average Assets	260	-32.00	2.87	.698	1.35	3.62
Return on Average Equity	260	-36.81	25.49	8.57	10.18	9.73
Earnings Quality	234	1.0	94.0	50.67	52.00	25.07
Cost to Income	260	12.15	791.20	53.55	39.08	66.45
Leverage	260	1.04	11.98	7.25	7.39	2.04
Capital Adequacy Ratio	257	-6.10	65.07	18.72	17.67	6.54
Ease of Doing Business	260	59.60	81.30	67.08	66.8100	5.24
Regulatory Quality	260	48.56	82.69	65.96	67.7900	10.00
GDP Growth Rate	260	-4.71	5.11	1.81	1.78	2.14

5.4.1. Board Characteristics

Table 5.15 reports the descriptive statistics related to the board of directors, namely board size, independence, meeting frequency, diversity, and CEO role duality. The table shows that the largest board size is 15 while the smallest is 4 and the mean board size is 9.36. The mean board size is consistent with other studies, which report an average board size of 9 for GCC-listed companies (Grassa and Matoussi, 2014; Elamer et al., 2019; Hawkamah, 2019). However, the

average board size for the GCC is slightly smaller than the global average, which is 10 (Hawkamah, 2019).

On the other hand, the mean percentage of independent board members is 38%, while the highest percentage of independent board members is approximately 91% and the smallest is 0%. This is lower than the recommended minimum percentage of 50% for independent members (Hawkamah, 2019). Moreover, it is significantly lagging compared to the percentage of independent members in other parts of the world, including Europe (62%) and the USA (85%).[27] On average, boards held 8 meetings per year, while the highest number of annual meetings held is 23 and the lowest is 2. The mean CEO role duality is 4%, suggesting that the majority of the banks in the GCC do comply with the corporate governance standards and best practices, which require separation of the roles of the CEO and chairman of the board. The mean percentage of board diversity is 2.3%, which reveals that there are very few boards which have female board members, thus highlighting the fact that GCC banks are lagging the global trend toward more board gender diversity. This result is consistent with the findings of Hawkamah (2019), who reports that the average percentage of female board members in the MENA region is 3.8%.

5.4.2. Internal Control Strength

Table 6.15 illustrates the descriptive statistics for internal control strength, highlighting audit committee characteristics as well as the internal and external audit elements considered in the study. The table shows that the mean audit committee size is 3.5, with the highest number of audit committee members being 6 and the smallest being 2. The mean percentage of audit committee independence is 56.3%, with the range being between a maximum of 100% and a

[27] For further details refer to Hawkamah's (2019) report on Board Best Practices in the Middle East.

minimum of 0%. This seems to suggest that most banks in GCC do maintain some independent members within their audit committees. On the other hand, the highest number of audit committee meetings held during the year is 28, while the lowest is 2.

The mean number of audit committee meetings is approximately 6 per year. The standard division for audit committee meeting frequency is 2.313. The mean financial expertise for the audit committee is 42%, with a minimum of 0% and a maximum of 100%. The audit committee's financial expertise has a standard deviation of 0.269. The mean internal audit existence is 96%, which suggests that almost all banks in the GCC do have an IAF. The standard deviation for internal audit existence is 0.202. On the other hand, the mean internal audit independence is 77%, which suggests that even though most banks have an IAF set up, not all are set up as an independent function. The standard division for internal audit independence is 0.420. The mean external audit type is 100%, suggesting that all the banks in the GCC do retain a Big 4 audit firm. The standard deviation for the external audit type is 0.062.

5.4.3. Control Variables

The current study considers several bank- and country-level control variables, as summarized in Table 5.15. The mean bank size is 32,316.80 (in millions USD) while the minimum is 46.24 and the maximum bank size is 259,532.33 This suggests that there is considerable disparity in bank sizes, as some of the banks have very large asset sizes while others have small asset sizes. In terms of profitability, the mean ROAA is 0.70 while the mean ROAE is 8.57. Another measure of profitability which has recently gained more importance is earnings quality.[28]

[28] A proprietary profitability model developed by Refinitiv, which measures the quality and reliability of earnings and their likely sustainability in the future. The model ranks companies as a percentage based on the quality of earnings, with the highest rank being 100 (source: Refinitiv.com).

As the above table shows, the mean percentile of earnings quality is 50.67, which suggests that there are a considerable number of banks for which their current earnings may not be indicative of their future earnings. The mean cost-to-income ratio is 53.55, and the mean leverage ratio is 7.25, while the minimum is 1.04 and the maximum is 11.98. The mean CAR is 18.72, which is above the required minimum adequacy ratio, thus suggesting a high degree of compliance with regulatory requirements. The mean regulatory quality ranking is 67.08, while the mean GDP growth rate is 1.81, both indicating that at the country level, overall regulatory quality and economic growth are rather slow and lagging.

5.4.4. Sharia Governance Strength (Specific to Islamic Banks)

Table 5.15 presents the descriptive statistics for the Shariah governance variables examined in the current study. The mean SSB size is 3.91, and the size ranges from a minimum of 3 members to a maximum of 6 members. SSB meeting frequency has a mean score of 7.14, and the number of meetings for the SSB varies from 0 to 49. The mean SSB duties defined is 96%, indicating that the majority of Islamic banks define the duties and responsibilities of their Shariah boards. The mean financial expertise among the SSBs is 23.2%, and the standard deviation is 0.246. The mean SSB educational qualification is 79.3%, indicating that a significant number of SSB members hold doctorate-level qualifications. The mean for internal Shariah audit unit existence is 0.94, while the mean external Shariah audit existence is 0.13, which reveals that while most Islamic banks maintain an internal Shariah audit unit, only a few have an external Shariah audit as part of their Shariah governance.

Table 5.16

Descriptive statistics of Shariah governance strength

Variables	N	Min	Max	Mean	Median	SD
SSB Size	125	3	6	3.91	4	.984
SSB Meeting Frequency	86	0	49	10.29	5	12.45
SSB Duties Defined	125	0	1.00	.96	1	.197
SSB Financial Expertise	125	.00	.67	.232	.20	.246
SSB Educational Qualification	125	.20	1.00	.793	1	.222
Internal Shariah Audit Unit Exist	125	0	1	.94	1	.246
External Shariah Audit Performed	125	0	1	.13	.00	.335

5.5. Correlation testing

This section presents the results of the correlation testing performed for the current study to determine the nature and direction of the association between the study variables. A bivariate correlation analysis is performed using Pearson and Spearman's correlation test to examine the relationship between the corporate governance characteristics (independent variables) and the extent of disclosure (the dependent variable). Correlation testing is used to establish the validity of the constructs in the model and confirm its appropriateness. Correlation testing is also used to find out if there are issues related to multicollinearity (Wheeler and Tiefelsdorf, 2005; Saunders et al., 2012). Furthermore, the correlation analysis helps the research test the association among variables and supports the inferential analysis to test the hypotheses and address the research questions.

5.5.1. Association of Corporate Governance Dimensions and Disclosure

The current study considers several corporate governance characteristics which relate to board of directors, internal control strength and Shariah governance. The board dimensions include

board size, independence, board meeting frequency, board diversity, and CEO role duality. For internal control strength, audit committee-related characteristics as well as internal audit quality dimensions are considered. The Shariah governance dimensions include SSB size, educational qualifications, financial expertise, etc. Figure 5.1 summarizes the three corporate governance thematic areas and their respective individual dimensions.

Figure 5.1
Corporate governance thematic areas and their individual dimensions.

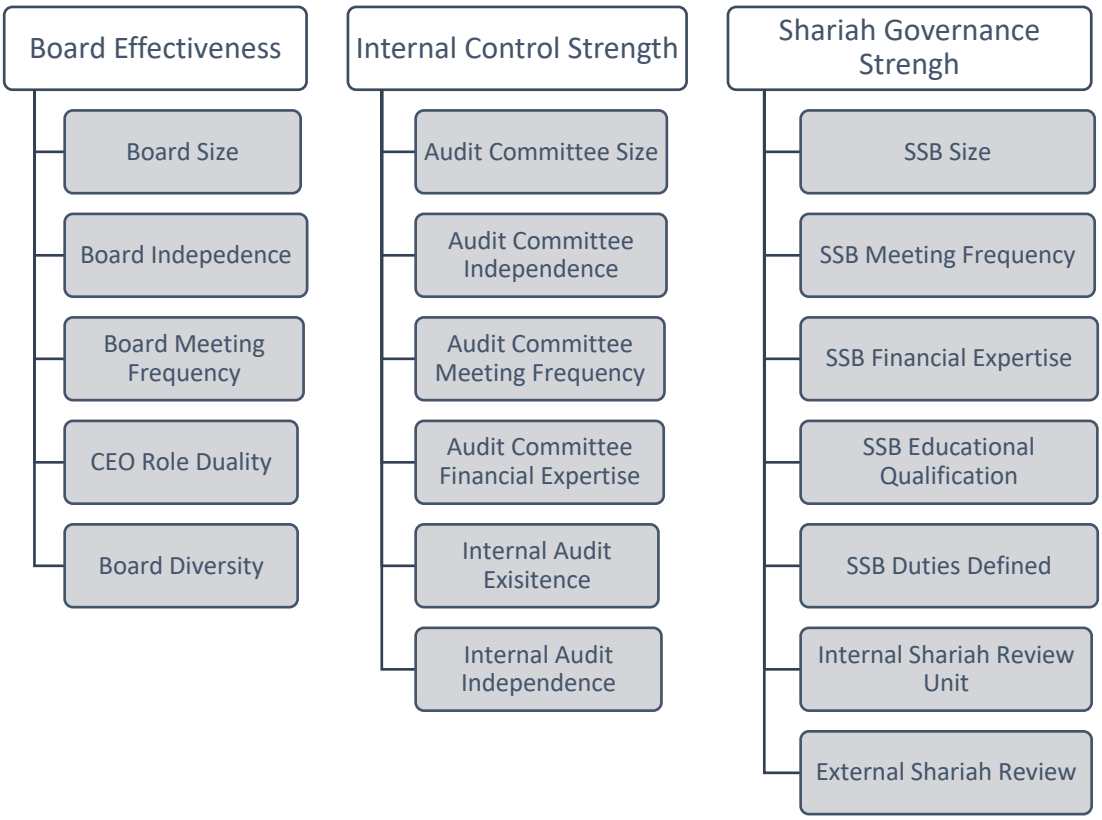


Table 5.17 provides the Pearson correlation test results for the association between disclosure and corporate governance dimensions along with the control variables considered for the current study. As shown in the table, the Pearson correlation test indicates that board size and independence have a significant and positive correlation with the extent of disclosure. Audit committee size, independence and financial expertise are also found to be significantly and

positively associated with disclosure. Aside from the audit committee-related characteristics, the independence of the IAF is significantly and positively associated with the extent of disclosure. The result of the Pearson correlation analysis for the corporate governance variables is generally consistent with the hypotheses and research questions developed for the current study both in terms of the significance and direction of the correlation. The remaining corporate governance dimensions do not show any significant association with disclosure.

With regard to the control variables, the Pearson correlation analysis shows that bank size is significantly and positively associated with disclosure. Additionally, leverage is found to be significantly and positively associated with the extent of disclosure. The other control variables do not have any significant relationship with the extent of disclosure.

Table 5.17 Pearson Correlation of Corporate Governance Characteristics & Disclosure for Islamic & Conventional Banks

	DISCORE	BDSIZE	BDIND	BDMEET	CDUO	BDDIV	ACSIZE	ACIND	ACMEET	ACEXP	IAEXIST	IAIND	SIZE	ROAA	ROAE	EARQ	C2INC	LEV	CAR	BNDX	REGQ	PS	GDP
DISCORE	1																						
BDSIZE	.201**	1																					
BDIND	.201**	.205**	1																				
BDMEET	0.09	-0.016	-.184**	1																			
CDUO	0.032	-.161**	-0.056	-.159*	1																		
BDDIV	0.087	.257**	0.017	0.082	-0.035	1																	
ACSIZE	.251**	.408**	.122*	0.054	-.157*	.141*	1																
ACIND	.131*	.168**	.347**	-.264**	0.027	-0.049	0.019	1															
ACMEET	0.041	0.055	0.039	.219**	0.028	-0.013	0.052	-0.048	1														
ACEXP	.156*	-0.002	.212**	-0.054	0.112	-0.052	0.082	.301**	-0.019	1													
IAEXST	0.087	-0.11	0.066	-0.019	0.033	0.074	-0.065	0.022	.150*	0.068	1												
IAIND	.329**	0.095	-0.069	0.011	0.105	0.057	-0.013	-0.028	0.063	-0.025	.317**	1											
SIZE	.161**	.146*	-0.117	.145*	-0.07	-0.08	.272**	-0.101	0.028	-0.059	-.162**	-0.047	1										
ROAA	0.033	.141*	-0.116	.249**	0.01	0.062	.173**	-0.02	.495**	0.061	.169**	-0.023	.126*	1									
ROAE	-0.066	.152*	-.211**	.274**	-0.049	-0.004	.214**	-0.06	.334**	0.01	0.054	-0.052	.216**	.758**	1								
ERQ	-0.002	.164**	-0.083	-0.03	-0.034	0.015	.267**	0.013	-0.044	0.023	0.002	0.014	.190**	0.07	.194**	1							
C2INC	-0.004	-0.054	.252**	-.242**	-0.009	-0.079	-.150*	.152*	-.146*	-0.032	0.016	0.062	-.136*	-.746**	-.617**	-0.078	1						
LEV	.124*	0.114	-.193**	.359**	-.148*	-0.046	0.041	-.197**	.329**	-0.007	0.107	.158*	0.064	.455**	.484**	0.031	-.405**	1					
CAR	-0.054	.138*	0.027	-.158*	0.12	.124*	-0.12	0.092	-.332**	-0.074	-0.06	-0.049	-0.067	-0.089	0.023	0.01	0.023	-.347**	1				
DBNDX	-0.062	0.063	0.065	-.166**	-0.048	0.12	0.065	0.089	-0.004	-0.008	0.018	.123*	.211**	-0.019	0.056	0.106	0.036	-0.078	-0.088	1			
REGQ	0.077	-0.026	0.031	-0.11	-0.051	0.082	-0.09	0.109	-0.003	-0.07	0.053	.241**	0.076	-0.076	0.014	-0.068	0.072	-0.06	-0.065	.766**	1		
PS	-0.019	-0.033	-0.027	0.056	0.027	-0.005	-0.006	-0.042	-0.033	0.091	0.058	0.039	0.074	0.051	0.014	0.068	-0.09	0.025	0.022	-0.049	-0.094	1	
GDP	0.004	0.095	0.11	-.179**	0.031	0.002	0.052	.197**	-0.049	0.058	-0.076	0.01	-0.018	-0.065	-0.042	0.018	0.07	-.127*	0.032	.414**	.416**	0.051	1

**. Correlation is significant at the 0.01 level (2-tailed). *. Correlation is significant at the 0.05 level (2-tailed).

DISCORE; Disclosure score, **BDSIZE** Board Size, **BDIND** Board Independence, **BDMEET** Board Meeting Frequency, **CDUAL** CEO Role Duality, **BDDIV** Board Diversity, **ACSIZE** Audit Committee Size, **ACIND**, Audit Committee Independence, **ACMEET** Audit Committee Meeting Frequency, **ACEXP** Audit Committee Financial Expertise, **IAEXST** Internal Audit Existence, **IAIND** Internal Audit Independence, **SIZE** Natural Logarithm of Bank Assets**, ROAA** Return on Average Assets, **ROAE** Return on Average Equity, **EARQ** Earnings Quality, **C2INC** Cost to Income Ratio, **LEV** Leverage, **CAR** Capital Adequacy Ratio, **DBNDX** Ease of Doing Business Index, **REGQ** Regulatory Quality, **PS** Political Stability, **GDPG** GDP Growth Rate,.

Table 5.18 illustrates the results for the Spearman's correlation test to determine the association between the corporate governance dimensions and disclosure for both conventional and Islamic banks included in the study. As shown in the table, the correlation test indicates that board size and independence have a significant and positive correlation with the extent of disclosure. Audit committee size, independence and financial expertise are all found to be significantly and positively associated with disclosure. Aside from the audit committee-related characteristics, the existence of an internal audit has a positive association with the extent of disclosure, while the independence of the internal audit function is significantly and positively associated with the extent of disclosure. The result of the Spearman's correlation analysis for the corporate governance variables is generally consistent with the hypotheses and research questions developed for the current study both in terms of the significance and direction of the correlation. The remaining corporate governance dimensions do not show any significant association with disclosure.

With regard to the control variables, the Spearman correlation analysis shows that leverage is significantly and positively associated with disclosure. Additionally, the CAR is found to be negatively associated with the extent of disclosure. The other control variables do not have any significant relationship with the extent of disclosure.

Table 5.18

Spearman's Correlation of Corporate Governance Characteristics & Disclosure for Conventional & Islamic Banks

	DISCORE	BDSIZE	BDIND	BDMEET	CDUO	BDDIV	ACSIZE	ACIND	ACMEET	ACEXP	IAEXIST	IAIND	SIZE	ROAA	ROAE	EARQ	C2INC	LEV	CAR	BINDX	REGQ	PS	GDP
DISCORE	1																						
BDSIZE	.201**	1																					
BDIND	.237**	.205**	1																				
BDMEET	0.095	-0.016	-.184**	1																			
CDUO	-0.01	-.161**	-0.056	-.159*	1																		
BDDIV	0.114	.257**	0.017	0.082	-0.035	1																	
ACSIZE	.233**	.408**	.122*	0.054	-.157*	.141*	1																
ACIND	.209**	.168**	.347**	-.264**	0.027	-0.05	0.019	1															
ACMEET	0.096	0.055	0.039	.219**	0.028	-0.01	0.052	-0.048	1														
ACEXP	.160**	-0.002	.212**	-0.054	0.112	-0.05	0.082	.301**	-0.019	1													
IAEXIST	.146*	-0.11	0.066	-0.019	0.033	0.074	-0.065	0.022	.150*	0.068	1												
IAIND	.337**	0.095	-0.069	0.011	0.105	0.057	-0.013	-0.028	0.063	-0.025	.317**	1											
SIZE	0.079	.140*	-.179**	.267**	-.204**	-.127*	.363**	-0.096	.140*	-0.027	-.124*	-0.1	1										
ROA	-0.114	.234**	-.153*	0.003	-0.03	-0.01	.256**	0.097	0.083	0.038	-0.061	-.133*	.564**	1									
ROE	-0.056	.165**	-.210**	.188**	-0.12	-0.04	.217**	-0.01	.144*	0.001	-0.013	-0.04	.615**	.880**	1								
EARQ	0.028	.148*	-0.072	-0.012	-0.045	0.013	.253**	0.01	-0.038	0.012	0.006	-0.01	.349**	.305**	.293**	1							
C2INC	-0.017	-.160**	.336**	-.139*	-0.074	-0.04	-.192**	.198**	-.158*	0.076	0.032	-0.03	-.537**	-.627**	-.598**	-.253**	1						
LEV	.150*	0.053	-.174**	.336**	-.149*	-0.06	-0.066	-.232**	.201**	-0.037	0.112	.256**	.133*	-0.093	.227**	0.009	-0.029	1					
CAR	-.133*	0.07	0.057	-.170**	.149*	0.014	-0.042	0.102	-.201**	0.11	-0.034	-0.12	-0.074	.126*	-0.053	0.057	-0.059	-.378**	1				
DBINDX	0.082	0.096	0.102	-.251**	-0.031	0.086	0.045	.220**	-0.035	0.013	-0.023	0.111	-0.078	.182**	.132*	0.065	0	-.124*	-.294**	1			
REGQ	0.12	-0.043	-0.009	-0.068	-0.059	0.084	-0.09	0.04	0.026	-0.108	0.039	.233**	-0.05	.124*	.198**	-0.051	-0.1	0.025	-.290**	.708**	1		
PS	0.021	-0.029	-0.012	0.071	0.021	0.009	0.01	0.007	-0.023	.145*	0.055	-0.01	0.113	0.025	0.038	0.114	-0.064	0	0.052	-0.095	-0.04	1	
GDP	0.013	0.105	0.104	-.200**	0.018	0.004	0.039	.169**	-0.058	0.037	-0.078	0.053	-.178**	0.038	0.02	-0.069	0.097	-0.084	-0.092	.480**	.395**	0	1

**. Correlation is significant at the 0.01 level (2-tailed). *. Correlation is significant at the 0.05 level (2-tailed).

DISCORE Disclosure score, **BDSIZE** Board Size, **BDIND** Board Independence, **BDMEET** Board Meeting Frequency, **CDUAL** CEO Role Duality, **BDDIV** Board Diversity, **ACSIZE** Audit Committee Size, **ACIND**, Audit Committee Independence, **ACMEET** Audit Committee Meeting Frequency, **ACEXP** Audit Committee Financial Expertise, **IAEXST** Internal Audit Existence, **IAIND** Internal Audit Independence, **SIZE** Natural Logarithm of Bank Assets**, ROAA** Return on Average Assets, **ROAE** Return on Average Equity, **EARQ** Earnings Quality, **C2INC** Cost to Income Ratio, **LEV** Leverage, **CAR** Capital Adequacy Ratio, **DBNDX** Ease of Doing Business Index, **REGQ** Regulatory Quality, **PS** Political Stability, **GDPG** GDP Growth Rate

5.5.2. Association of Shariah Governance Dimensions and Disclosure (Specific to Islamic Banks)

This research considers several Shariah governance dimensions in line with prior studies, including SSB size, educational qualifications, financial expertise and the existence of internal and external Shariah audits. Pearson and Spearman's correlation testing is performed in order to analyse the association between the variables considered for the current study. The results of the correlation testing are summarized in Table 5.19 and 5.20.

Table 5.19 provides the Pearson correlation test results for the association of disclosure and Shariah governance dimensions along with the control variables considered for the current study. For the overall Shariah governance strength, the result shows that the Shariah governance strength score is significantly and positively associated with the extent of disclosure. For the individual Shariah governance dimensions, the Pearson correlation test indicates that there is a significant and positive relationship between the "SSB duties defined" dimension and the extent of disclosure. External Shariah audit existence is also significantly and positively associated with the extent of disclosure. There are no significant associations between the extent of disclosure and SSB size, financial expertise, educational qualification, and the existence of the internal Shariah audit function. The result of the Pearson correlation analysis for the Shariah governance variables is generally consistent with the hypotheses and research questions developed for the current study both in terms of the significance and direction of the correlation.

With regard to the control variables, the Pearson correlation analysis shows that bank size has a significant and negative association with disclosure. Additionally, return on average equity is found to be significantly and negatively associated with the extent of disclosure. The other control variables do not have any significant relationship with the extent of disclosure.

Table 5.19
Pearson Correlation of Shariah governance dimensions and the extent of disclosure for Islamic Banks

	DISCORE	SSBGOV	SSBSIZE	SSBEXP	SSBEDU	SSBDD	SSBMEET	ISAUD	ESAUD	SIZE	ROAA	ROAE	EQQ	C2INC	LEV	CAR	DBNDX	REGQ	PS	GDP
DISCORE	1																			
SSBGOV	.219*	1																		
SSBSIZE	-0.067	.692**	1																	
SSBEXP	0.091	.602**	.318**	1																
SSBEDU	0.013	.241**	0.11	.209*	1															
SSBDD	.253**	.568**	0.153	.234**	-0.05	1														
SSBMEET	0.156	.306**	.314**	-.309**	-.218*	0.105	1													
ISAUD	0.128	.552**	.196*	0.102	-0.064	.781**	0.134	1												
ESAUD	.255**	.179*	-.287**	0.092	-0.011	0.078	-.196*	0.1	1											
SIZE	-.229*	0.145	.500**	-.354**	0.063	0.052	.347**	0.114	-.289**	1										
ROAA	-0.029	0.003	.225*	-.226*	-0.047	-0.078	0.128	-0.065	-0.007	.292**	1									
ROAE	-.271**	-0.028	.369**	-.288**	-0.006	-0.159	0.134	-0.085	-.199*	.531**	.767**	1								
EQQ	-0.129	0.167	.330**	0.092	.184*	0.089	0.11	0.052	-.405**	.360**	0.006	0.118	1							
C2INC	0.071	0.037	-.186*	.226*	0.056	0.076	-0.124	0.041	0.092	-.287**	-.736**	-.623**	-0.02	1						
LEV	0.087	0.015	.262**	-.204*	-0.015	-0.052	.270**	-.205*	-0.158	.218*	.498**	.527**	0.05	-.426**	1					
CAR	-0.071	-0.016	-0.128	0.021	0.027	0.045	-0.011	0.076	0.011	-0.084	-0.087	0.032	0.002	-0.005	-.347**	1				
DBNDX	-0.126	.287**	.240**	.574**	.222*	0.025	-.386**	-0.011	0.072	0.014	-0.075	0.039	0.139	0.097	-.185*	-0.067	1			
REGQ	0.019	0.067	-0.007	.458**	.256**	-0.158	-.432**	-.198*	0.138	-0.161	-0.142	-0.032	-0.081	0.144	-.232**	-0.031	.753**	1		
PS	-0.023	0.04	0.079	-0.005	-0.006	0.045	0.07	0.019	-0.094	0.094	0.079	0.046	-0.013	-0.128	0.038	0.037	-0.127	-0.141	1	
GDP	-0.014	0.14	0.069	.366**	.193*	0.018	-.287**	-0.061	0.075	-0.143	-0.111	-0.115	0.051	0.106	-.231**	0.06	.454**	.426**	0.057	1

** Correlation is significant at the 0.01 level. * Correlation is significant at the 0.05 level.

DISCORE Disclosure score, **SSBGOV** Shariah governance strength score, **SSBSIZE** the total number of Shariah **SSBEXP** the number of Shariah board members with financial expertise **SSBEDU** the number of shariah board members with a PhD, **SSBDD** dummy variable for having defined duties for the Shariah board, **SSBMEET** the total number of Shariah board meetings during the year. **ISAUD** dummy for the existence of internal Shariah audit unit. **ESAUD** dummy for the performance of external Shariah audit, **SIZE** Natural Logarithm of Bank Assets**, ROAA** Return on Average Assets, **ROAE** Return on Average Equity, **EARQ** Earnings Quality ratio, **C2INC** Cost to income ratio, **LEV** Leverage, **CAR** Capital Adequacy Ratio, **DBNDX** a World Bank index measuring the ease of doing business Index, **REGQ** An indicator of regulatory quality, **PS** Political stability indicator, **GDPG** GDP growth rate

Table 5.20 provides the Spearman correlation test results for the association of disclosure and Shariah governance dimensions along with the control variables considered for the current study. For overall Shariah governance strength, the result shows that the Shariah governance strength score is significantly and positively associated with the extent of disclosure. For the individual Shariah governance dimensions, the results show that there is a significant and positive relationship between SSB financial expertise and the extent of disclosure by Islamic banks.

Moreover, the table shows that there is a significant and positive relationship between "SSB duties defined" and the extent of disclosure. External Shariah audit existence is also significantly and positively associated with the extent of disclosure. There are no significant associations between the extent of disclosure and SSB size, SSB duties, educational qualification, and the existence of the internal Shariah audit function. The result of Spearman's correlation analysis for the Shariah governance variables is generally consistent with the hypotheses and research questions developed for the current study both in terms of the significance and direction of the correlation.

With regard to the control variables, the Spearman's correlation analysis shows that bank size has a significant and negative association with disclosure. Additionally, both return on average equity and return on average assets are found to be significantly and negatively associated with the extent of disclosure. Cost-to-income ratio and leverage are positively associated with the extent of disclosure, while the CAR is negatively associated with the extent of disclosure. The other control variables do not have any significant relationship with the extent of disclosure.

Table 5.20
Spearman's Correlation of Shariah governance dimensions and the extent of disclosure for Islamic Banks

	DISCORE	SSBGOV	SSBSIZE	SSBEXP	SSBEDU	SSBDD	SSBMEET	ISAUD	ESAUD	SIZE	ROAA	ROAE	EARQ	C2INC	LEV	CAR	DBNDX	REGQ	PS	GDP
DISCORE	1																			
SSBGOV	.328**	1																		
SSBSIZE	0.122	.768**	1																	
SSBEXP	.214**	.609**	.318**	1																
SSBEDU	0.046	.256**	0.11	.209**	1															
SSBDD	.286**	.355**	.153*	.234**	-0.05	1														
SSBMEET	0.131	.295**	.314**	-.309**	-.218**	0.105	1													
ISAUD	0.14	.401**	.196*	0.102	-0.064	.781**	0.134	1												
ESAUD	.292**	.185*	-.287**	0.092	-0.011	0.078	-.196*	0.1	1											
SIZE	-.197*	0.074	.499**	-.404**	0.018	-0.021	.253**	0.061	-.382**	1										
ROAA	-.405**	-0.04	.267**	-.237**	0.095	-.203*	-0.002	-0.057	-.308**	.682**	1									
ROAE	-.341**	0.028	.397**	-.264**	0.079	-.199*	0.073	-0.056	-.348**	.819**	.887**	1								
EARQ	-0.123	.172*	.319**	0.094	.181*	0.094	0.106	0.058	-.378**	.316**	.254**	.255**	1							
C2INC	.224**	0.136	-.182*	.378**	0.012	.160*	-0.107	0.014	.344**	-.657**	-.750**	-.712**	-0.145	1						
LEV	.173*	0.032	.211**	-.192*	0.047	-0.026	.285**	-.177*	-.192*	.402**	0.049	.306**	0.054	-0.107	1					
CAR	-.201*	-0.101	-.150*	-0.123	0.006	0.077	0.101	.169*	-0.097	-0.127	0.05	-0.135	0.037	-0.072	-.412**	1				
DBNDX	0.09	.290**	.158*	.600**	.249**	0.012	-.400**	-0.039	0.098	-.178*	0.087	0.04	0.109	0.108	-.234**	-.279**	1			
REGQ	0.062	0.068	0.005	.374**	.229**	-.187*	-.400**	-.220**	0.1	-0.127	0.096	0.146	-0.095	0.005	-.203*	-.178*	.659**	1		
PS	-0.016	0.08	0.131	0.036	0.031	0.039	0.032	0.009	-0.066	0.129	0.007	0.05	-0.014	-0.064	0.005	0.093	-.206*	-0.099	1	
GDP	0.049	0.143	0.029	.367**	.204*	0.027	-.242**	-0.071	0.068	-.287**	-0.128	-0.142	-0.01	.196*	-.224**	0.006	.511**	.416**	0.009	1

** Correlation is significant at the 0.01 level. * Correlation is significant at the 0.05 level.

DISCORE Disclosure score **, SSBGOV** Shariah governance strength score, **SSBSIZE** the total number of Shariah **SSBEXP** the number of Shariah board members with financial expertise **SSBEDU** the number of shariah board members with a PhD, **SSBDD** dummy variable for having defined duties for the Shariah board, **SSBMEET** the total number of Shariah board meetings during the year. **ISAUD** dummy for the existence of internal Shariah audit unit. **ESAUD** dummy for the performance of external Shariah audit, **SIZE** Natural Logarithm of Bank Assets**, ROAA** Return on Average Assets, **ROAE** Return on Average Equity, **EARQ** Earnings Quality ratio, **C2INC** Cost to income ratio, **LEV** Leverage, **CAR** Capital Adequacy Ratio, **DBNDX** a World Bank index measuring the ease of doing business Index, **REGQ** An indicator of regulatory quality, **PS** Political stability indicator, **GDPG** GDP growth rate

5.6. Conclusion

This chapter discusses in detail the descriptive and correlation statistics pertaining to the tests and analyses performed to establish the relationship and impact of corporate governance mechanisms on the extent of disclosure. The chapter provides a detailed analysis of the disclosure index by country, year and bank type. The chapter also discusses the descriptive statistics relevant to the Islamic and conventional banks in the sample and shows that overall, the former have lower averages disclosure scores than the latter. Finally, the chapter provides a detailed analysis of the Pearson and Spearman's correlation testing performed and presents the findings.

CHAPTER SIX

THE IMPACT OF CORPORATE GOVERNANCE ON THE EXTENT OF DISCLOSURE PRACTICE FOR CONVENTIONAL AND ISLAMIC BANKS - INFERENTIAL ANALYSIS

6.1. Introduction

The previous chapter presented the descriptive statistics for the variables of interest for the current study. The chapter provided an overview of the sample bank profiles and analyses the disclosure index. Moreover, the chapter discussed in detail the descriptive statistics for the study variables and presents the results of the correlation analysis, shedding light on the intercorrelations found among the study variables. This chapter tests the hypotheses and presents the results and findings of the current study. The chapter starts by providing an overview of the inferential analyses. It then presents the results of the OLS regression analysis and provides a detailed account of the results. The chapter also discusses the results of the OLS regression analysis with robust standard errors testing performed. The chapter then presents the results of PLS-SEM analysis. The chapter concludes with a summary of the main points discussed.

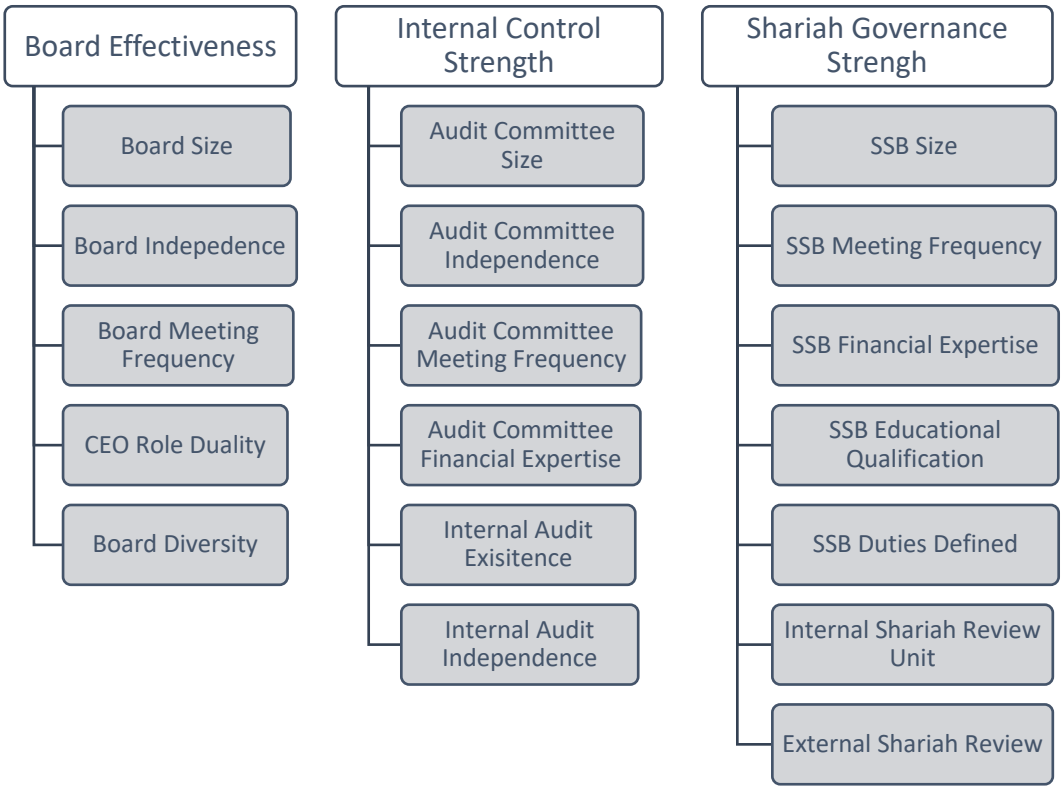
6.2. Hypothesis testing

A hierarchical multiple regression analysis was conducted to test the hypotheses developed for the current study. The study examines three main hypotheses under three thematic areas related to board effectiveness, internal control strength and Shariah governance strength. Additional sub-hypotheses are developed to test the individual dimensions within each of the three thematic governance areas to examine their impact on the disclosure index of conventional and Islamic banks while taking the control variables' effects into consideration. These individual dimensions

within the three governance thematic areas are listed in Figure 6.1. Several control variables at the bank and country levels, which prior studies have consistently associated with disclosure, are considered along with the corporate governance dimensions of interest. These control variables include size, profitability (ROAA, ROAE), leverage, efficiency (C2INC), regulatory quality, political stability score and GDP growth rate. Multiple regression models were run to examine the hypotheses and address the research questions.

The current study first conducts an OLS regression analysis to test the main hypotheses and the sub-hypotheses. The use of OLS regression analysis as the main regression model is deemed appropriate for the study given the religious, political and cultural homogeneity and geographic proximity of the GCC countries. Furthermore, the economies, capital markets, and regulatory environments of the GCC countries have many similarities (Shehata, 2017; Tessema, 2019). To validate the robustness and fit of the regression model, additional inferential analyses are performed. OLS regression analysis with robust standard errors is undertaken to confirm the consistency of the main OLS regression results. Additionally, PLS-SEM analysis is employed using SmartPLS software to attest the robustness of the regression results and ascertain the consistency of the findings (Hair et al., 2017; Sarstedt et al., 2021). The results of the OLS regression analysis with robust standard errors and the PLS-SEM analyses are discussed in Section 6.4 and 6.5, respectively.

Figure 6.1
Corporate Governance Thematic Areas and their Individual Dimensions.



6.3. OLS regression analysis

The current study proposes three main hypotheses and several sub-hypotheses as discussed in Chapter Three. OLS regression analysis is employed to test the main and sub-hypotheses and determine the impact of 1) board effectiveness, 2) internal control strength, 3) and Shariah Governance[29] on the extent of disclosure for Islamic and conventional banks. Individual dimensions within each of the three thematic areas are further analysed and tested to determine their impact on the extent of disclosure. Multiple regression models are run to examine the

[29] The results of the Shariah governance inferential analysis are discussed in Chapter Seven.

hypotheses and address the research questions. The results of the regression test are exhibited in Table 6.2.

6.3.1. Multicollinearity Test

Multicollinearity is concerned with the presence of a high correlation between independent variables, the presence of which is considered to cause model to be less reliable in predicting the effect of the individual variables (Chatterjee and Yilmaz, 1992). A variance inflation factor (VIF) and tolerance level are calculated using SPSS to test the multicollinearity and ensure that the VIF is within the tolerance levels suggested by prior studies (Chatterjee and Yilmaz, 1992; Field, 2009). To be acceptable, the VIF should be less than 5. Table 6.1 provides a summary of the multicollinearity tests run for the linear regression model.

Table 7.1 shows that the highest VIF is 3.099 while the lowest is 1.072 and the mean is 1.642. On the other hand, Table 6.1 indicates that the lowest tolerance is 0.3230. Therefore, the result confirms that the variables do not have a multicollinearity problem.

Table 6.1
Variance Inflation Factor (VIF) for Corporate Governance Variables

Independent Variable	Tolerance	VIF	Control Variable	Tolerance	VIF
BDSIZE	0.6110	1.636	SIZE	0.7430	1.345
BDIND	0.6690	1.496	ROAE	0.3980	2.511
BDMEET	0.7080	1.412	EARQ	0.8200	1.219
CDUAL	0.8380	1.193	C2INC	0.5420	1.846
BDDIV	0.7920	1.263	LEV	0.4970	2.014
ACSIZE	0.6000	1.666	CAR	0.6190	1.616
ACIND	0.7150	1.399	DBNDX	0.3360	2.98
ACMEET	0.6910	1.447	REGQ	0.3230	3.099
ACEXP	0.8100	1.234	PS	0.9330	1.072
IAEXST	0.7910	1.264	GDP	0.7260	1.377
IAIND	0.7200	1.388			

Mean VIF 1.642

BDSIZE Board Size, **BDIND** Board Independence, **BDMEET** Board Meeting Frequency, **CDUAL** CEO Role Duality, **BDDIV** Board Diversity, **ACSIZE** Audit Committee Size, **ACIND**, Audit Committee Independence, **ACMEET** Audit Committee Meeting Frequency, **ACEXP** Audit Committee Financial Expertise, **IAEXST** Internal Audit Existence, **IAIND** Internal Audit Independence, **SIZE** Natural Logarithm of Bank Assets**, ROAA** Return on Average Assets, **ROAE** Return on Average Equity, **EARQ** Earnings Quality, **C2INC** Cost to Income Ratio, **LEV** Leverage, **CAR** Capital Adequacy Ratio, **DBNDX** Ease of Doing Business Index, **REGQ** Regulatory Quality, **PS** Political Stability, **GDPG** GDP Growth Rate.

6.3.2. OLS Regression Analysis for the Impact of Corporate Governance Dimensions on Disclosure for Conventional and Islamic Banks

OLS regression analysis is conducted to examine the impact of corporate governance dimensions on the extent of disclosure. Six models are developed and tested, with the first three models focusing on the three main corporate governance dimensions and the remaining three covering the individual variables related to the main corporate governance dimensions. Model (1) tests the impact of the board effectiveness dimension, along with the control variables, on the extent of disclosure. Model (2) tests the impact of the internal control strength dimension on the extent of disclosure. Model (3) tests the effect of board effectiveness and internal control

dimensions on the extent of disclosure. Model (4) tests the effect of the individual variables related to the board effectiveness dimension on the extent of disclosure. Model (5) tests the individual variables pertaining to the internal control strength dimension on the extent of disclosure. Finally, Model (6) tests all individual corporate governance variables considered for the current study. Table 6.2 summarizes the results of the OLS regression analysis performed for the study.

Table 6.2
OLS Regression Analysis for Impact of Corporate Governance Dimensions on Disclosure for Conventional & Islamic Banks

Predictive Variables	Model (1) Beta(t)	Model (2) Beta(t)	Model (3) Beta(t)	Model (4) Beta(t)	Model (5) Beta(t)	Model (6) Beta(t)
BDEFFCT	.279***		.156***			
	(4.856)		(2.863)			
ICSTRENGTH		.464***	.416***			
		(8.619)	(7.471)			
BDSIZE				.133**		.020
				(2.092)		(.315)
BDIND				.278***		.230***
				(4.467)		(3.732)
BDMEET				.029		.045
				(.450)		(.757)
CDUAL				.144**		.093*
				(2.487)		(1.696)
BDDIV				.042		.040
				(.689)		(.708)
ACSIZE					.252***	.191***
					(4.206)	(2.939)
ACIND					.124**	.079
					(2.124)	(1.318)
ACMEET					.011	-.032
					(.151)	(-.462)
ACEXP					.166***	.135**
					(2.935)	(2.420)
IAEXST					.005	-.007
					(.088)	(-.115)
IAIND					.277***	.285***
					(4.712)	(4.810)
SIZE	.215***	.245***	.239***	.221***	.213***	.224***
	(3.552)	(4.404)	(4.365)	(3.584)	(3.648)	(3.841)
ROAE	-.362***	-.362***	-.341***	-.339***	-.378***	-.321***
	(-3.770)	(-4.113)	(-3.920)	(-3.526)	(-4.151)	(-3.528)
ROAA	.184*	.076	.042	.143	.174	.137
	(1.729)	(.772)	(.426)	(1.356)	(1.475)	(1.178)
EARQ	.046	-.008	-.004	.042	-.024	-.008
	(.764)	(-.140)	(-.069)	(.704)	(-.418)	(-.142)
C2INC	.049	-.026	-.043	.015	.033	.009
	(.572)	(-.324)	(-.543)	(.173)	(.367)	(.096)
LEV	.191***	.260***	.238***	.243***	.208***	.216***
	(2.660)	(3.958)	(3.642)	(3.281)	(2.975)	(3.015)
CAR	.033	.109*	.078	.041	.113*	.080
	(.520)	(1.885)	(1.349)	(.641)	(1.799)	(1.244)
DBNDX	-.395***	-.372***	-.389***	-.408***	-.376***	-.393***
	(-4.242)	(-4.371)	(-4.626)	(-4.358)	(-4.300)	(-4.520)
REGQ	.378***	.338***	.355***	.390***	.321***	.322***
	(4.119)	(4.027)	(4.282)	(4.295)	(3.520)	(3.602)
PS	-.029	-.041	-.037	-.026	-.051	-.053
	(-.517)	(-.783)	(-.723)	(-.464)	(-.951)	(-1.016)
GDP	.024	-.024	-.025	.001	.003	.003
	(.379)	(-.414)	(-.438)	(.008)	(.050)	(.047)
IBDUMMY	-.149**	-.183***	-.171***	-.225***	-.147**	-.197***
	(-2.470)	(-3.303)	(-3.115)	(-3.523)	(-2.487)	(-3.197)
Constant	.866***	.722***	.736***	.827***	.811***	.860***
	(8.178)	(7.320)	(7.562)	(7.528)	(6.758)	(7.066)
Adjusted R^2	.207	.333	.351	.229	.309	.343
F Statistics	6.199	10.924	3.396	5.523	7.422	6.886
Number of Observations	260	260	260	260	260	260

***p<0.01, **p<0.05, *p<0.1

BDEFFCT Board Effectiveness Index**, ICSTRENGTH** Internal Control Strength Index, **BDSIZE** Board Size, **BDIND** Board Independence, **BDMEET** Board Meeting Frequency, **CDUAL** CEO Role Duality, **BDDIV** Board Diversity, **ACSIZE** Audit Committee Size, **ACIND**, Audit Committee Independence, **ACMEET** Audit Committee Meeting Frequency, **ACEXP** Audit Committee Financial Expertise, **IAEXST** Internal Audit Existence, **IAIND** Internal Audit Independence, **SIZE** Natural Logarithm of Bank Assets**, ROAA** Return on Average Assets, **ROAE** Return on Average Equity, **EARQ** Earnings Quality, **C2INC** Cost to Income Ratio, **LEV** Leverage, **CAR** Capital Adequacy Ratio, **DBNDX** Ease of Doing Business Index, **REGQ** Regulatory Quality, **PS** Political Stability, **GDP** GDP Growth Rate, **IBDUMMY** Islamic Banks Dummy Number.

Model (1) tests the impact of the board's effectiveness on the extent of disclosure. Board effectiveness is an index, which is comprised of several board-related dimensions, such as board size, independence and meeting frequency, CEO role duality and board diversity. As demonstrated in Table 6.2, the adjusted R^2 for the model is 0.207, which suggests that the board effectiveness (BDEFFCT) along with the control variables explain 20.7% of the variance in the disclosure. The model for these dimensions was significant ($F = 6.199$, $p < 0.01$). The results also indicated that board effectiveness (BDEFFCT) had a significant positive impact ($\beta = 0.279$, $t = 4.856$, $p < 0.01$) on the dependent variable (disclosure score). The significant impact of board effectiveness indicates that boards with a higher level of effectiveness (i.e., a higher number of independent board members with more frequent meetings and more diversity) contribute to greater transparency and disclosure in the banks. The findings provide evidence which supports the hypothesis related to board effectiveness. Several control variables show a significant impact on the extent of disclosure.

With regards to the firm-level control variables, the result shows that bank size (SIZE) has a significant positive impact ($\beta = 0.215$, $t = 3.552$, $p < 0.01$) on the extent of disclosure. ROAA also has a marginally significant positive impact ($\beta = 0.184$, $t = 1.729$, $p < 0.10$), while return on average equity (ROAE) has a significant negative impact ($\beta = -0.362$, $t = -3.770$, $p < 0.01$) on the extent of disclosure. It is also noted that leverage (LEV) has a statistically significant positive association ($\beta = 0.191$, $t = 2.660$, $p < 0.01$) with the extent of disclosure. For the macro-level control variables, the result indicates that the ease of doing business index (DBNDX) has a significant negative impact ($\beta = -0.395$, $t = -4.242$, $p < 0.01$) on the extent of disclosure, while regulatory quality (REGQ) has a significant positive impact ($\beta = 0.378$, $t = 4.119$, $p < 0.01$) on the extent of disclosure. The result also shows that the Islamic bank dummy (IBDUMMY) variable

has a significant negative impact ($\beta = -0.149$, $t = -2.470$, $p < 0.05$) on the extent of disclosure. This suggests that conventional banks have significantly higher disclosures when compared to their Islamic bank counterparts. No significant impact is detected for the remaining control variables.

Model (2) presents the results of the regression analysis for the internal control strength dimension along with the control variables. The internal control strength dimension is a self-developed index which comprises audit committee characteristics (size, independence, financial expertise, etc.) and the existence and independence of the internal audit function (IAF). As demonstrated in Table 6.2, the adjusted R^2 for the model is 0.333, which suggests that the internal control strength (ICSTRENGHT) dimension along with the control variables in the model explain about 33.3% of the variance in disclosure. The model for the internal control dimension is significant ($F = 10.924$, $p < 0.01$). The result indicates that the internal control strength dimension (ICSTRENGHT) has a significant and positive impact ($\beta = 0.464$, $t = 8.619$, $p < 0.01$) on the extent of disclosure. Accordingly, the internal control strength hypothesis is supported.

For the firm-level control variables, the results show that bank size has a significant positive impact ($\beta = 0.245$, $t = 4.404$, $p < 0.01$) on the extent of disclosure. On the other hand, return on average equity has a significant negative impact ($\beta = -0.362$, $t = -4.9113$, $p < 0.01$) on the extent of disclosure, while no significant association is found between return on average assets and the extent of disclosure. Leverage also has a statistically significant positive association ($\beta = 0.260$, $t = 3.958$, $p < 0.01$) with the extent of disclosure.

For the macro-level control variables, the result indicates that the World Bank index for ease of doing business has a significant negative impact ($\beta = -0.372$, $t = -4.371$ $p < 0.01$) on the

extent of disclosure, while regulatory quality has a significant positive impact ($\beta = 0.338$, $t = 4.027$, $p < 0.01$) on the extent of disclosure. This seems to suggest that countries with easier and more efficient business requirements tend to have less disclosure. However, on the other hand, the result indicates that a stronger regulatory environment with robust and effective policies contributes to more transparency and higher disclosure. The result also shows that the Islamic bank dummy variable has a significant negative impact ($\beta = -0.183$, $t = -3.303$, $p < 0.01$) on the extent of disclosure. This suggests that conventional banks have significantly higher disclosures when compared to their Islamic bank counterparts. No significant impact on disclosure is detected for the remaining control variables.

Model (3) presents the results of the regression analysis for board effectiveness and internal control strength along with the control variables. As demonstrated in Table 6.2, the adjusted R^2 for the model is 0.351, which suggests that the board effectiveness and internal control dimensions along with the control variables in the model explain 35.1% of the variance in disclosure. The model for these two dimensions is significant ($F = 3.396$, $p < 0.01$). The result indicates that both dimensions (board effectiveness and internal control strength) have a significant and positive impact ($\beta = 0.378$, $t = 4.119$, $p < 0.01$ and $\beta = 0.378$, $t = 4.119$, $p < 0.01$, respectively) on the extent of disclosure.

For the firm-level control variables, the results show that bank size has a significant positive impact ($\beta = 0.239$, $t = 4.365$, $p < 0.01$) on the extent of disclosure. On the other hand, return on average equity has a significant negative impact ($\beta = -0.341$, $t = -3.920$, $p < 0.01$) on the extent of disclosure, while no significant association is found between return on average assets and the extent of disclosure. Leverage also has a statistically significant positive association ($\beta = 0.238$, $t = 3.642$, $p < 0.01$) with the extent of disclosure.

For the macro-level control variables, the result indicates that the World Bank index for ease of doing business has a significant negative impact ($\beta = -0.389$, $t = -4.626$ $p < 0.01$) on the extent of disclosure, while regulatory quality has a significant positive impact ($\beta = 0.355$, $t = 4.282$, $p < 0.01$) on the extent of disclosure. This seems to suggest that countries with easier and more efficient business requirements tend to have less disclosure. However, the result indicates that a stronger regulatory environment with robust and effective policies contributes to more transparency and higher disclosure. The result also shows that the Islamic bank dummy variable has a significant negative impact ($\beta = -0.171$, $t = -3.115$, $p < 0.01$) on the extent of disclosure. This suggests that conventional banks have significantly higher disclosures when compared to their Islamic bank counterparts. No significant impact on disclosure is detected for the remaining control variables.

Model (4) presents the results of the regression analysis for the individual variables within the board effectiveness dimension along with the control variables. As demonstrated in Table 6.2, the adjusted R^2 for the model is 0.229, which suggests that the board effectiveness subdimensions along with the control variables in the model explain 22.9% of the variance in disclosure. The model for the board effectiveness subdimensions is significant ($F = 5.523$, $p < 0.01$). The result indicates that board size (BDSIZE) has a positive and significant impact ($\beta = 0.133$, $t = 2.092$, $p < 0.05$) on the extent of disclosure. Board independence (BDIND) also has a positive significant impact ($\beta = 0.278$, $t = 4.467$, $p < 0.01$) on the extent of disclosure. CEO role duality (CDUAL) is found to be significantly and positively associated with the extent of disclosure ($\beta = 0.144$, $t = 2.487$, $p < 0.01$). On the other hand, board meeting frequency (BDMEET) and board diversity (BDDIV) were found to have no impact on the extent of disclosure. This suggests that more board meetings and diversity of the board members do not affect the level of disclosure by the bank.

For the firm-level control variables, the results show that bank size has a significant positive impact ($\beta = 0.221$, $t = 3.584$, $p < 0.01$) on the extent of disclosure. On the other hand, return on average equity has a significant negative impact ($\beta = -0.339$, $t = -3.526$, $p < 0.01$) on the extent of disclosure, while no significant association is found between return on average assets and the extent of disclosure. Leverage also has a statistically significant positive association ($\beta = 0.243$, $t = 3.281$, $p < 0.01$) with the extent of disclosure.

For the macro-level control variables, the result indicates that the World Bank index for ease of doing business has a significant negative impact ($\beta = -0.408$, $t = -4.358$ $p < 0.01$) on the extent of disclosure, while regulatory quality has a significant positive impact ($\beta = 0.390$, $t = 4.295$, $p < 0.01$) on the extent of disclosure. This seems to suggest that countries with easier and more efficient business requirements tend to have less disclosure. However, the result indicates that a stronger regulatory environment with robust and effective policies contributes to more transparency and higher disclosure. The result also shows that the Islamic bank dummy variable has a significant negative impact ($\beta = -0.225$, $t = -3.523$, $p < 0.01$) on the extent of disclosure. This suggests that conventional banks have significantly higher disclosures when compared to their Islamic bank counterparts. No significant impact on disclosure is detected for the remaining control variables.

Model (5) presents the results of the regression analysis for the individual variables within the internal control strength dimension along with the control variables. As demonstrated in Table 6.2, the adjusted R^2 for the model is 0.309, indicating that the board effectiveness subdimensions along with the control variables in the model explain 30.9% of the variance in disclosure. The model for the internal control strength subdimensions is significant ($F = 7.422$, $p < 0.01$). The result indicates that audit committee size has a positive and significant impact ($\beta = 0.252$, $t =$

4.206, $p < 0.01$) on the extent of disclosure. Audit committee independence also has a positive significant impact ($\beta = 0.124$, $t = 2.124$, $p < 0.05$) on the extent of disclosure. Audit committee financial expertise is also found to be significantly and positively associated ($\beta = 0.166$, $t = 2.935$, $p < 0.01$) with the extent of disclosure. Moreover, the result indicates that internal audit independence has a positive significant impact ($\beta = 0.277$, $t = 4.712$, $p < 0.01$) on the extent of disclosure. Unexpectedly, audit committee meeting frequency and internal audit existence were found to have no impact on the extent of disclosure. This suggests that more audit committee meetings and the existence of IAFs do not affect the level of disclosure by the bank.

For the firm-level control variables, the result shows that bank size has a significant positive impact ($\beta = 0.213$, $t = 3.648$, $p < 0.01$) on the extent of disclosure. On the other hand, return on average equity has a significant negative impact ($\beta = -0.378$, $t = -4.151$, $p < 0.01$) on the extent of disclosure, while no significant association is found between return on average assets and the extent of disclosure. Leverage also has a statistically significant positive association ($\beta = 0.208$, $t = 2.975$, $p < 0.01$) with the extent of disclosure.

For the macro-level control variables, the result indicates that both the World Bank index for ease of doing business and regulatory quality have a significant negative impact ($\beta = -0.051$, $t = -0.951$, $p < 0.01$; $\beta = -0.376$, $t = -4.300$, $p < 0.01$, respectively) on the extent of disclosure. The result also shows that the Islamic bank dummy variable has a significant negative impact ($\beta = -0.225$, $t = -3.523$, $p < 0.01$) on the extent of disclosure. Consistent with findings in prior studies, this suggests Islamic banks are lagging in their disclosure practices and that conventional banks have significantly higher disclosure when compared to their Islamic bank counterparts. No significant impact on disclosure is detected for the remaining control variables.

Model (6) presents the results of the regression analysis for all the individual corporate governance variables within the model along with the control variables. The results in Table 6.2 show that the adjusted R^2 for the model is 0.343, which suggests that the corporate governance-related variables along with the control variables in the model explain 34.3% of the variance in disclosure. The model for the individual corporate governance variables is significant ($F = 6.886$, $p < 0.01$). The result indicates that board independence also has a positive significant impact ($\beta = 0.230$, $t = 3.732$, $p < 0.01$) on the extent of disclosure. CEO role duality has a marginally positive association ($\beta = 0.093$, $t = 1.696$, $p < 0.10$) with the extent of disclosure. The result also indicates that audit committee size has a positive and significant impact ($\beta = 0.191$, $t = 2.939$, $p < 0.01$) on the extent of disclosure. Audit committee financial expertise also has a significant and positive impact ($\beta = 0.135$, $t = 2.420$, $p < 0.01$) on the extent of disclosure. Moreover, the result indicates that internal audit independence has a positive significant impact ($\beta = 0.285$, $t = 4.810$, $p < 0.01$) on the extent of disclosure.

For the firm-level control variables, the results show that bank size has a significant positive impact ($\beta = 0.224$, $t = 3.841$, $p < 0.01$) on the extent of disclosure. On the other hand, return on average equity has a significant negative impact ($\beta = -0.321$, $t = -3.528$, $p < 0.01$) on the extent of disclosure, while no significant association is found between return on average assets and the extent of disclosure. Leverage also has a statistically significant positive association ($\beta = 0.216$, $t = 3.015$, $p < 0.01$) with the extent of disclosure.

For the macro-level control variables, the result indicates that both the World Bank index for ease of doing business and regulatory quality have a significant negative impact ($\beta = -0.053$, $t = -1.016$, $p < 0.01$ and $\beta = -0.393$, $t = -4.520$, $p < 0.01$) on the extent of disclosure. The result also shows that the Islamic bank dummy variable has a significant negative impact ($\beta = -0.197$, t

= −3.3197, $p < 0.01$) on the extent of disclosure. This suggests that conventional banks have significantly higher disclosures when compared to their Islamic bank counterparts. No significant impact on disclosure is detected for the remaining control variables.

6.3.3. OLS Regression Analysis with Robust Standard Error

To further confirm the results of the main OLS regression analysis, the current study undertakes an OLS regression analysis with robust standard errors. The results of the OLS analysis with robust standard errors are presented in Table 6.3

Table 6.3
OLS Regression Analysis with Robust Standard Error for the Impact of Corporate Governance Dimensions on Disclosure for Conventional & Islamic Banks

Predictive Variables	Model (1) Beta(t)	Model (2) Beta(t)	Model (3) Beta(t)	Model (5) Beta(t)	Model (6) Beta(t)	Model (7) Beta(t)
BDEFFCT	.279***		.156***			
	(4.468)		(2.950)			
ICSTRENGTH		.464***	.416***			
		(7.674)	(7.192)			
BDSIZE				.133**		.020
				(2.032)		(.297)
BDIND				.278***		.230***
				(3.874)		(3.501)
BDMEET				.029		.045
				(.360)		(.661)
CDUAL				.144***		.093**
				(3.203)		(2.126)
BDDIV				.042		.040
				(.716)		(.758)
ACSIZE					.252***	.191***
					(4.564)	(3.444)
ACIND					.124**	.079
					(2.009)	(1.229)
ACMEET					.011	-.032
					(.136)	(-.439)
ACEXP					.166***	.135**
					(2.721)	(2.340)
IAEXST					.005	-.007
					(.121)	(-.136)
IAIND					.277***	.285***
					(3.984)	(4.038)
SIZE	.215***	.245***	.239***	.221***	.213***	.224***
	(4.052)	(4.601)	(4.448)	(4.048)	(3.997)	(4.102)
ROAE	-.362***	-.362***	-.341***	-.339***	-.378***	-.321***
	(-2.765)	(-3.359)	(-3.105)	(-2.809)	(-3.063)	(-2.698)
ROAA	.184**	.076	.042	.143**	.174	.137
	(2.345)	(.799)	(.477)	(2.205)	(1.295)	(1.093)
EARQ	.046	-.008	-.004	.042	-.024	-.008
	(.725)	(-.135)	(-.066)	(.677)	(-.392)	(-.134)
C2INC	.049	-.026	-.043	.015	.033	.009
	(.477)	(-.367)	(-.635)	(.156)	(.303)	(.084)
LEV	.191***	.260***	.238***	.243***	.208***	.216***
	(2.821)	(4.668)	(3.642)	(3.217)	(3.417)	(2.880)
CAR	.033	.109***	.078*	.041	.113*	.080
	(.741)	(2.783)	(1.936)	(.920)	(1.932)	(1.353)
DBNDX	-.395***	-.372***	-.389***	-.408***	-.376***	-.393***
	(-4.452)	(-3.577)	(-3.869)	(-3.723)	(-3.418)	(-3.641)
REGQ	.378***	.338***	.355***	.390***	.321***	.322***
	(4.090)	(3.875)	(4.281)	(4.131)	(3.544)	(3.725)
PS	-.029	-.041	-.037	-.026	-.051	-.053
	(-.495)	(-.748)	(-.701)	(-.441)	(-.891)	(-.972)
GDP	.024	-.024	-.025	.001	.003	.003
	(.394)	(-.432)	(-.458)	(.008)	(.051)	(.049)
IBDUMMY	-.149**	-.183***	-.171***	-.225***	-.147**	-.197***
	(-2.146)	(-2.880)	(-2.787)	(-3.126)	(-2.158)	(-2.740)
Constant	.866***	.722***	.736***	.827***	.811***	.860***
	(6.902)	(6.664)	(6.928)	(6.891)	(6.358)	(6.544)
Adjusted R^2	.207	.333	.351	.229	.309	.343
F Statistics	6.199	10.924	11.026	5.523	7.422	6.886
Number of Observations	260	260	260	260	260	260

***p<0.01, **p<0.05, *p<0.1

BDEFFCT Board Effectiveness Index**, ICSTRENGTH** Internal Control Strength Index, **BDSIZE** Board Size, **BDIND** Board Independence, **BDMEET** Board Meeting Frequency, **CDUAL** CEO Role Duality, **BDDIV** Board Diversity, **ACSIZE** Audit Committee Size, **ACIND**, Audit Committee Independence, **ACMEET** Audit Committee Meeting Frequency, **ACEXP** Audit Committee Financial Expertise, **IAEXST** Internal Audit Existence, **IAIND** Internal Audit Independence, **SIZE** Natural Logarithm

of Bank Assets**, ROAA** Return on Average Assets, **ROAE** Return on Average Equity, **EARQ** Earnings Quality, **C2INC** Cost to Income Ratio, **LEV** Leverage, **CAR** Capital Adequacy Ratio, **DBNDX** Ease of Doing Business Index, **REGQ** Regulatory Quality, **PS** Political Stability, **GDP** GDP Growth Rate, **IBDUMMY** Islamic Banks Dummy Number.

Table 6.3 presents the results of the OLS regression analysis with robust standard errors for the impact of corporate governance on the extent of disclosure. As shown in Table 6.3, the result of the OLS regression analysis with robust standard errors is generally consistent with the main OLS regression analysis, thus confirming and further attesting to the robustness of the findings. There are a few insignificant differences noted between the two models, as discussed below.

For Model (1), the result is consistent with the main OLS regression analysis for all variables both in terms of the significance of the findings and its direction, except for the return on average assets where the level of significance has changed from 10% to 5%. Model (2) results between the main OLS regression analysis and the OLS regression analysis with the robust errors show one difference in the level of significance for the control variables, where the level of significance for the impact of the CAR has increased from 10% to 1% after applying the robust standard error analysis. No other differences are noted, as the remaining variables are consistent with the main OLS regression analysis findings. Model (3) shows that the result of the OLS regression analysis with robust standard errors is consistent for all the variables, except for the CAR, where the model indicates that it has a marginally significant impact on the extent of disclosure. The remaining variables are the same and consistent with the main OLS regression analysis.

Model (4) shows that there is a change in the level of significance for CEO role duality ($p < 0.05$ under the main OLS regression analysis, whereas $p < 0.01$ under the OLS regression

analysis with robust standard errors). Moreover, return on average assets (ROAA) has a moderately significant impact on the extent of disclosure after applying the robust standard error analysis. Model (5) shows that there are no differences between the two analyses, and the result for all the variables is consistent with the main OLS regression analysis in terms of the level of significance of the impact and its direction. Model (6), which has all the individual variables in the study, shows few differences from the main OLS regression analysis. CEO role duality (CDUAL) has changed from being a marginally significant positive impact ($p < 0.10$) to a moderately significant positive impact ($p < 0.05$) after applying robust standard errors. Audit committee independence (ACIND) has changed from having a moderately significant positive impact ($p < 0.05$) to no impact after applying the robust standard errors. The remaining individual variables are all consistent with the main OLS regression analysis.

Based on the results of the OLS regression analysis with robust standard errors, it can be concluded that, other than the few insignificant differences discussed above, the result is consistent with the main OLS regression analysis. This confirms the robustness of the main regression analysis and validates the result of the analysis.

6.4. Partial Least Squares Structural Equation Modelling analysis

PLS-SEM analysis was performed to further validate and confirm the results of the main regression analysis and validate the hypotheses. As the purpose of PLS-SEM analysis is to support and validate the main OLS regression analysis, the focus of the analysis is to test the structural model by using bootstrapping techniques to determine the relationship and its significance among the variables of interest (Chin, 1998; Hair et al., 2017; Xu and Akhter, 2019; Sarstedt et al., 2021). Six models are constructed and analysed to test the main hypotheses and sub-hypotheses. These

models are run using SmartPLS software version # 3. Models (1) through (3) are concerned with testing the main hypotheses of the current study, while Models (4) through (6) are testing the sub-hypotheses. The results of the PLS-SEM analysis are summarized in Table 6.4. Moreover, Figure 6.2 through 6.15 provide results of the PLS-SEM analysis in the form of graphical images. The results of each of the models are discussed next.

Table 6.4
PLS-SEM Analysis for Impact of Corporate Governance Dimensions on Disclosure for Conventional & Islamic Banks

Predictive Variables	Model (1) Beta(t)	Model (2) Beta(t)	Model (3) Beta(t)	Model (4) Beta(t)	Model (5) Beta(t)	Model (6) Beta(t)
BDEFFCT	.279***		.156***			
	(4.658)		(2.935)			
ICSTRENGTH		.464***	.416***			
		(8.482)	(8.395)			
BDSIZE				.133**		.019
				(2.238)		(.303)
BDIND				.278***		.227***
				(4.049)		(3.542)
BDMEET				.029		.043
				(.391)		(.644)
CDUAL				.144***		.090**
				(3.113)		(2.172)
BDDIV				.042		.040
				(.744)		(.809)
ACSIZE					.252***	.193***
					(5.207)	(3.906)
ACIND					.123*	.082
					(1.833)	(1.182)
ACMEET					n/a	n/a
					n/a	n/a
ACEXP					.165***	.137**
					(2.963)	(2.485)
IAEXST					.005	-.006
					(.111)	(-.116)
IAIND					.277***	.285***
					(4.487)	(4.296)
SIZE	.215***	.245***	.239***	.221***	.213***	.225***
	(2.929)	(2.325)	(3.051)	(2.915)	(2.955)	(3.092)
ROAE	-.362***	-.362***	-.341***	-.339***	-.378***	-.322***
	(-2.874)	(-3.649)	(-3.338)	(-2.832)	(-3.313)	(-2.769)
ROAA	.184**	.076	.042	.143	.183*	.111
	(2.026)	(.863)	(.516)	(1.571)	(1.806)	(1.030)
EARQ	.046	-.008	-.004	.042	-.024	-.007
	(.748)	(-.143)	(-.068)	(.747)	(-.415)	(-.130)
C2INC	.049	-.026	-.043	.015	.039	.007
	(.509)	(-.326)	(-.569)	(.148)	(.416)	(.065)
LEV	.191***	.260***	.238***	.243***	.208***	.214***
	(3.020)	(4.803)	(4.255)	(3.292)	(3.414)	(3.075)
CAR	.033	.109***	.078**	.041	.110**	.088
	(.783)	(3.095)	(1.975)	(.924)	(2.226)	(1.751)
DBNDX	-.395***	-.372***	-.389***	-.408***	-.377***	-.392***
	(-3.896)	(-3.755)	(-4.231)	(-4.252)	(-3.639)	(-4.028)
REGQ	.378***	.338***	.355***	.390***	.321***	.321***
	(4.396)	(4.048)	(4.807)	(4.678)	(3.923)	(4.002)
PS	-.029	-.041	-.037	-.026	-.051	.052
	(-.489)	(-.777)	(-.711)	(-.469)	(-.916)	(1.018)
GDP	.024	-.024	-.025	.001	.003	.003
	(.382)	(-.435)	(-.453)	(.009)	(.053)	(.050)
IBDUMMY	-.149**	-.183***	-.171***	-.225***	-.147**	-.196***
	(-2.380)	(-3.228)	(-3.071)	(-3.461)	(-2.308)	(-2.855)
Adjusted R^2	.207	.333	.351	.229	.311	.345
Number of Observations	260	260	260	260	260	260

***p<0.01, **p<0.05, *p<0.1

BDEFFCT Board Effectiveness Index**, ICSTRENGTH** Internal Control Strength Index, **BDSIZE** Board Size, **BDIND** Board Independence, **BDMEET** Board Meeting Frequency, **CDUAL** CEO Role Duality, **BDDIV** Board Diversity, **ACSIZE** Audit Committee Size, **ACIND**, Audit

Committee Independence, **ACMEET** Audit Committee Meeting Frequency, **ACEXP** Audit Committee Financial Expertise, **IAEXST** Internal Audit Existence, **IAIND** Internal Audit Independence, **SIZE** Natural Logarithm of Bank Assets**, ROAA** Return on Average Assets, **ROAE** Return on Average Equity, **EARQ** Earnings Quality, **C2INC** Cost to Income Ratio, **LEV** Leverage, **CAR** Capital Adequacy Ratio, **DBNDX** Ease of Doing Business Index, **REGQ** Regulatory Quality, **PS** Political Stability, **GDP** GDP Growth Rate, **IBDUMMY** Islamic Banks Dummy Number.

Model (1) tests the impact of board effectiveness on the extent of disclosure, considering the control variables for the current study. Board effectiveness is a self-developed index, which is comprised of several board-related dimensions such as board size, independence and meeting frequency, CEO role duality, and board diversity. As demonstrated in Table 6.4, the board effectiveness (BDEFFCT) dimension along with the control variables explain 20.7% of the variance (Adj. $R^2 = 0.207$). The result indicates that board effectiveness has a significant positive impact ($\beta = 0.279$, $t = 4.658$, $p < 0.01$) on the dependent variable (disclosure score). The significant impact of board effectiveness indicates that boards with a higher level of effectiveness (i.e., a higher number of independent board members with more frequent meetings and more diversity) contribute to greater transparency and disclosure by the banks. The PLS-SEM findings confirm and are consistent with the results of the main regression analysis performed in the current study.

Several control variables show a significant impact on the extent of disclosure. With regard to the firm-level control variables, the results show that bank size has a significant positive impact ($\beta = 0.215$, $t = 2.929$, $p < 0.01$) on the extent of disclosure. Return on average assets has a moderately significant positive impact ($\beta = 0.184$, $t = 2.026$, $p < 0.05$) while return on average equity has a significant negative impact ($\beta = -0.362$, $t = -2.874$, $p < 0.01$) on the extent of disclosure. It is also noted that leverage has a statistically significant positive association ($\beta = 0.191$, $t = 3.020$, $p < 0.01$) with the extent of disclosure.

For the macro-level control variables, the result indicates that the ease of doing business index has a significant negative impact ($\beta = -0.395$, $t = -3.896$, $p < 0.01$) on the extent of disclosure while regulatory quality has a significant positive impact ($\beta = 0.378$, $t = 4.396$, $p < 0.01$) on the extent of disclosure. The result also shows that the Islamic bank dummy variable has a significant negative impact ($\beta = -0.149$, $t = -2.380$, $p < 0.05$) on the extent of disclosure. This suggests that conventional banks have significantly higher disclosure when compared to their Islamic bank counterparts. No significant impact is detected for the remaining control variables. Overall, it can be observed that the Model (1) result of the PLS-SEM analysis for both the explanatory and control variables is consistent with the OLS regression and validates the robustness of the findings of the main regression analysis.

Model (2) presents the result of the PLS-SEM analysis for the internal control strength dimension along with the control variables considered for the current study. Internal control strength is a self-developed index which is comprised of several related individual items such as audit committee size, independence, meeting frequency and financial expertise as well as the existence and independence of the IAF. As demonstrated in Table 6.4, the internal control strength (ICSTRENGTH) dimension along with the control variables explain 33.3% of the variance (Adj. $R^2 = 0.333$). Furthermore, the result indicates that ICSTRENGTH has a significant positive impact ($\beta = 0.464$, $t = 8.482$, $p < 0.01$) on the dependent variable (disclosure score). The findings are consistent with the OLS regression analysis for the internal control strength dimension. The significant impact of the internal control strength dimension indicates that banks with strong audit committees and independent IAFs are more transparent and provide greater disclosure. Several control variables show a significant impact on the extent of disclosure.

With regards to the firm-level control variables, the result shows that bank size has a significant positive impact ($\beta = 0.245$, $t = 2.325$, $p < 0.01$) on the extent of disclosure. Furthermore, return on average equity has a significant negative impact ($\beta = -0.362$, $t = -3.649$, $p < 0.01$) on the extent of disclosure. It is also noted that leverage has a statistically significant positive association ($\beta = 0.260$, $t = 4.803$, $p < 0.01$) with the extent of disclosure.

For the macro-level control variables, the result indicates that the CAR has a significant positive impact ($\beta = 0.109$, $t = 3.095$, $p < 0.01$) on the extent of disclosure. On the other hand, the ease of doing business index (DBINDX) has a significant negative impact ($\beta = -0.372$, $t = -3.755$, $p < 0.01$) on the extent of disclosure, while regulatory quality (REGQ) has a significant positive impact ($\beta = 0.338$, $t = 4.048$, $p < 0.01$) on the extent of disclosure. The result also shows that the Islamic bank dummy variable has a significant negative impact ($\beta = -0.183$, $t = -3.228$, $p < 0.01$) on the extent of disclosure. This suggests that conventional banks have significantly higher disclosure when compared to their Islamic bank counterparts. No significant impact is detected for the remaining control variables. Overall, it can be observed that, except for the findings for one control variable (i.e., CAR), the Model (2) result of the PLS-SEM analysis is consistent with the OLS regression, thus validating the robustness of the findings of the main regression analysis.

Model (3) tests the board effectiveness (BDEFFCT) and internal control strength (ICSTRENGTH) dimensions along with the control variables for the current study. As demonstrated in Table 6.4, the BDEFFCT and ICSTRENGTH dimensions along with the control variables explain 35.1% of the variance (Adj. $R^2 = 0.351$). The result indicates that BDEFFCT has a significant positive impact ($\beta = 0.156$, $t = 2.935$, $p < 0.01$) on the dependent variable (disclosure score). On the other hand, ICSTRENGTH has a significant positive impact ($\beta = 0.416$, $t = 8.395$, $p < 0.01$) on the extent of disclosure. Several control variables show a significant impact on the

extent of disclosure. The PLS-SEM findings for the BDEFFCT and ICSTRENGTH dimensions are consistent with the results of the main regression analysis performed for the current study and confirm their validity.

With regard to the firm-level control variables, the results show that bank size has a significant positive impact ($\beta = 0.239$, $t = 3.051$, $p < 0.01$) on the extent of disclosure. Furthermore, return on average equity has a significant negative impact ($\beta = -0.341$, $t = -3.338$, $p < 0.01$) on the extent of disclosure. It is also noted that leverage has a statistically significant positive association ($\beta = 0.238$, $t = 4.255$, $p < 0.01$) with the extent of disclosure.

For the macro-level control variables, the result indicates that the CAR has a moderately significant positive impact ($\beta = 0.078$, $t = 1.975$, $p < 0.05$) on the extent of disclosure. On the other hand, the ease of doing business index (DBINDX) has a significant negative impact ($\beta = -0.389$, $t = -4.231$, $p < 0.01$) on the extent of disclosure, while regulatory quality (REGQ) has a significant positive impact ($\beta = 0.355$, $t = 4.807$, $p < 0.01$) on the extent of disclosure. The result also shows that the Islamic bank dummy variable has a significant negative impact ($\beta = -0.171$, $t = -3.071$, $p < 0.01$) on the extent of disclosure. This suggests that conventional banks have significantly higher disclosure when compared to their Islamic bank counterparts. No significant impact is detected for the remaining control variables. Overall, it can be observed that, except for the findings for one control variable (i.e., CAR), the Model (3) result of the PLS-SEM analysis is consistent with the OLS regression, thus validating the robustness of the findings of the main regression analysis.

Model (4) tests the impact of the individual board dimensions along with the control variables on the extent of disclosure. These include board size, independence and meeting frequency, CEO role duality and board diversity. As demonstrated in Table 6.4, the individual

board effectiveness dimensions along with the control variables explain 22.9% of the variance (Adj. $R^2 = 0.229$). The result indicates that board size (BDSIZE) has a moderately positive and significant impact ($\beta = 0.133$, $t = 2.238$, $p < 0.05$) on the extent of disclosure. Board independence (BDIND) has a significant positive impact ($\beta = 0.278$, $t = 4.049$, $p < 0.01$) on the extent of disclosure. CEO role duality (CDUAL) is found to have a significant positive association ($\beta = 0.144$, $t = 3.133$, $p < 0.01$) with the extent of disclosure. On the other hand, board meeting frequency (BDMEET) and board diversity (BDDIV) were found to have no impact on the extent of disclosure. The PLS-SEM findings for the individual board dimensions confirm and are consistent with the results of the main regression analysis performed in the current study.

As for the firm-level control variables, the results show that bank size has a significant positive impact ($\beta = 0.221$, $t = 2.915$, $p < 0.01$) on the extent of disclosure. Return on average equity has a significant negative impact ($\beta = -0.339$, $t = -2.832$, $p < 0.01$) on the extent of disclosure. It is also noted that leverage has a statistically significant positive association ($\beta = 0.243$, $t = 3.292$, $p < 0.01$) with the extent of disclosure.

For the macro-level control variables, the result indicates that the ease of doing business index (BDNDX) has a significant negative impact ($\beta = -0.408$, $t = -4.252$, $p < 0.01$) on the extent of disclosure, while regulatory quality has a significant positive impact ($\beta = 0.390$, $t = 4.678$, $p < 0.01$) on the extent of disclosure. The result also shows that the Islamic bank dummy variable has a significant negative impact ($\beta = -0.225$, $t = -3.361$, $p < 0.01$) on the extent of disclosure. No significant impact is detected for the remaining control variables. Overall, it can be observed that the Model (4) result of the PLS-SEM analysis for both the individual board dimensions and control variables is consistent with the OLS regression and validates the robustness of the findings of the main regression analysis.

Model (5) presents the PLS-SEM analysis results for the individual variables of the internal control strength (ICSTRENGTH) dimension along with the control variables. These individual dimensions include audit committee size (ACSIZE), audit committee independence (ACIND), audit committee meeting frequency (ACMEET), audit committee financial expertise (ACEXP), internal audit existence (IAEXIST) and internal audit independence (IAIND). As demonstrated in Table 6.4, the individual internal control strength dimensions along with the control variables explain 31.1% of the variance (Adj. $R^2 = 0.311$). The result indicates that audit committee size has a positive and significant impact ($\beta = 0.252$, $t = 5.207$, $p < 0.01$) on the extent of disclosure. Audit committee independence also has a marginally significant positive impact ($\beta = 0.123$, $t = 1.833$, $p < 0.10$) on the extent of disclosure. Audit committee financial expertise is also found to be significantly and positively associated ($\beta = 0.165$, $t = 2.963$, $p < 0.01$) with the extent of disclosure. Moreover, the result indicates that internal audit independence has a positive significant impact ($\beta = 0.277$, $t = 4.487$, $p < 0.01$) on the extent of disclosure.

As for the firm-level control variables, the results show that bank size has a significant positive impact ($\beta = 0.213$, $t = 2.955$, $p < 0.01$) on the extent of disclosure. Return on average assets also has a marginally significant positive impact ($\beta = 0.183$, $t = 1.806$, $p < 0.10$), while return on average equity has a significant negative impact ($\beta = -0.378$, $t = -3.313$, $p < 0.01$) on the extent of disclosure. It is also noted that leverage has a statistically significant positive association ($\beta = 0.208$, $t = 3.414$, $p < 0.01$) with the extent of disclosure.

At the macro level, the result indicates that the CAR has a moderately significant positive impact ($\beta = 0.110$, $t = 2.226$, $p < 0.05$) on the extent of disclosure. On the other hand, the ease of doing business index (DBINDX) has a significant negative impact ($\beta = -0.377$, $t = -3.639$, $p < 0.01$) on the extent of disclosure, while regulatory quality (REGQ) has a significant positive impact

($\beta = 0.321$, $t = 3.923$, $p < 0.01$) on the extent of disclosure. The result also shows that the Islamic bank dummy variable has a moderately significant negative impact ($\beta = -0.147$, $t = -2.308$, $p < 0.05$) on the extent of disclosure. This suggests that conventional banks have significantly higher disclosure when compared to their Islamic bank counterparts. No significant impact is detected for the remaining control variables. Overall, it can be observed that, except for the findings for one control variable (i.e., CAR), the Model 6 result of the PLS-SEM analysis is consistent with the OLS regression, thus validating the robustness of the findings of the main regression analysis.

Model (6) presents the result of the PLS-SEM analysis for the individual corporate governance variables within the model along with the control variables. As demonstrated in Table 6.4, the individual corporate governance dimensions along with the control variables explain 34.5% of the variance (Adj. $R^2 = 0.345$). The result indicates that board independence also has a positive significant impact ($\beta = 0.227$, $t = 3.542$, $p < 0.01$) on the extent of disclosure. CEO role duality has a moderately positive association ($\beta = 0.090$, $t = 2.172$, $p < 0.05$) with the extent of disclosure. The result also indicates that audit committee size has a positive and significant impact ($\beta = 0.193$, $t = 3.906$, $p < 0.01$) on the extent of disclosure. Audit committee financial expertise has a moderately significant and positive impact ($\beta = 0.137$, $t = 2.485$, $p < 0.05$) on the extent of disclosure. Moreover, the result indicates that internal audit independence has a positive significant impact ($\beta = 0.285$, $t = 4.296$, $p < 0.01$) on the extent of disclosure.

Concerning the firm-level control variables, the results show that bank size has a significant positive impact ($\beta = 0.225$, $t = 3.092$, $p < 0.01$) on the extent of disclosure. Return on average equity has a significant negative impact ($\beta = -0.322$, $t = -2.769$, $p < 0.01$) on the extent of disclosure. It is also noted that leverage has a statistically significant positive association ($\beta = 0.214$, $t = 3.075$, $p < 0.01$) with the extent of disclosure.

For the macro-level control variables, the result indicates that the ease of doing business index has a significant negative impact ($\beta = -0.392$, $t = -4.028$, $p < 0.01$) on the extent of disclosure, while regulatory quality has a significant positive impact ($\beta = 0.321$, $t = 4.002$, $p < 0.01$) on the extent of disclosure. The result also shows that the Islamic bank dummy variable has a significant negative impact ($\beta = -0.196$, $t = -2.855$, $p < 0.05$) on the extent of disclosure. This suggests that conventional banks have significantly higher disclosure when compared to their Islamic bank counterparts. No significant impact is detected for the remaining control variables.

Overall, it can be observed that the result of the PLS-SEM analysis for both the explanatory and control variables is consistent with the OLS regression and validates the robustness of the findings of the main regression analysis.

Figure 6.2
Model 1 - Bootstrapping for the impact of board effectiveness on the extent of disclosure

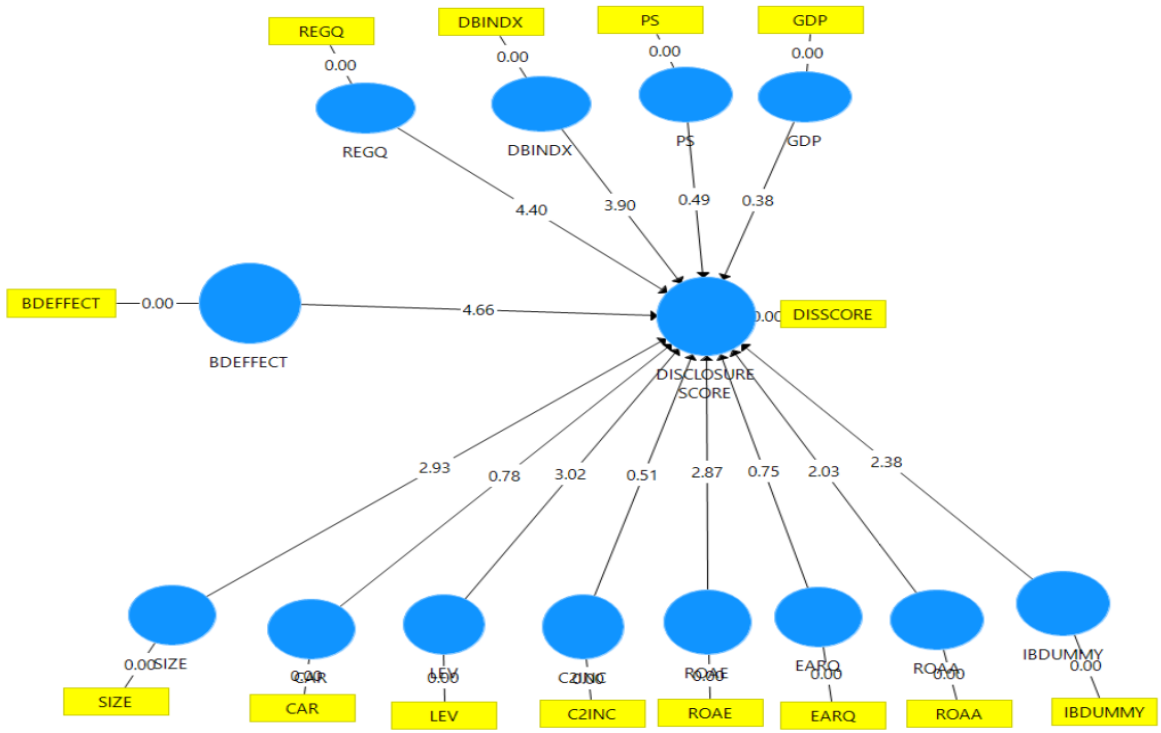


Figure 6.3
Model 1 - Path for the impact of board effectiveness on the extent of disclosure

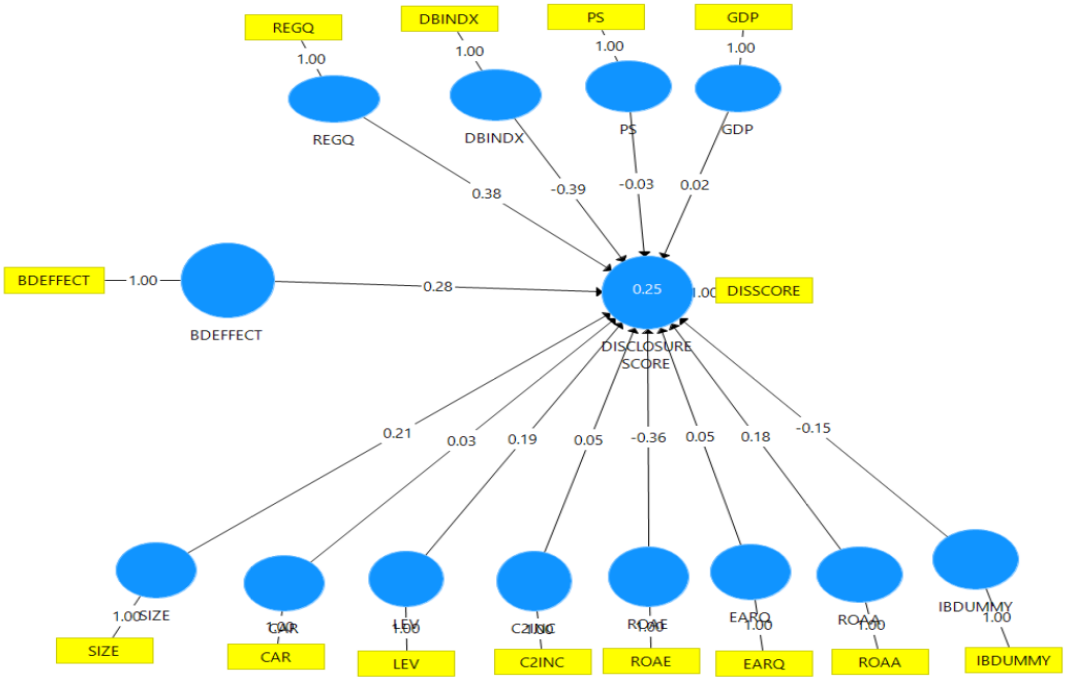


Figure 6.4
Model 2- Bootstrapping for the impact of internal control strength on the extent of disclosure

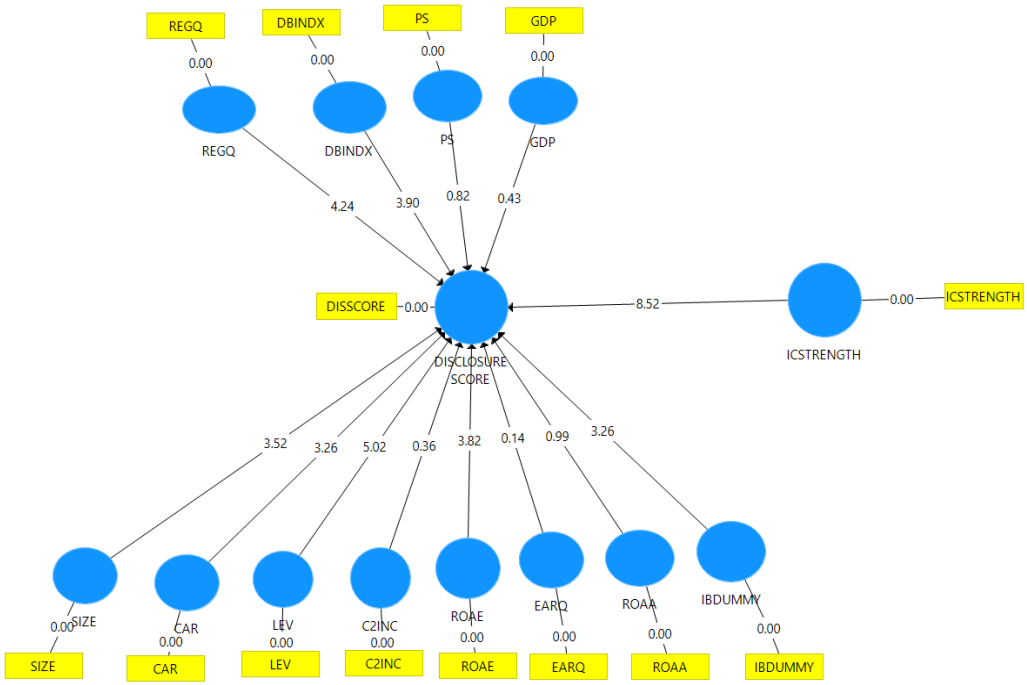


Figure 6.5
Model 2- Path for the impact of internal control strength on the extent of disclosure

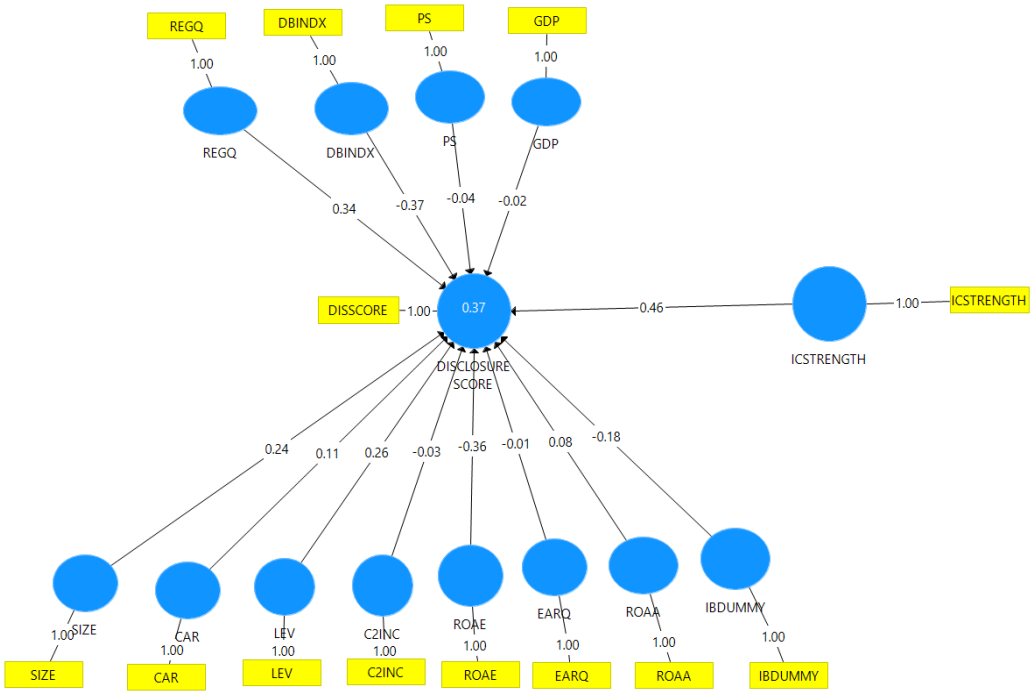


Figure 6.6
Model 3 – Bootstrapping for impact of board effectiveness and internal Control strength on the extent of disclosure

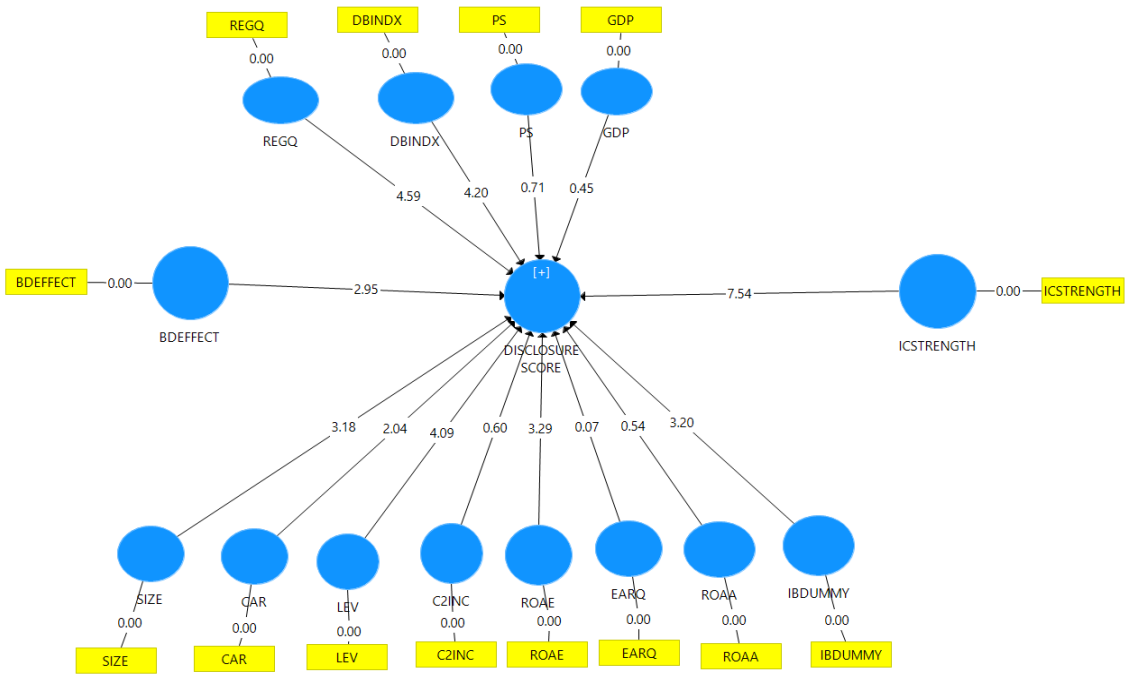


Figure 6.7
Model 3 – Path for impact of board effectiveness and internal Control strength on the extent of disclosure

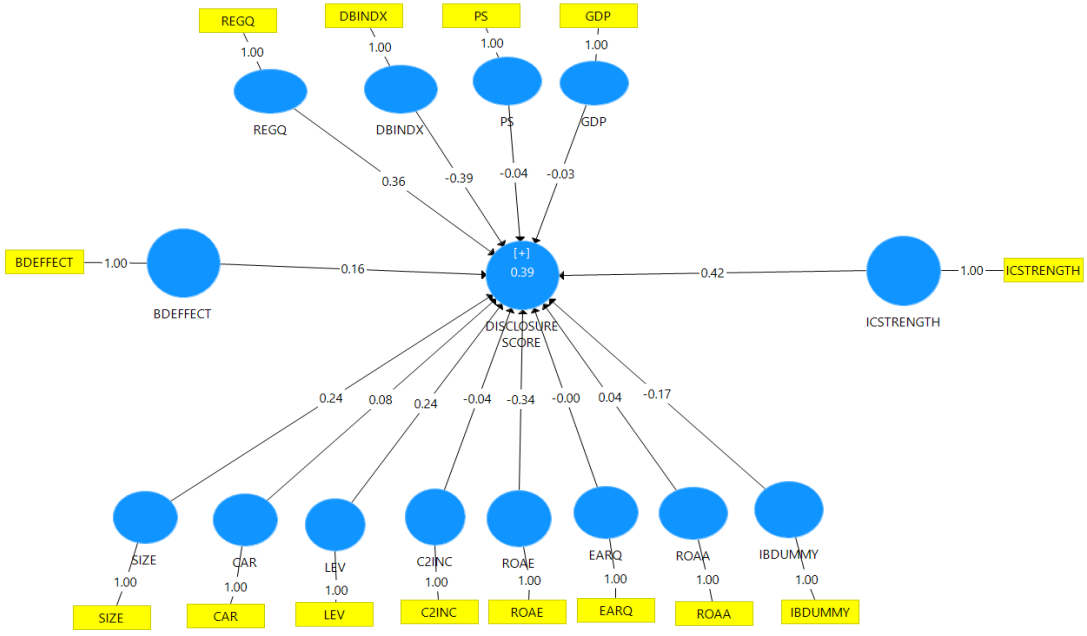


Figure 6.8
Model 4 – Bootstrapping for impact of board characteristics on the extent of disclosure

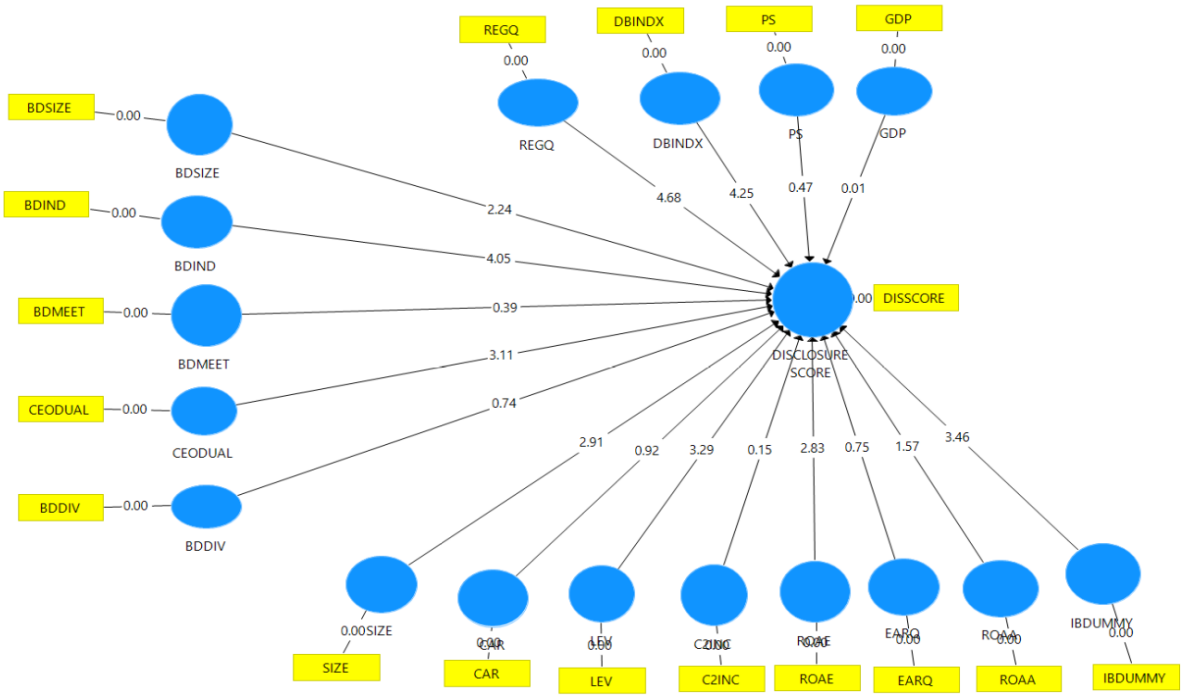


Figure 6.9
Model 4 – Path for impact of board characteristics on the extent of disclosure

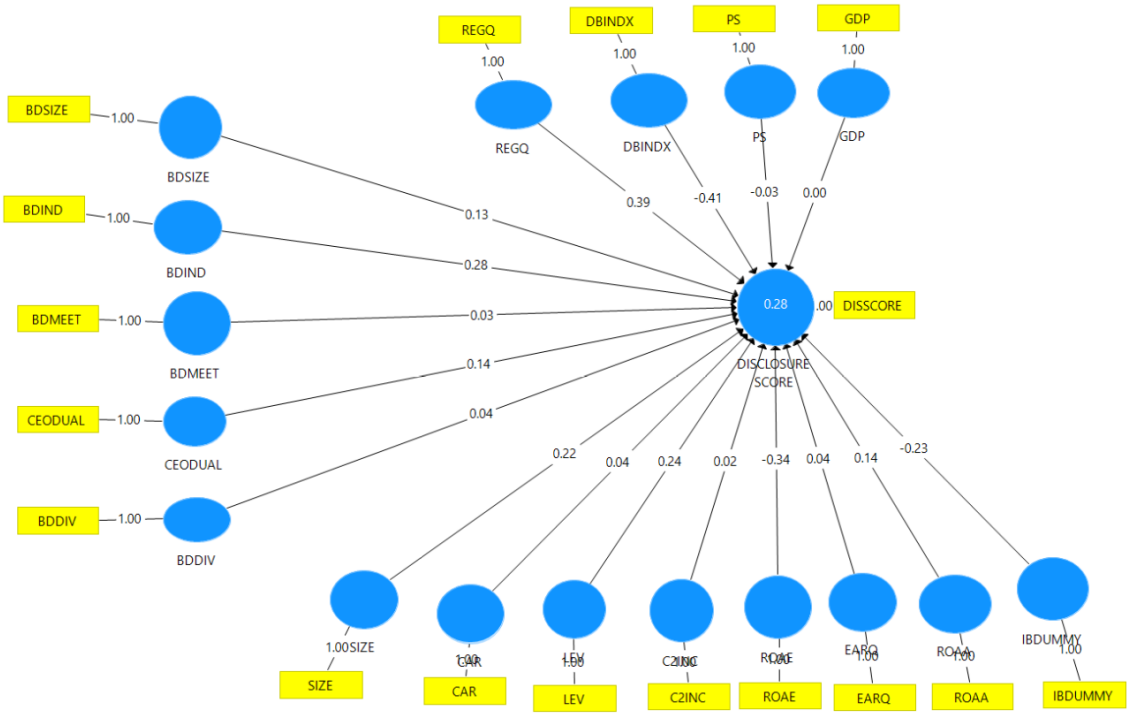


Figure 6.10
Model 5 – Bootstrapping for impact of internal control strength characteristics on the extent of disclosure

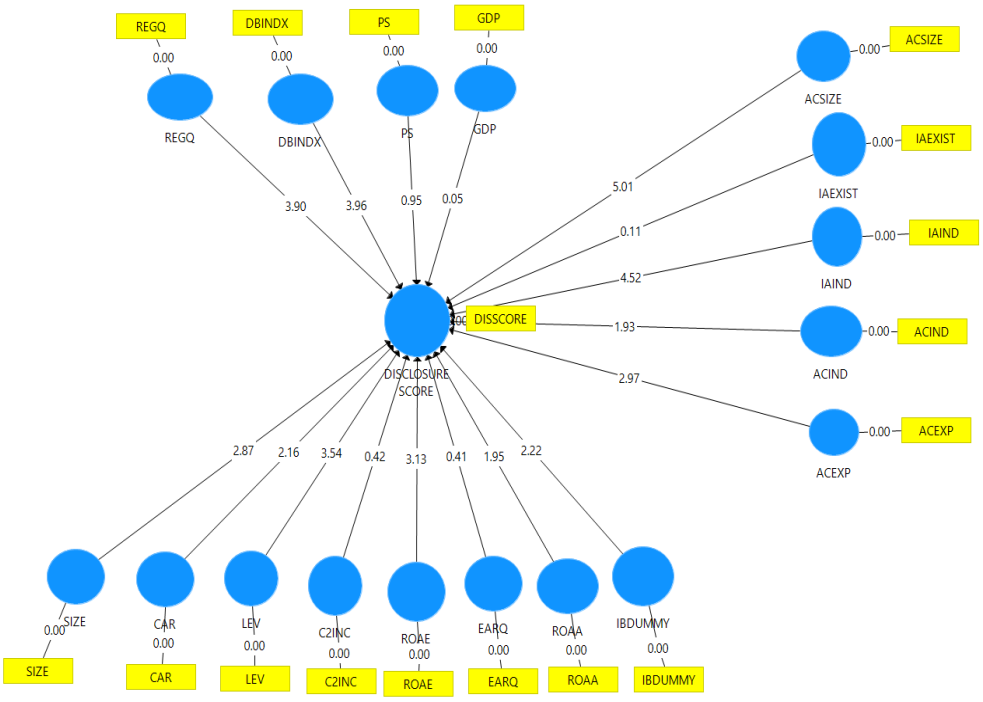


Figure 6.11
Model 5 – Path for impact of internal control strength characteristics on the extent of disclosure

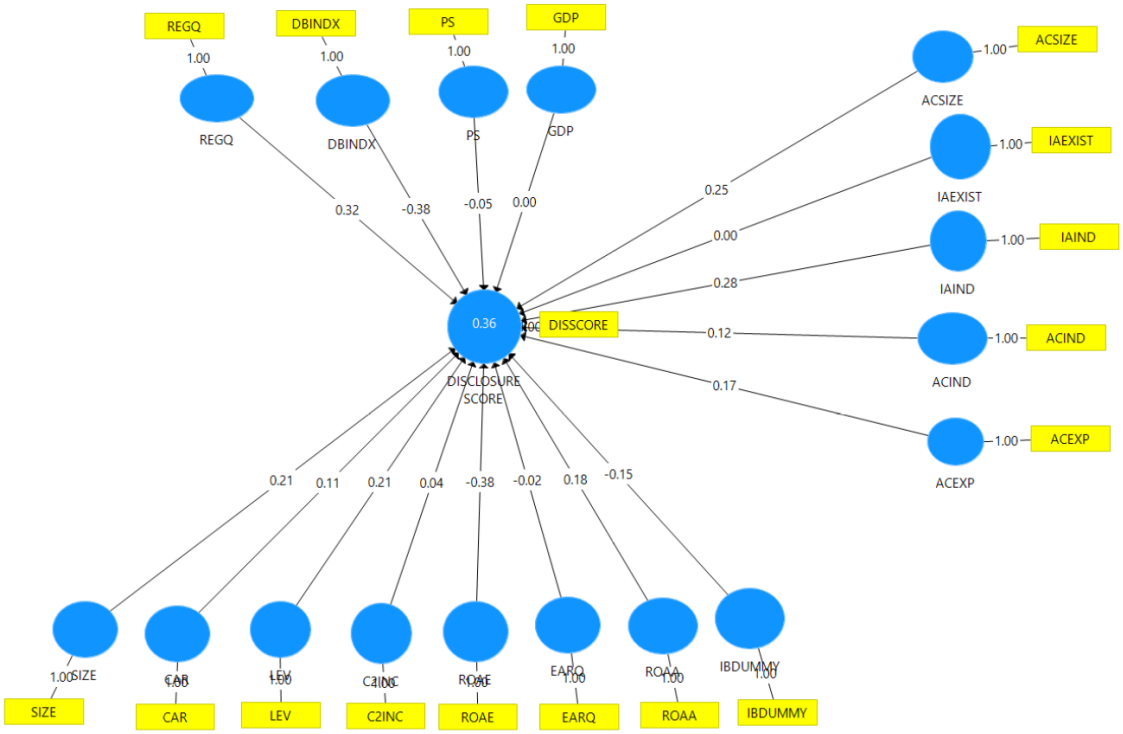


Figure 6.12
Model 6 – Bootstrapping for the impact of board and internal control characteristics on the extent of disclosure.

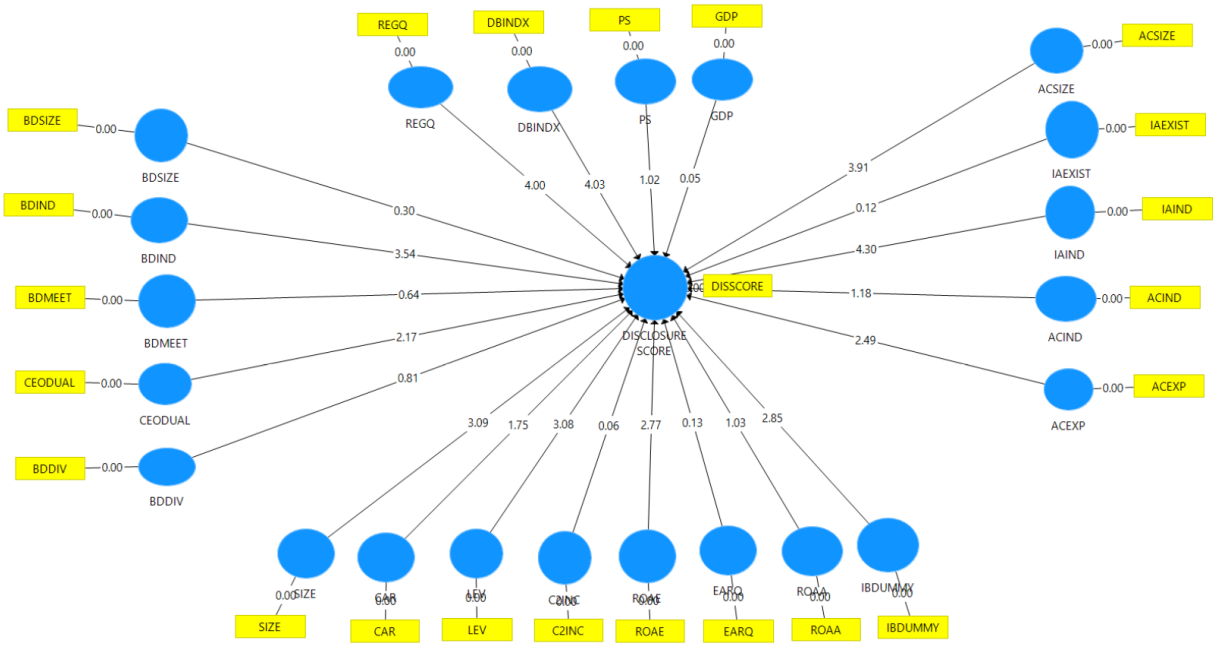
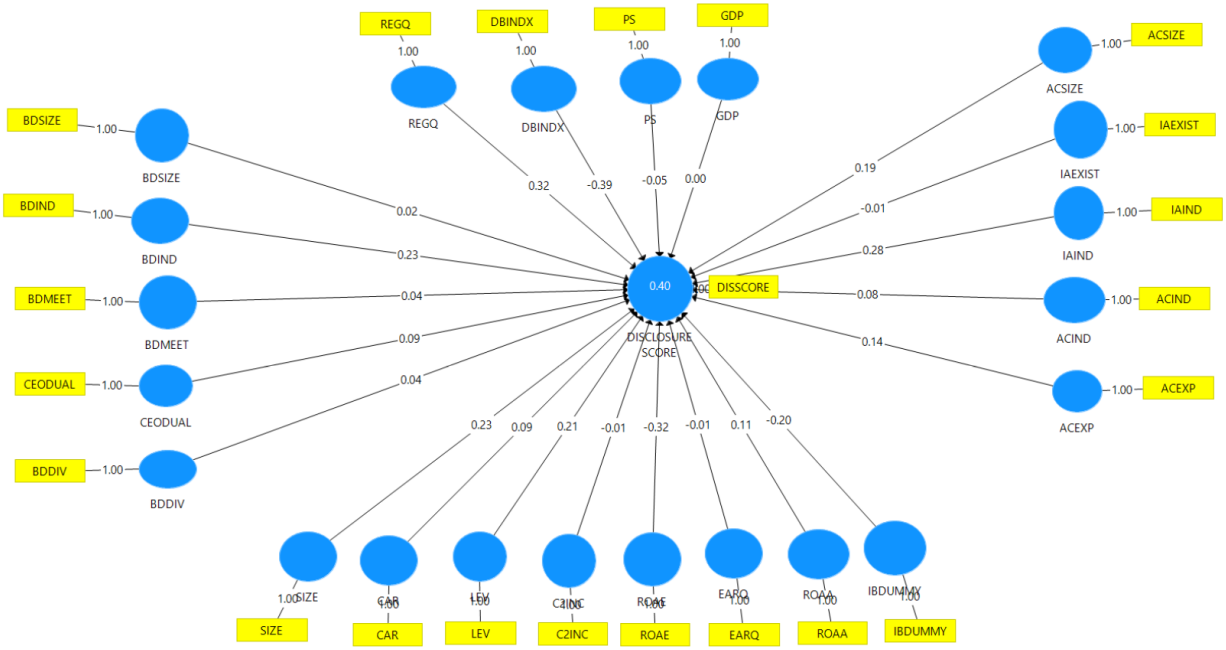


Figure 6.13
Model 6– Path for the impact of board and internal control characteristics on the extent of disclosure



6.5. Conclusion

This chapter discusses in detail the inferential statistics pertaining to the tests and analysis performed to establish the relationship and impact of corporate governance mechanisms on the extent of disclosure. Overall, the result of the regression analysis shows that both board effectiveness (BDEFFCT) and internal control strength (ICSTRENGTH) dimensions have significant positive effect on the extent of disclosure. This suggests that strong corporate governance mechanisms contribute to greater disclosure and result in higher disclosure. Moreover, the study finds significant positive association between some of the individual corporate governance variables and extent of disclosure, including board independence, CEO role duality, audit committee size, audit committee financial expertise and internal audit independence.

In summary, the chapter starts with an introduction and then presents the hypotheses, which are tested in line with the research questions. The main OLS regression analysis used for the current study is presented, and the findings are thoroughly discussed. Further analysis performed to support the main regression by using PLS-SEM techniques are then presented, along with the results. Finally, the chapter provides summaries of the data analysis performed and the findings which have been identified.

CHAPTER SEVEN

THE IMPACT OF SHARIAH GOVERNANCE ON THE EXTENT OF DISCLOSURE PRACTICE BY ISLAMIC BANKS - INFERENTIAL ANALYSIS

7.1. Introduction

The previous chapter discussed the first part of the empirical analysis examining the impact of corporate governance on the extent of disclosure by Islamic and conventional banks in GCC countries. Building on Chapter Six, this chapter provides a detailed account of the results of the empirical work performed pertaining to the Shariah governance of Islamic banks. The chapter starts by presenting the results of the regression analyses performed for the current study. The main regression analysis performed for the current study is OLS regression. The chapter then presents the results of OLS regression analysis with robust standard error. The chapter then discusses the result of the additional inferential analysis performed using PLS-SEM techniques to support and confirm the robustness of the main OLS regression results. The chapter ends with a conclusion, summarizing the main topics and findings discussed in the chapter.

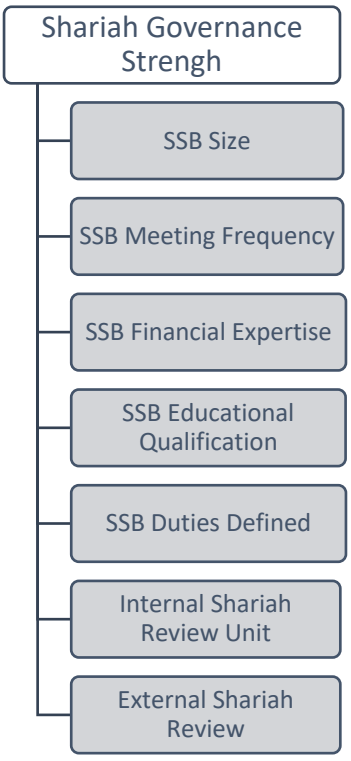
7.2. Hypothesis Testing

A hierarchical multiple regression analysis is conducted to test the hypotheses developed for the current study. The study examines three main hypotheses in three thematic areas related to board effectiveness, internal control strength and Shariah governance strength. Additional sub-hypotheses are developed to test individual dimensions within the thematic governance areas to examine their impact on the disclosure index of conventional and Islamic banks while taking the control variables' effects into consideration.

The main hypotheses related to board effectiveness, internal control strength and overall corporate governance quality are analysed and discussed in Chapter Six. The current chapter focuses on presenting and discussing the results of the inferential analysis for the Shariah governance dimension, which is specific to Islamic banks only.

The individual dimensions within the Shariah governance dimension are further analysed and tested to determine their impact on the extent of disclosure. These individual dimensions within the Shariah governance thematic area are listed in Figure 7.1.

Figure 7.1
Shariah governance thematic area and its individual dimensions.



Several control variables at the bank and country levels, which prior studies have consistently associated with disclosure, are considered along with the corporate governance dimensions of interest. These control variables include size, profitability (ROAA, ROAE), leverage, efficiency

(C2INC), regulatory quality, political stability score and GDP growth rate. Multiple regression models are run to examine the hypotheses and address the research questions.

The current research first conducts an OLS regression analysis to test the main Shariah governance hypothesis. The use of OLS regression analysis as the main regression model is deemed appropriate for this study given the cultural homogeneity and geographic proximity of the GCC banks. To validate the robustness and fit of the regression model, additional inferential analyses are performed. OLS regression analysis with robust standard errors is undertaken to validate the consistency of the main OLS findings. The results of the main OLS regression and the OLS regression with robust standard errors are discussed in Section 7.3. PLS-SEM analysis is also employed using SmartPLS software to attest the robustness of the regression results and ascertain the consistency of the findings. The results of the PLS-SEM analysis are discussed in Section 7.4.

7.3. OLS regression analysis

The current study proposes the main hypothesis for the Shariah governance dimension as discussed in Chapter Five. OLS regression analysis is employed to test the main hypothesis and determine the impact of Shariah governance on the extent of disclosure for Islamic banks. The individual dimensions within the Shariah governance dimension are further analysed and tested to determine their impact on the extent of disclosure. Multiple regression models are run to examine the hypotheses and address the research questions. The results of the regression test are exhibited in Table 7.2.

7.3.1. Multicollinearity Test

Multicollinearity is concerned with the presence of a high correlation between the independent variables, the presence of which is considered to cause issues in the regression model (Chatterjee and Yilmaz, 1992). VIF and tolerance level are calculated using SPSS to test the multicollinearity and ensure that the VIF is within the tolerance levels suggested by prior studies (Chatterjee and Yilmaz, 1992). To be acceptable, the VIF should be less than 5. Table 7.1 provides a summary of the multicollinearity tests run for the linear regression model.

Table 7.1
Variance Inflation Factor (VIF) for Shariah Governance Variables

Variable	**Tolerance**	**VIF**
SSBSIZE	0.293	3.412
SSBEXP	0.248	4.031
SSBEDU	0.814	1.229
SSBDD	0.29	3.452
SSBMEET	0.556	1.798
ISAUD	0.284	3.525
ESAUD	0.734	1.363
SIZE	0.316	3.16
ROAE	0.291	3.442
EARQ	0.654	1.529
C2INC	0.571	1.75
LEV	0.375	2.664
CAR	0.696	1.437
DBNDX	0.272	3.683
REGQ	0.317	3.158
PS	0.907	1.102
GDP	0.696	1.436
Mean VIP		2.481

SSBSIZE the total number of Shariah **SSBEXP** the number of Shariah board members with financial expertise **SSBEDU** the number of shariah board members with a PhD, **SSBDD** dummy variable for having defined duties for the Shariah board, **SSBMEET** the total number of Shariah board meetings during the year. **ISAUD** dummy for the existence of internal Shariah audit

unit. **ESAUD** dummy for the performance of external Shariah audit, **SIZE** Natural Logarithm of Bank Assets**,** **ROAA** Return on Average Assets, **ROAE** Return on Average Equity, **EARQ** Earnings Quality, **C2INC** Cost to Income Ratio, **LEV** Leverage, **CAR** Capital Adequacy Ratio, **DBNDX** Ease of Doing Business Index, **REGQ** Regulatory Quality, **PS** Political Stability, **GDPG** GDP Growth Rate.

Table 7.1 shows that the highest VIF is 4.031 while the lowest is 1.102 and the mean is 2.481. On the other hand, Table 7.1 indicates that the lowest tolerance is 0.272. Therefore, the results confirm that the variables do not have multicollinearity problems.

7.3.2. OLS Regression Analysis for the Impact of Shariah Governance Dimensions on Disclosure for Islamic Banks

OLS regression analysis is conducted to examine the impact of Shariah governance dimensions on the extent of disclosure by Islamic banks. Two models are developed and tested to examine their impact on the extent of disclosure. Model (1) tests the impact of the overall Shariah governance strength dimension, along with the control variables, on the extent of disclosure. Model (2) tests the individual variables pertaining to the Shariah governance strength dimension on the extent of disclosure along with the control variables considered for the current study. Table 7.2 summarizes the results of the OLS regression analysis performed for the current study.

Table 7.2
OLS Regression Analysis for Impact of Shariah Governance Dimensions on Disclosure for Islamic Banks

Predictive Variables	**Model (1) Beta (t)**	**Model (2) Beta(t)**
SSBGOV	.283***	
	(3.264)	
SSBSIZE		.126
		(.881)
SSBEXP		-.107
		(-.690)
SSBEDU		.040
		(.467)
SSBDD		.245*
		(1.691)
SSBMEET		.184*
		(1.768)
ISAUD		.001
		(.009)
ESAUD		.177*
		(1.907)
SIZE	.012	-.115
	(.109)	(-.819)
ROAA	.416***	.361**
	(2.711)	(2.282)
ROAE	-.695***	-.628***
	(-4.138)	(-3.424)
EARQ	-.031	.038
	(-.353)	(.393)
C2INC	.046	.031
	(.388)	(.261)
LEV	.310***	.287**
	(2.777)	(2.253)
CAR	.090	.072
	(.963)	(.750)
DBNDX	-.378***	-.284*
	(-2.757)	(-1.910)
REGQ	.391***	.450***
	(2.972)	(3.233)
PS	-.038	-.010
	(-.468)	(-.126)
GDP	-.016	-.011
	(-.178)	(-.118)
Constant	.824***	.553**
	(4.357)	(2.421)
Adjusted R^2	.246	.258
F Statistics	4.380	3.396
Number of Observations	125	125

***p<0.01, **p<0.05, *p<0.1

SSBGOV Shariah governance strength score, **SSBSIZE** the total number of Shariah **SSBEXP** the number of Shariah board members with financial expertise **SSBEDU** the number of shariah board members with a PhD, **SSBDD** dummy variable for having defined duties for the Shariah board, **SSBMEET** the total number of Shariah board meetings during the year. **ISAUD** dummy for the existence of internal Shariah audit unit. **ESAUD** dummy for the performance of external Shariah audit, **SIZE** Natural Logarithm of Bank Assets**,**

ROAA Return on Average Assets, **ROAE** Return on Average Equity, **EARQ** Earnings Quality ratio, **C2INC** Cost to income ratio, **LEV** Leverage, **CAR** Capital Adequacy Ratio, **DBNDX** a World Bank index measuring the ease of doing business Index, **REGQ** An indicator of regulatory quality, **PS** Political stability indicator, **GDP** GDP growth rate.

Model (1) presents the results of the regression analysis for the overall Shariah governance strength dimension along with the control variables. Shariah governance strength is an index which is comprised of SSB related dimensions such as SSB size, meeting frequency, financial expertise, etc. As demonstrated in Table 7.2, the adjusted R^2 for the model is 0.246, which suggests that the overall Shariah governance strength dimension along with the control variables in the model explain about 24.6% of the variance in disclosure. The model for the overall Shariah governance strength dimension is significant ($F = 4.380$, $p < 0.01$). The result indicates that the overall Shariah governance strength (SSBGOV) dimension has a significant and positive impact ($\beta = 0.283$, $t = 3.264$, $p < 0.01$) on the extent of disclosure.

For the firm-level control variables, the results show that ROAA has a significant positive impact ($\beta = 0.416$, $t = 2.711$, $p < 0.01$) on the extent of disclosure. On the other hand, return on average equity (ROAE) has a significant negative impact ($\beta = -0.695$, $t = -4.138$, $p < 0.01$) on the extent of disclosure. Leverage (LEV) also has a statistically significant and positive association ($\beta = 0.310$, $t = 2.777$, $p < 0.01$) with the extent of disclosure.

For the macro-level control variables, the result indicates that the World Bank index for ease of doing business (DBNDX) has a significant negative impact ($\beta = -0.378$, $t = -2.757$ $p < 0.01$) on the extent of disclosure, while regulatory quality (REGQ) has a significant positive impact ($\beta = 0.391$, $t = 2.972$, $p < 0.01$) on the extent of disclosure. This seems to suggest that countries with easier and more efficient business requirements tend to have less disclosure. However, the result indicates that a stronger regulatory environment with robust and effective policies

contributes to more transparency and higher disclosure. No significant impact on disclosure is detected for the remaining control variables.

Model (2) presents the results of the regression analysis for all the individual Shariah governance dimensions along with the control variables included in the regression analysis. As demonstrated in Table 7.2, the adjusted R^2 for the model is 0.258, which suggests that the individual variables related to the Shariah governance dimension along with the control variables in the model explain about 25.8% of the variance in the disclosure. The model for the individual Shariah governance variables is significant ($F = 3.396$, $p < 0.01$). The result indicates that the SSB duties defined (SSBDD) variable has a marginally significant and positive impact ($\beta = 0.245$, $t = 1.691$, $p < 0.10$) on the extent of disclosure. SSB meeting frequency (SSBMEET) has a marginally significant and positive effect ($\beta = 0.184$, $t = 1.768$, $p < 0.10$) on the extent of disclosure. Similarly, the result shows that the external Shariah audit (ESAUD) has a marginally significant positive impact ($\beta = 0.177$, $t = 1.907$, $p < 0.10$) on the extent of disclosure. This seems to suggest that having an SSB with well-defined responsibilities which meets more frequently contributes to greater transparency. Moreover, the result supports the hypothesis that having an external Shariah audit which is conducted by an independent third-party results in higher levels of disclosure by Islamic banks. The remaining individual Shariah governance dimensions do not have any significant effect on the extent of disclosure.

For the firm-level control variables, the results show that ROAA has a moderately significant positive impact ($\beta = 0.361$, $t = 2.711$, $p < 0.05$) on the extent of disclosure. On the other hand, return on average equity (ROAE) has a significant negative impact ($\beta = -0.628$, $t = -3.424$, $p < 0.01$) on the extent of disclosure. Leverage (LEV) also has a moderately significant positive association ($\beta = 0.287$, $t = 2.253$, $p < 0.05$) with the extent of disclosure.

For the macro-level control variables, the result indicates that the World Bank index for ease of doing business (DBNDX) has a marginally significant negative impact ($\beta = -0.284$, $t = -1.910$, $p < 0.10$) on the extent of disclosure, while regulatory quality (REGQ) has a significant positive impact ($\beta = 0.450$, $t = 3.233$, $p < 0.01$) on the extent of disclosure. This seems to suggest that countries with easier and more efficient business requirements tend to have less disclosure. On the other hand, the result indicates that a stronger regulatory environment with robust and effective policies contributes to more transparency and higher disclosure. No significant impact on disclosure is detected for the remaining control variables.

7.3.3. OLS Regression Analysis with Robust Standard Errors for the Impact of Shariah Governance Dimensions on Disclosure for Islamic Banks

To further confirm the results of the main OLS regression analysis, the current study undertakes an OLS regression analysis with robust standard errors. The result of the OLS analysis with robust standard error is presented in Table 7.3.

Table 7.3
OLS Regression Analysis with Robust Standard Error for Impact of Shariah Governance Dimensions on Disclosure for Islamic Banks

Predictive Variables	**Model (1) Beta (t)**	**Model (2) Beta(t)**
SSBGOV	.283***	
	(4.014)	
SSBSIZE		.126
		(.883)
SSBEXP		-.107
		(-.783)
SSBEDU		.040
		(.538)
SSBDD		.245***
		(3.177)
SSBMEET		.184*
		(1.876)
ISAUD		.001
		(.019)
ESAUD		.177***
		(2.670)
SIZE	.012	-.115
	(.088)	(-.743)
ROAA	.416***	.361**
	(2.874)	(2.399)
ROAE	-.695***	-.628***
	(-3.279)	(-2.775)
EARQ	-.031	.038
	(-.334)	(.377)
C2INC	.046	.031
	(.285)	(.194)
LEV	.310***	.287**
	(4.168)	(2.628)
CAR	.090	.072
	(1.329)	(1.084)
DBNDX	-.378*	-.284
	(-1.921)	(-1.406)
REGQ	.391***	.450***
	(2.462)	(2.784)
PS	-.038	-.010
	(-.389)	(-.107)
GDP	-.016	-.011
	(-.167)	(-.114)
Constant	.824***	.553*
	(2.294)	(1.724)
Adjusted R^2	.246	.258
F Statistics	4.380	3.396
Number of Observations	125	125

***p<0.01, **p<0.05, *p<0.1

SSBGOV Shariah governance strength score, **SSBSIZE** the total number of Shariah **SSBEXP** the number of Shariah board members with financial expertise **SSBEDU** the number of shariah board members with a PhD, **SSBDD** dummy variable for having defined duties for the Shariah board, **SSBMEET** the total number of Shariah board meetings during the year. **ISAUD** dummy for the existence of internal Shariah audit unit. **ESAUD** dummy for the performance of external Shariah audit, **SIZE** Natural Logarithm of Bank Assets**,**

ROAA Return on Average Assets, **ROAE** Return on Average Equity, **EARQ** Earnings Quality ratio, **C2INC** Cost to income ratio, **LEV** Leverage, **CAR** Capital Adequacy Ratio, **DBNDX** a World Bank index measuring the ease of doing business Index, **REGQ** An indicator of regulatory quality, **PS** Political stability indicator, **GDPG** GDP growth rate.

Table 7.3 presents the results of the OLS regression analysis with robust standard errors for the impact of Shariah governance on the extent of disclosure by Islamic banks. As shown in Table 7.3, the result of the OLS regression analysis with robust standard errors is generally consistent with the main OLS regression analysis, thus confirming and further attesting to the robustness of the findings. There are a few insignificant differences noted between the two analyses, as discussed below.

Model (1) results show that the findings are consistent with the main OLS regression analysis for all Shariah governance and control variables both in terms of the level of significance of the impact and its direction, except for the ease of doing business index (DBNDX) where the level of significance has decreased from a significant positive impact ($p < 0.01$) to a marginally significant positive impact ($p < 0.10$) on the extent of disclosure. Model (2), which has all the individual Shariah governance and control variables, shows few differences from the main OLS regression analysis. SSB duties defined (SSBDD) has changed from being a marginally significant positive impact ($p < 0.10$) to a significant positive impact ($p < 0.01$) after applying the robust standard errors. External Shariah audit (ESAUD) has also changed, from having a marginally significant positive impact ($p < 0.10$) under the main OLS regression analysis to having a significant positive impact on the extent under the OLS regression analysis with robust standard errors. The impact for the ease of doing business index has decreased from a marginally significant impact ($p < 0.10$) to no impact because of the OLS regression analysis with robust standard errors. The remaining individual variables are all consistent with the main OLS regression analysis.

Based on the results of the OLS regression analysis with robust standard errors, it can be concluded that, other than the few insignificant differences discussed above, the results are consistent with the main OLS regression analysis. This confirms the robustness of the main regression analysis and validates the results of the analysis.

7.4. Partial Least Squares Structural Equation Modelling analysis

PLS-SEM analysis is performed to further validate and confirm the results of the main regression analysis and validate the hypotheses. As the purpose of PLS-SEM analysis is to support and validate the main OLS regression analysis, the focus of the analysis is to test the structural model by using bootstrapping techniques to determine the relationship and its significance among the variables of interest (Hair et al., 2017; Sarstedt et al., 2021). Two models are constructed and analysed to test the main Shariah governance hypothesis and sub-hypotheses. These models are run using SmartPLS software version # 3. Model (1) is concerned with testing the main Shariah governance hypothesis of the current study, while Model (2) tests the individual Shariah governance dimensions along with the control variables. The results of the PLS-SEM analysis are summarized in Table 7.4. Moreover, Figures 7.2 through 7.5 provide results of the PLS-SEM analysis in the form of graphical images. The results of each of the models are discussed next.

Table 7.4
PLS-SEM Analysis for the impact of Shariah governance dimensions on extent of disclosure by Islamic banks

Predictive Variables	**Model (1) Beta(t)**	**Model (2) Beta(t)**
SSBGOV	0.283***	
	(3.245)	
SSBSIZE		0.071
		(0.506)
SSBEXP		-0.030
		(0.213)
SSBEDU		0.025
		(0.374)
SSBMEET		0.185*
		(1.944)
ISAUD		0.199***
		(2.709)
ESAUD		0.169**
		(2.256)
SIZE	0.012	-0.053
	(.090)	(0.346)
ROAA	0.416**	0.398**
	(2.567)	(2.276)
ROAE	-0.695***	-0.702***
	(-4.300)	(3.763)
EARQ	0.031	0.041
	(0.354)	(0.431)
C2INC	0.046	0.049
	(0.364)	(0.367)
LEV	0.310***	0.368***
	(3.970)	(3.599)
CAR	0.090	0.098
	(1.399)	(1.528)
DBNDX	-0.378**	-0.288
	(-2.174)	(1.526)
REGQ	0.391***	0.446***
	(2.887)	(3.205)
PS	-0.038	-0.009
	(0.410)	(0.097)
GDP	-0.016	0.008
	(0.181)	(0.087)
Adjusted R^2	.246	.245
Number of Observations	125	125

***p<0.01, **p<0.05, *p<0.1

SSBGOV Shariah governance strength score, **SSBSIZE** the total number of Shariah **SSBEXP** the number of Shariah board members with financial expertise **SSBEDU** the number of shariah board members with a PhD, **SSBDD** dummy variable for having defined duties for the Shariah board, **SSBMEET** the total number of Shariah board meetings during the year. **ISAUD** dummy for the existence of internal Shariah audit unit. **ESAUD** dummy for the performance of external Shariah audit, **SIZE** Natural Logarithm of Bank Assets**, ROAA** Return on Average Assets, **ROAE** Return on Average Equity, **EARQ** Earnings Quality ratio, **C2INC** Cost to income ratio, **LEV** Leverage, **CAR** Capital Adequacy Ratio, **DBNDX** a World Bank index measuring the ease of doing business Index, **REGQ** An indicator of regulatory quality, **PS** Political stability indicator, **GDPG** GDP growth rate.

Model (1) tests the impact of the Shariah governance strength score on the extent of disclosure, considering the control variables for the current study. The Shariah governance strength score is a self-developed index which is comprised of several SSB and Shariah governance-related dimensions such as SSB size, educational qualifications, financial expertise, and meeting frequency, as well as the existence of an internal Shariah review unit and an external Shariah audit. As demonstrated in Table 7.4, the adjusted R^2 is 0.246, which suggests that the overall Shariah governance strength dimension along with the control variables in the model explain about 24.6% of the variance in disclosure. The result indicates that SSBGOV has a significant positive impact ($\beta = 0.283$, $t = 3.245$, $p < 0.01$) on the dependent variable (disclosure score). The significant impact of SSBGOV indicates that SSBs with a higher level of effectiveness (i.e., a higher number of SSB members with a PhD, financial expertise, and more frequent meetings) contribute to greater transparency and disclosure in Islamic banks. The PLS-SEM findings confirm and are consistent with the results of the main regression analysis performed in the current study.

Several control variables show a significant impact on the extent of disclosure. With regards to the firm-level control variables, the results show ROAA also has a moderately significant positive impact ($\beta = 0.416$, $t = 2.567$, $p < 0.05$), while return on average equity (ROAE) has a significant negative impact ($\beta = -0.695$, $t = -4.300$, $p < 0.01$) on the extent of disclosure. It is also noted that leverage (LEV) has a statistically significant positive association ($\beta = 0.310$, $t = 3.970$, $p < 0.01$) with the extent of disclosure.

For the macro-level control variables, the result indicates that the ease of doing business index (DBNDX) has a moderately significant negative impact ($\beta = -0.387$, $t = -2.174$, $p < 0.01$) on the extent of disclosure, while regulatory quality (REGQ) has a significant positive impact ($\beta = 0.391$, $t = 2.887$, $p < 0.01$) on the extent of disclosure. No significant impact is detected for the

remaining control variables. Overall, it can be observed that the Model (1) result of the PLS-SEM analysis for both the explanatory and control variables is generally consistent with the OLS regression and confirms the robustness of the findings for the main regression analysis.

Model (2) tests the impact of the individual Shariah governance dimensions along with the control variables on the extent of disclosure. These include SSB size, educational qualifications, financial expertise, meeting frequency, the existence of an internal Shariah audit and the performance of an external Shariah audit. As demonstrated in Table 7.4, the adjusted R^2 is 0.245 which suggests that the individual Shariah governance strength dimensions along with the control variables in the model explain about 24.5% of the variance in disclosure. The result indicates that SSB meeting frequency (SSBMEET) has a marginally significant and positive impact ($\beta = 0.185$, $t = 1.944$, $p < 0.10$) on the extent of disclosure. The existence of an internal Shariah audit function (ISAUD) has a significant positive impact ($\beta = 0.199$, $t = 2.709$, $p < 0.01$) on the extent of disclosure. Additionally, the performance of an external Shariah audit (ESAUD) is found to have a moderately significant positive association ($\beta = 0.169$, $t = 2.256$, $p < 0.05$) with the extent of disclosure. The remaining Shariah governance dimensions were found to have no impact on the extent of disclosure.

As for the firm-level control variables, the results show that bank size has a significant positive impact ($\beta = 0.221$, $t = 2.915$, $p < 0.01$) on the extent of disclosure. Return on average equity (ROAE) has a significant negative impact ($\beta = -0.339$, $t = -2.832$, $p < 0.01$) on the extent of disclosure. It is also noted that leverage (LEV) has a statistically significant positive association ($\beta = 0.243$, $t = 3.292$, $p < 0.01$) with the extent of disclosure.

For the macro-level control variables, the result indicates that the ease of doing business index (BDNDX) has a significant negative impact ($\beta = -0.408$, $t = -4.252$, $p < 0.01$) on the extent of disclosure, while regulatory quality has a significant positive impact ($\beta = 0.390$, $t = 4.678$, $p < 0.01$) on the extent of disclosure. No significant impact is detected for the remaining control variables. Overall, it can be observed that the Model (2) result of the PLS-SEM analysis for both the explanatory and control variables is mostly consistent with the OLS regression and confirms the robustness of the findings of the main regression analysis.

Figure 7.2

Model 1 – Bootstrapping for the impact of Shariah governance score on the extent of disclosure

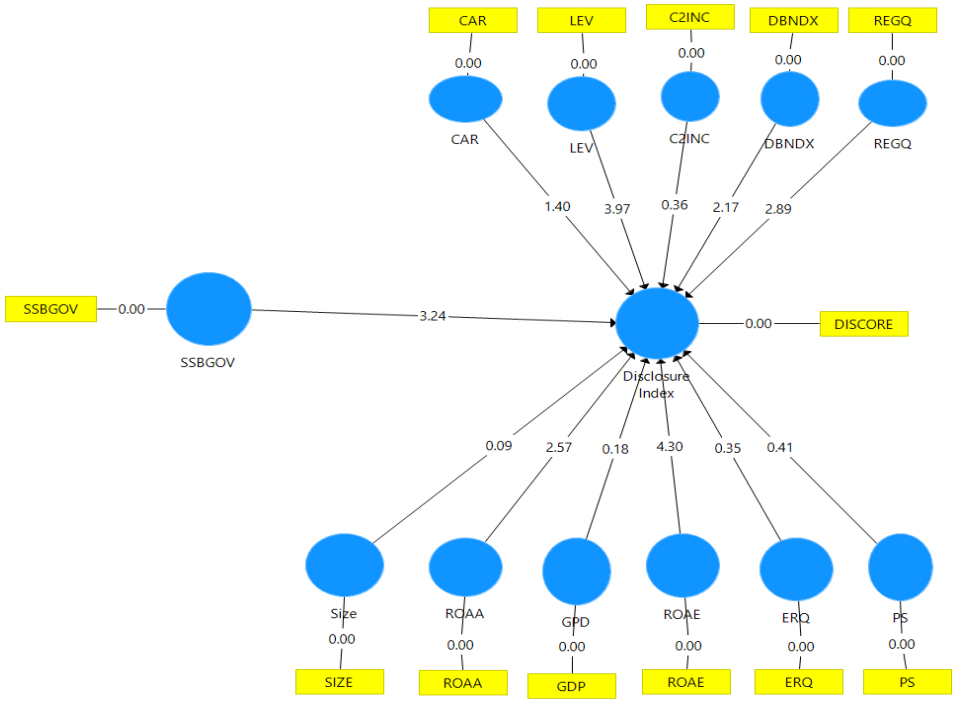


Figure 7.3

Model 1 – Path for the impact of Shariah governance score on the extent of disclosure

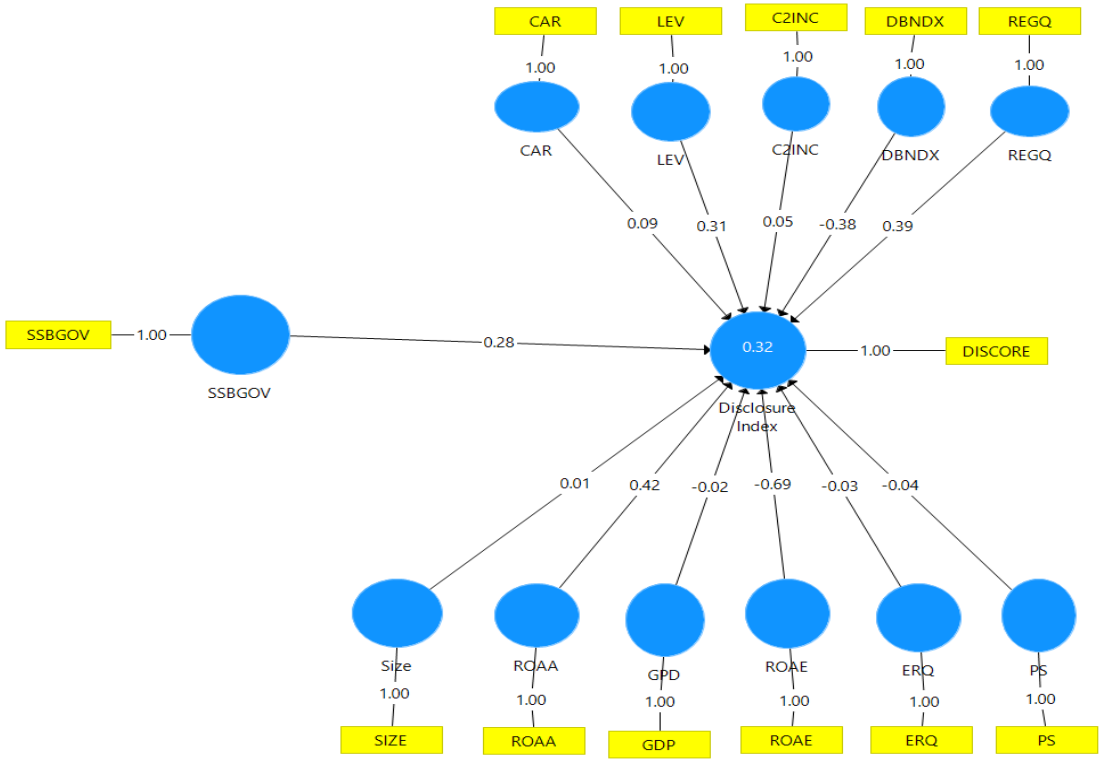


Figure 7.4
Model 2 – Bootstrapping for the impact of Shariah governance individual dimensions on the extent of disclosure.

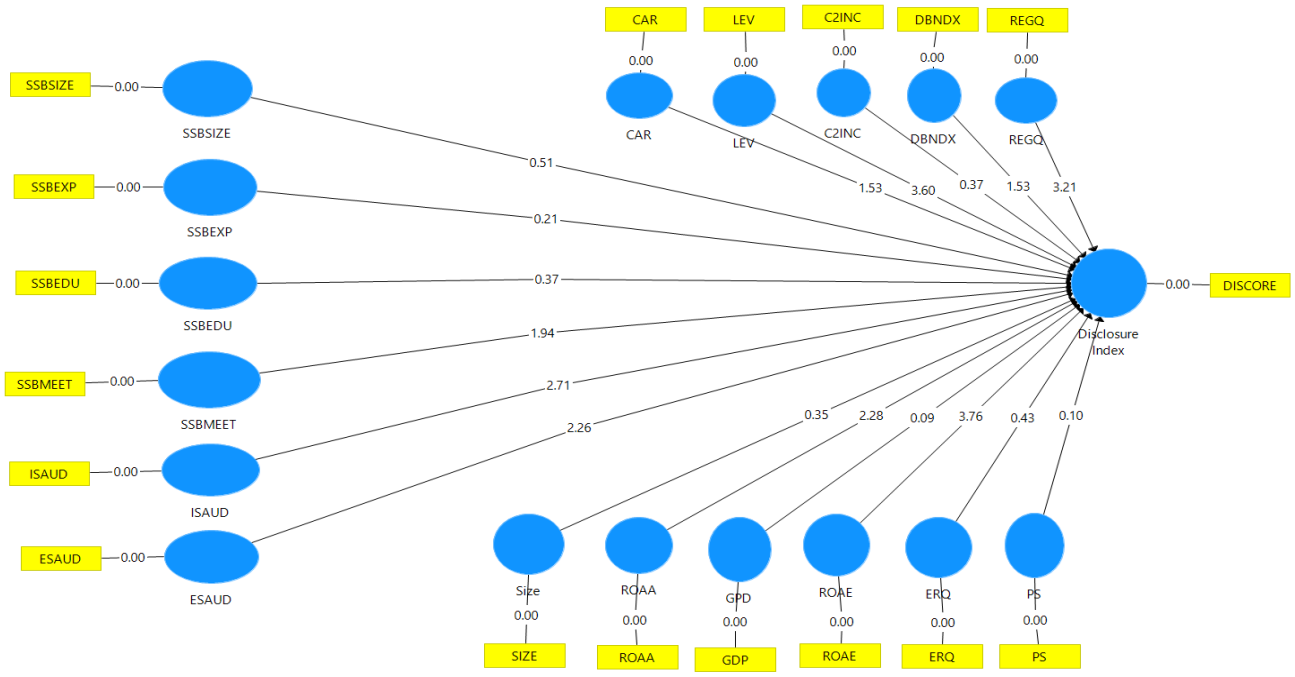
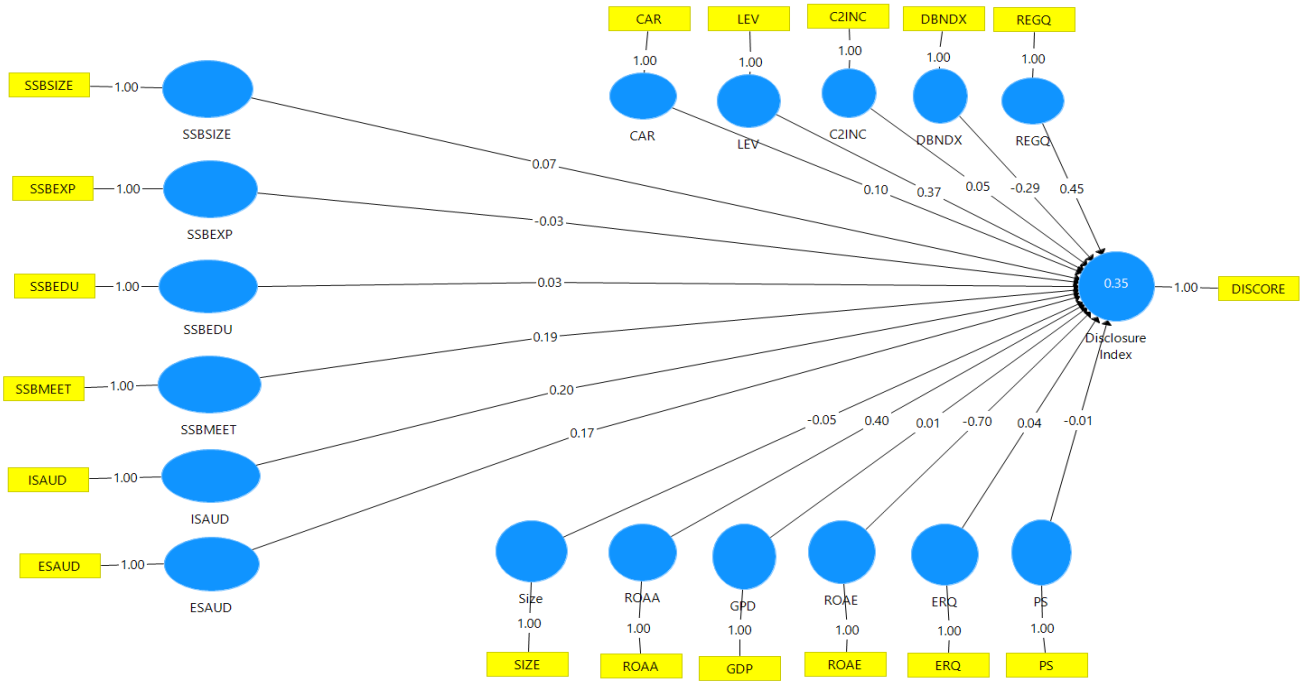


Figure 7.5
Model 2 – Path for the impact of Shariah governance individual dimension on the extent of disclosure



7.5. Conclusion

This chapter discusses in detail the inferential statistics pertaining to the tests and analysis performed to establish the relationship and impact of Shariah governance on the extent of disclosure by Islamic banks. Overall, the result of the regression analysis shows that the Shariah governance strength score has significant positive impact on the extent of disclosure, suggesting that strong Shariah governance mechanisms contribute to greater disclosure and result in higher disclosure. Moreover, the study finds significant positive association between some of the individual Shariah governance variables and extent of disclosure, including SSB meeting frequency, SSB duties defined, internal Shariah audit unit and external Shariah audit.

In summary, the chapter starts with an introduction and then presents the hypotheses, which are tested in line with the research questions. The chapter then presents the main OLS regression analysis performed to test the Shariah governance dimensions and discusses the findings. PLS-SEM analyses performed to support the main regression are then presented, along with the results. Finally, the chapter provides summaries of the data analysis performed and the findings which have been identified.

CHAPTER EIGHT

DISCUSSION OF THE RESULTS AND CONCLUSION

8.1. Discussion of the Results

The current study examines the impact of corporate governance on the extent of disclosure for Islamic and conventional banks in the GCC countries. This chapter discusses and synthesizes the results and provides an overall conclusion for the current study. The chapter thoroughly discusses the findings, synthesizing the results to answer the research questions and concluding on the hypotheses of the current study. The chapter also presents the key research contributions as well as limitations of the study. The chapter concludes with suggestions for future research areas and a summary of the main points discussed.

The main objective of the current study is to examine the impact of corporate governance on the extent of disclosure by Islamic and conventional banks in the GCC countries. Three main dimensions of corporate governance as well as several subdimensions are used as explanatory variables along with bank- and country-level characteristics as control variables. Descriptive and inferential analyses are performed to examine the relationships as well as the impact of these explanatory and control variables on the extent of disclosure by Islamic and conventional banks in GCC countries. Chapter Five discussed the descriptive statistics and presented a detailed account of the disclosure index, examining it from cross-country and cross-dimensional perspectives. Chapter Five also presented the results of the correlation testing performed, highlighting the associations between the variables of interest and the disclosure index. Chapters Six and Seven presented the empirical analysis for the current study, where Chapter Six presented the findings for the impact of corporate governance characteristics on the extent of disclosure for Islamic and

conventional banks and Chapter Seven provided the result of the empirical analysis specific to Islamic banks. To perform the empirical analysis, the current study used an OLS regression analysis. Further analysis was undertaken using OLS robust standard errors and PLS-SEM to attest the robustness of the regression results and ascertain the consistency of the findings. The findings are analysed and discussed next.

8.1.1. Disclosure Index Analysis – Difference between Islamic and Conventional Banks

Research question 1 is concerned with the extent of disclosure by Islamic and conventional banks and investigates whether there is a significant difference in disclosure between Islamic and conventional banks. The result of the disclosure index analysis performed in Chapter Five reveals that, overall, Islamic banks provide less disclosure than their conventional counterparts (mean disclosure score of 68% for Islamic banks and 72% for their conventional counterparts). Further, the result of the independent samples t-test suggests that the difference in disclosure between Islamic and conventional banks is significant ($p = 0.002$). The result of the regression analysis also shows that the Islamic dummy variable has a significant negative coefficient, suggesting that Islamic banks provide less disclosure when compared to their conventional counterparts. The findings are consistent with those of Aribi and Gao (2010), who report significant differences in the disclosure of CSR information between Islamic and conventional banks for a sample of GCC banks. The finding answers one of the research questions concerning whether there is a difference between the disclosure practices of Islamic and conventional banks. The result confirms that there is a difference in disclosure practices between Islamic and conventional banks and that this difference is statistically significant. Given the recent establishment of the Islamic banks in Oman, further analysis is performed to determine if the difference in disclosure among the banks in GCC

countries is due to the age of the bank. However, there was no significant difference found in disclosure practices between the recent (<25 years) and older banks (> 25 years), indicating that the bank age has no significant impact on its disclosure practices. This result seems to support the argument that despite being recent entrants to the market, the Omani Islamic banks have been able to establish strong disclosure practices when compared to Islamic banks in other countries. The findings can be used by regulators and policymakers in other GCC countries to encourage the Islamic banks in their respective countries to adopt similar practices.

8.1.2. Impact of Board of Directors on the Extent of Disclosure

In line with prior studies (Ishak and Al-Ebel, 2013; CIBAFI, 2017; Al-Hadi et al., 2019), the current study develops an index of board effectiveness to examine the impact of the board of directors on the extent of disclosure. The board effectiveness index is comprised of several board-related dimensions, such as board size, independence and meeting frequency, CEO role duality and board diversity. In addition to examining the board characteristics at the aggregate level, the current study examines the individual board characteristics to gain further insight and support the main findings. Table 8.1 provides summary of the result of the hypotheses testing for the board effectiveness dimensions.

Table 8.1
Summary of the Hypotheses Results for the Board Effectiveness

Hypothesis Number	Hypothesis Description	Expected Sign	Results	Conclusion
H_1	*Board effectiveness is positively associated with the extent of disclosure*	Positive	Positive	Accepted
H_2	*There is a positive association between the board size and the extent of disclosure*	Positive	None	Rejected
H_3	*The proportion of independent board members is positively associated with the extent of disclosure*	Positive	Positive	Accepted
H_4	*There is a positive relationship between the number of board meetings and the extent of disclosure*	Positive	None	Rejected
H_5	*There is a negative relationship between CEO role duality and the extent of disclosure*	Negative	Positive	Rejected
H_6	*There is a positive relationship between proportion of women on the board and the extent of disclosure*	Positive	None	Rejected

Overall, the findings in Chapter Six reveal that board effectiveness is significantly and positively associated with the extent of disclosure. Accordingly, hypothesis (H_1) is accepted. The finding, which is significant at the 1% level ($p < 0.01$), suggests that more effective boards (larger in size, meet more frequently, have more independent board members, diverse, etc.) provide greater levels of disclosure. The findings are consistent with those of Ishak and Al-Ebel (2013) and Al-Hadi et al. (2019), who find that the corporate governance quality index (comprised of board characteristics) is significantly and positively associated with the extent of disclosure. This finding suggests that more effective boards enhance transparency and contribute to greater levels of disclosure. Further, the findings provide important insight for regulators, governing bodies, and other stakeholders to strengthen the board of directors by ensuring appropriate board composition in terms of its size, independence, diversity, and CEO role duality, as well as board diligence (measured by number of board meetings per year).

The results of the individual characteristics of the board of directors show important findings which suggest that some of these individual variables have an impact on the extent of

disclosure. While board size is found to be significantly and positively associated with the extent of disclosure in Model (3), however, in Model (6) where all the individual internal control variables along with the control variables are included, board size became insignificant. Similar results are found after running the additional robustness testing and PLS-SEM analysis. Therefore, hypothesis (H_2) is rejected. The finding is in contrast with those of Akhtarudeen et al. (2009), Abeysekera (2010), Hidalgo et al. (2011), Allegrini and Greco (2013), Jizi et al. (2014), Samaha et al. (2015) and Albassam and Ntim (2017), who report a significant and positive association with the extent of disclosure. However, the result is in line with those of Uyar et al. (2013), Ganesan et al. (2017), Nerantzidis and Tsamis (2017) and Khandelwal et al. (2020), who find that board size has no significant effect on the extent of disclosure. The findings seem to suggest that the number of board members does not represent an important indicator of board effectiveness and hence has no influence on the extent of disclosure. The results provide valuable insight to regulators and policymakers in the GCC region with regards to the size of boards. In their effort to enhance the corporate governance mechanism of banks, regulators and policymakers can focus on other measures of board effectiveness such as board independence instead of stipulating a specific number of board members.

Similarly, the research finds that board independence is significantly and positively associated with the extent of disclosure. The association is significant at the 1% level and, accordingly, hypothesis (H_3) is accepted. The findings persist even after robustness testing and further PLS-SEM analysis. The findings are consistent with those of Chen and Jaggi (2000), Cheng and Courtenay (2006), Huafang and Jianguo (2007), Uyar et al. (2013), Jizi et al. (2014), Grassa and Chakroun (2016), Nerantzidis and Tsamis (2017), Husted et al. (2019) and Salem et al. (2019), who find a positive association between board independence and the extent of disclosure. The

findings provide evidence that independent board members strengthen the bank's corporate governance and play an important monitoring role. Further, as suggested by agency and stakeholder theories, independent board members are in a better position to protect the interests of the owners by reducing information asymmetry between managers and owners while addressing the needs of stakeholders by providing greater disclosure. While the findings are consistent with the majority of studies, they are in contrast with those of Ganesan et al. (2017) and Bueno et al. (2018), who find that board independence has no significant impact on the extent of disclosure. The findings are also in contrast with those of Eng and Mak (2003), Barako et al. (2006), Alnabsha et al. (2018) and Tessema (2019), who report that board independence is negatively associated with the extent of disclosure.

Board meeting frequency is found to have no significant association with the extent of disclosure. Accordingly, the hypothesis (H_4) is rejected. This result contrasts with those of Allegrini and Greco (2013), Nerantzidis and Tsamis (2017), and Alnabsha et al. (2018), who found a significant positive relationship between board meeting frequency and extent of disclosure. However, the result is consistent with numerous other studies, such as that of Alini et al. (2016), who find that board meeting frequency is not associated with the extent of risk disclosure for a sample of Italian-listed firms. This suggests that having a greater number of board meetings is not an important indicator of board diligence and has no influence on the disclosure levels of the banks.

CEO role duality is found to be positively associated with the extent of disclosure. Accordingly, hypothesis (H_5*)* is rejected. The findings are inconsistent with those of Gul and Leung (2004), Allegrini and Greco (2013), Neifar and Jarboui (2018) and Husted et al. (2019), who find a significant negative association between CEO duality and extent of disclosure. However, the findings are in line with those of other studies, such as that of Jizi et al. (2014) who

find that CEO role duality is positively and significantly associated with CSR disclosure for a sample of U.S. banks. Drawing from agency and stakeholder theories, the authors explain that the positive impact of CEO duality on disclosure indicates that powerful CEOs do encourage greater disclosure to protect their personal interests while also trying to appease their stakeholders. Based on prior studies and given the cultural context of the GCC countries, the findings from the current study can be understood to suggest that CEO role duality can be considered an internal corporate governance mechanism for promoting greater transparency, thus providing more disclosure to meet stakeholder needs. Similarly, the result for CEO role duality is consistent with that of Grassa and Chokroun (2016), who document a positive association between CEO duality and the extent of corporate governance disclosure for a sample of banks in the GCC countries.

Regarding board diversity (measured by the number of women on the board), the current study does not find any significant association between board diversity and the extent of disclosure. Hence, hypothesis (H_6) is rejected. The findings are consistent with those of Shehata (2017), who find that board diversity is not associated with the extent of corporate governance disclosure for a sample of 270 GCC-listed firms. This suggests that board diversity is not an important determinant for disclosure in the GCC banking industry. Accordingly, it can be understood from the results that having more female board members does not lead to greater levels of disclosure by GCC Islamic and conventional banks. The finding is in contrast with that of Ghabayen et al. (2016), who find that board diversity has a negative impact on the extent of CSR disclosure for a sample of Jordanian listed banks. In a similar vein, the study contrasts with other studies, such as those of Kilic et al. (2015), Allini et al. (2016) and Salem et al. (2019), which find a positive association between board diversity and extent of disclosure.

8.1.3. Impact of Internal Controls on the Extent of Disclosure

This research developed an internal control strength score comprised of the audit committee and the internal audit function characteristics which are most examined in the literature, including audit committee size, independence, meeting frequency and financial expertise, as well as the existence of an independent the internal audit function. Using OLS regression analysis and PLS-SEM analysis, the study examined the impact of the internal control strength score (ICSTRENGTH) on the extent of disclosure for Islamic and conventional banks. The results show several important findings for the impact of internal control strength on the extent of disclosure for Islamic and conventional banks. In addition to the overall internal control strength index results, the regression analysis documents the association between some of the individual internal control strength variables and the extent of disclosure. The current study considers individual audit committee characteristics such as audit committee size, independence, meeting frequency and financial expertise as part of the internal control environment of the bank. Moreover, the study considers the existence and independence of the internal audit function as part of the key individual variables of the internal control environment. Table 8.2 summarizes the result of the hypotheses testing for the internal control strength score and the related individual dimensions.

Table 8.2
Summary of the Hypotheses Results for the Internal Control Strength

Hypothesis Number	Hypothesis Description	Expected Sign	Results	Conclusion
H_7	*The internal control strength has positive association with the extent of disclosure*	Positive	Positive	Accepted
H_8	*The size of the audit committee has a positive relationship with the extent of disclosure*	Positive	Positive	Accepted
H_9	*The proportion of the independent members in the audit committee has a positive relationship with the extent of disclosure*	Positive	None	Rejected
H_{10}	*The number of audit committee meetings held during the year is positively associated with the extent of disclosure*	Positive	None	Rejected
H_{11}	*The proportion of audit committee members with financial expertise has a positive relationship with the extent of disclosure*	Positive	Positive	Accepted
H_{12}	*The existence of an internal audit function has a positive association with the extent of disclosure*	Positive	None	Rejected
H_{13}	*The independence of the internal audit function has a positive association with the extent of disclosure*	Positive	Positive	Accepted

Overall, the results of the regression analysis show that the internal control strength score is significantly and positively associated with the extent of disclosure. The association is significant at the 1% level and is persistent even after running the robustness OLS regression analysis and PLS-SEM analysis. Therefore, hypothesis (H_7) is accepted. This suggests that strong internal control (e.g., effective audit committee and independent internal audit function contributes to greater transparency and results in more disclosure in GCC banks. These internal control systems strengthen the monitoring role of the board of directors and other governance mechanisms, thus helping reduce agency costs and contributing to meeting the information needs of stakeholders through increased disclosure. Additionally, the findings are consistent with the integrated theoretical framework adopted for this study, which posits that effective corporate governance mechanisms strengthen transparency and lead to greater disclosure because they provide owners the mechanism to minimize their agency costs (agency theory), strengthen the bank's ability to

establish its legitimacy (legitimacy theory), signal positive news and good performance (signalling theory) and address stakeholder expectations and meet their needs (stakeholder theory).

Additionally, the results of the regression analysis reveal that some of the individual internal control strength variables have significant impact on the extent of disclosure. Among audit committee characteristics, the study finds that audit committee size is positively and significantly associated with the extent of disclosure. The association is significant at the 1% level. The significant association is persistent under all the models, including Model (6) which considers all corporate governance variables. Further, the additional robustness testing and the PLS-SEM analysis confirm the significant positive impact between audit committee size and the extent of disclosure. Accordingly, hypothesis (H_8) is accepted. The findings are consistent with those of Hidalgo et al. (2011), Akhtaruddin and Rouf (2012), Al-Moataz and Hussainey (2013), Madi et al. (2014) and Appuhami and Tashakur (2017), who find a significant positive association between audit committee size and the extent of disclosure. This suggests that having more audit committee members is likely to contribute to greater levels of disclosure by banks. Accordingly, the findings provide support for forming large audit committees and can be considered by regulators and bank boards of directors when nominating or establishing audit committees. In contrast, Mangena and Pike (2005) and Ridwan and Mayapada (2020) find that audit committee size is not associated with the extent of disclosure.

Audit committee independence is measured by the proportion of independent members to the total number of members. Model (5) of the OLS regression, which includes the individual internal control characteristics along with the control variables, shows that audit committee independence has a significant positive effect on the extent of disclosure at the 5% level. However, the result of Model (6), which includes board variables in addition to the internal control

characteristics and control variables, finds that audit committee independence has no significant impact on the extent of disclosure. One explanation for the change in the level of impact is that it is moderated by individual board variables which cause the impact of audit committee independence to diminish. Consequently, the findings, when considered for all the models, do not support the hypothesis (H_9). Hence, the hypothesis is rejected. This result is consistent with the findings of Kent and Stewart (2008), Hidalgo et al. (2011), Li et al. (2012) and Ridwan and Mayapada (2020), who report that audit committee independence has no significant association with the extent of disclosure. However, the result is in contrast with the findings of Barros et al. (2013), Madi et al. (2014), Appuhami and Tashakur (2017), Garas and ElMassah (2018) and Salem et al. (2019), who document that audit committee independence is significantly and positively associated with the extent of disclosure. Similarly, the findings contrast with those of Buallay and Al-Ajmi (2020), who report that audit committee independence is significantly and positively associated with the extent of disclosure for a sample of GCC firms.

The results of the OLS regression analysis for both Models (5) and (6) confirm that audit committee meeting frequency is not associated with the extent of disclosure. A similar result is found when the robustness testing and additional PLS-SEM analysis are performed. Thus, hypothesis (H_{10}) is rejected. This result is consistent with the findings of Madi et al. (2014), who document that audit committee meeting frequency has no impact on the extent of disclosure in the Malaysian context. In contrast, Allegrini and Greco (2013), Appuhami and Tashakur (2017) and Buallay and Al-Ajmi (2020) find that audit committee meeting frequency has a significant positive association with the extent of disclosure. Nonetheless, the findings suggest that audit committee meeting frequency is not a significant measure of audit committee effectiveness in monitoring and influencing a bank's disclosure policy. Accordingly, it can be argued that having a larger audit

committee meeting frequency does not contribute to a higher level of transparency or result in increased disclosure.

The results show that audit committee financial expertise has a significant positive impact with the extent of disclosure in both Models (5) and (6). The association is significant at the 1% level under Model (5) and at the 5% level under Model (6). The slight decrease in the significance of the association from the 1% level to the 5% level can be attributed to the inclusion of the board characteristics in Model (6). This result is unchanged even after the performance of robustness testing and additional PLS-SEM analysis. Consequently, hypothesis (H_{11}) is accepted. The result is in line with those reported by Mangena and Pike (2005), Li et al. (2012) and Kusnadi et al. (2016), who document the significant positive impact of audit committee financial expertise on the extent of disclosure. In contrast, Akhtaruddin and Haron (2010) find that audit committee financial expertise has no significant effect on the extent of disclosure. Madi et al. (2014) also find that audit committee financial expertise is not associated with the extent of disclosure. Kusnadi et al. (2016) report that audit committee financial expertise results in higher financial reporting quality for a sample of 423 Singaporean-listed firms. Similarly, Appuhami and Tashakur (2017) document that AC financial expertise is not associated with the extent of disclosure for a sample of Australian-listed firms. The result also contrasts with findings by Kent and Stewart (2008) and Buallay and Al-Ajmi (2020), who document that audit committee financial expertise has a significant negative association with the extent of disclosure. The findings of the current study support that having more audit committee members with financial expertise strengthens the monitoring role of the committee and enhances its ability to contribute to greater transparency and better disclosure policy by banks. As a result, the findings of the study provide important insight to regulators, governing bodies and stakeholders to ensure that audit committees have an adequate

number of members with financial expertise so that they can strengthen the overall corporate governance quality of the bank.

The results of the regression analysis indicate that the existence of an internal audit function (IAF) has no impact on the extent of disclosure. Accordingly, hypothesis (H_{12}) is rejected. However, the independence of the IAF (i.e., reporting functionally to the audit committee or the board of directors) has a significant positive impact on the extent of disclosure. The impact is significant at the 1% level and remains at the 1% level after running the additional robustness analysis and PLS-SEM regression analysis. Therefore, hypothesis (H_{13}) is accepted. The findings are consistent with those of Razek (2014), Alzeban (2019), Sulub et al. (2020) and Tumwebaze et al. (2022), who find that the quality of an IAF and its independence contributes to greater transparency and results in increased disclosure. However, the findings are in contrast with those of Lin et al. (2011), who report that IAF objectivity (measured by the communication of the chief audit executive with the audit committee of the board) has no significant impact on the extent of material weakness disclosure.

Overall, the significant impact of IAF independence on the extent of disclosure lends support to the postulation that the existence of an independent IAF plays an important role in the overall corporate governance of banks. Therefore, the result can be used by regulators and the oversight bodies of banks (e.g., board of directors) to enhance corporate governance quality by strengthening the independence of the IAF. It is worth noting that the role of the IAF has gained greater attention after the 2000 accounting scandals and the 2008 financial crisis, when many regulators, standard setters and governing bodies began requiring the establishment of an in-house IAF with a sufficient level of independence from management to monitor management activities and internal control processes and report to the board and other governing parties.

8.1.4. Impact of Shariah Governance on the Extent of Disclosure (Specific to Islamic Banks)

In line with prior studies (Farook et al., 2011, Rizkiningsih and Dewi, 2015, Elamer et al., 2019), this study develops a Shariah governance strength score comprised of the Shariah governance characteristics most examined in the literature, including SSB size, meeting frequency, educational qualification and financial expertise and the existence of internal and external Shariah audits. Drawing on an integrated theoretical framework and using OLS regression analysis and PLS-SEM analysis, the current study examines the impact of the Shariah governance strength score (SSBGOV) on the extent of disclosure for GCC Islamic banks. The results of the study show several important findings for the impact of Shariah governance on disclosure for Islamic banks. Table 8.3 summarizes the result of the hypothesis testing for the impact of Shariah governance strength on the extent of disclosure.

Table 8.3

Summary of the hypotheses results for Impact of Shariah Governance Strength

Hypothesis Number	Hypothesis Description	Expected Sign	Results	Conclusion
H_{14}	*The Shariah governance strength has a positive association with the extent of disclosure*	Positive	Positive	Accepted

Overall, the study finds that the Shariah governance strength score is significantly and positively associated with the extent of disclosure. The association is significant at the 1% level. Therefore, hypothesis (H_{14}) is accepted. This suggests that stronger and more effective Shariah governance processes enhance the overall corporate governance function of Islamic banks and contribute to greater transparency and increased disclosure. It can be understood from the findings

that the SSB plays an important monitoring and oversight role in Islamic banks and can be an effective mechanism for ensuring that Islamic banks discharge their responsibility to provide more disclosure. Drawing from the integrated theoretical framework adopted for the current study, the results indicate that strong monitoring by an SSB helps reduce the bank's agency costs and addresses the information needs of Islamic bank stakeholders by providing increased disclosure. Further, through increased disclosure, the SSB enhances the legitimacy of Islamic banks and signals to the community the Islamic banks' commitment to transparency, as emphasized by the Shariah. The result is consistent with those of Farook et al. (2011), Abdul Rahman and Bukair (2013) and Elamer et al. (2019), who find that the Islamic governance index is significantly and positively associated with the extent of various types of disclosures, such as risk governance and CSR, for a sample of Islamic banks in the MENA and Southeast Asian regions. The finding is in contrast with that of Rizkiningsih and Dewi (2015), who document that Shariah governance strength has no significant impact on the extent of disclosure.

As for the individual Shariah governance variables, the current study finds no significant association between SSB size and the extent of disclosure. The result is consistent with those of Wan Abdullah et al. (2013), Sencal and Asutay (2021), as well as Ridwan and Mayapada (2020), who report that SSB size does not have any significant impact on disclosure. The result is in contrast with that of Grassa et al. (2018), who report that SSB size has a significant positive association with the extent of product and services disclosure. The research finds that SSB educational qualifications is also insignificant. The findings are consistent with those of Ridwan and Mayapada (2020), who find that educational qualifications of the SSB have no significant impact on disclosure. The current study also finds that SSB financial expertise has no impact on the extent of disclosure. The result is in contrast with that of Wan Abdullah et al. (2013), who find

that SSB financial expertise has a significant positive relationship with the extent of CSR disclosure. However, the result is consistent with that of Ridwan and Mayapada (2020), who report that SSB financial expertise is not related to extent of disclosure.

The study also finds that the SSB duties defined (SSBDD) variable has a significant positive impact on the extent of disclosure. This suggests that having well-defined roles and responsibilities for the SSB contributes to enhancing the overall effectiveness of the SSB, thus resulting in SSB members being able to discharge their duties more diligently, including the promotion of greater disclosures. Moreover, SSB meeting frequency has a weak positive association with the extent of disclosure. The association is significant at the 10% level. The findings lend support to the argument that having more SSB meetings strengthens the monitoring and oversight role of the SSB and results in greater levels of disclosure.

The results suggest that the existence of an internal Shariah audit unit has no significant impact on the extent of disclosure. The findings persist even after the additional robustness testing and PLS-SEM analysis are performed. The findings are somewhat in contrast with those of Sencal and Asutay (2021), who document that Islamic banks which have a dedicated internal Shariah audit function provide greater levels of disclosures in their annual Shariah reports. Finally, the results show that external Shariah audits have a significant positive association with the extent of disclosure. The association is significant at the 1% level. This suggests that an independent external Shariah audit is an important governance mechanism which helps strengthen the overall governance of Islamic banks and contributes to enhanced transparency and greater disclosure.

8.1.5. Association of firm- and country-level characteristics with extent of disclosure

Regarding the control variables considered for the current study, the results suggest that size is positively and significantly associated with the extent of disclosure. The significant association is persistent in all the OLS regression models (Model 1 through 6), including the model which contains all the individual corporate governance variables considered for the current study (Model 6). The result is consistent with those of most prior studies (Hossain et al., 1995; Naser et al., 2002; AlSaeed, 2006; Uyar et al., 2013; Nerantzidis and Tsamis, 2017; Elamer et al., 2019), which find that company size is positively associated with the extent of disclosure. In line with the integrated theoretical framework adopted for the current study, the findings suggest that larger banks are more inclined to provide higher levels of disclosure to reduce their agency costs, enhance their legitimacy and meet stakeholder expectations.

Two profitability measures, namely ROAA and ROAE, are used to examine their association with the extent of disclosure. The results suggest that there is no significant relationship between ROAA and the extent of disclosure. However, unexpectedly, the results show that ROAE has a strong negative association with the extent of disclosure. This result is unexpected since prior literature supports the argument that when profit margins are high, management is more likely to disclose more information to signal the positive news to its stakeholders and communicate successes (Singhvi and Desai, 1971; AlSaeed, 2006; Mohamed and Basuony, 2015). This finding contradicts with most prior studies (Gul and Leung, 2004; Cheung et al., 2007; Jizi et al., 2014; Shehata, 2017), which find a positive association between ROAE and extent of disclosure. However, the findings are in line with some other studies which find a negative association between profitability and extent of disclosure. For instance, Rouf (2012) finds that profitability is negatively associated with the extent of voluntary disclosure for a sample of 120 listed firms in

Bangladesh. Similarly, Allini et al. (2016) find that ROAE is negatively associated with the extent of disclosure for a sample of Italian companies. Garas and ElMassah (2018) report a significant negative association between profitability and extent of CSR disclosure for a sample of GCC firms.

Leverage is found to be positively associated with the extent of disclosure. The finding is consistent with several studies which find that leverage is positively associated with the extent of disclosure (Hossain et al., 1995; Baldini et al., 2018). These studies explain that in line with agency theory, firms that are highly leveraged try to provide more disclosure to reduce agency cost. This is in contrast with Uyar et al. (2013), who find that leverage is negatively associated with the extent of disclosure for a sample of Turkish-listed firms. The result also contradicts with that of Garas and ElMassah (2018), who find that leverage has no significant impact on CSR disclosure for a sample of GCC firms.

The index of doing business is found to be significantly and negatively associated with the extent of disclosure, while the regulatory quality ratio has a significant positive association with the extent of disclosure. This suggests that a highly efficient business environment may not support or require more disclosure of information. On the other hand, firms operating in countries with stronger regulatory environments may be required to provide greater disclosure to meet the information needs of stakeholders and the public.

The results of the study also indicate that Islamic bank dummy variable is negatively associated with the extent of disclosure. This suggests that Islamic banks provide less disclosure when compared to their conventional counterparts, and the difference is statistically significant. Similar results are found by Grassa and Chakroun (2016), who report that the nature of a bank being Islamic bank is negatively associated with the extent of disclosure.

8.2. Research Contributions

This research contributes to the literature in several ways both at the theory and practical levels. First, the study develops a comprehensive disclosure index comprised of six categories, namely 1) strategy and business profile, 2) corporate governance, 3) risk governance, 4) social responsibility, sustainability and value creation, 5) Shariah governance and 6) financial information. Most prior studies, especially those related to GCC countries, focus on specific aspects of disclosure (e.g., risk disclosure, intellectual property disclosure or CSR-related disclosure). Therefore, by developing a comprehensive disclosure index comprised of six categories and 70 items, the current study helps shed light on unexplored areas of disclosure and examines its determinants to better inform future research on the subject.

Second, the study extends the literature on corporate governance and disclosure by testing corporate governance literature at two levels: first at the thematic level, and second at the individual variables level. The three main thematic areas of corporate governance for Islamic and conventional banks are developed and considered to examine their impact on the extent of disclosure. These are board effectiveness, internal control strength, and Shariah governance strength (specific to Islamic banks). An index is developed for each of the three thematic areas, in line with prior studies (e.g., CIBAFI, 2017) which have used a board composite to analyse the effectiveness of the board of directors as a key corporate governance mechanism. Further regression testing is performed to examine the underlying individual corporate governance variables and determine their impact on the extent of disclosure, thus enabling the researcher to gain more insight and further validate the results.

Third, the current study extends the literature on disclosure by analysing certain corporate governance explanatory variables which are less explored in the literature, especially in studies related to the GCC countries. For instance, this study considers the impact of the internal audit function as a mechanism of corporate governance as part of the internal control strength of the bank. While the internal audit function as a corporate governance mechanism has been explored in developed countries, there is very limited research in developing countries, including the GCC, which examines the impact of the internal audit function on disclosure. By considering the internal audit function as a determinant of disclosure, the current study sheds light on this corporate governance mechanism and informs policymakers and regulators considering ways to enhance the role of the internal audit function in the banking sector. On the other hand, for Islamic banks, the current study considers less explored Shariah governance characteristics such as the internal Shariah audit function and the performance of an external Shariah audit.

Additionally, the study examines whether the age of the bank is associated with the extent of disclosure. While firm age has been considered as an explanatory variable in other studies (AlSaeed, 2006; Grassa and Chakroun, 2016; Harun et al., 2020), to the best of the researcher's knowledge, this has not been widely explored by prior studies of all GCC countries. Only a study by Harun et al. (2020) considers firm age as a control variable for all GCC countries. Other studies, such as those of AlSaeed (2006) and Grassa and Chakroun (2016), use bank age only for some of the GCC countries. In contrast, this study covers all GCC countries, including Oman, and examines the association of bank age with the extent of disclosure. The bank age variable is of particular importance to Oman because of the Islamic banking industry in Oman being a relatively new development compared to other GCC countries. Also, to-date there is limited research on the Omani Islamic banking industry. By considering bank age as a control variable, the current study

is able to determine whether bank age has any impact on the extent of disclosure, thereby providing an insight to better understand the factors affecting the disclosure practices of the Omani Islamic banks.

The current study also performs a comparative analysis of the level of disclosure by Islamic and conventional banks in GCC countries, using aspects of corporate governance as explanatory variables. The study considers various categories of disclosure such strategy, corporate governance, risk governance, CSR, Shariah and financial information. While the extant literature has some prior studies which compare GCC Islamic and conventional banks, most of them examine bank performance. Even those which are related to disclosure only focus on specific categories of disclosure such as CSR, risk governance or intellectual property disclosure. The result of the disclosure comparative analysis of GCC Islamic and conventional banks undertaken in this research shows that generally conventional banks provide greater disclosure. Moreover, the results indicate that there is a statistically significant difference in the level of disclosure between Islamic and conventional banks.

Finally, the result of the study has important implications for both Islamic and conventional banks. As shown in the results, there is significant difference in disclosure levels between Islamic and conventional banks, with higher levels of disclosure provided by conventional banks. This means that Islamic banks should reassess their disclosure policies and make enhancements to ensure that greater transparency and disclosure is provided by Islamic banks in line with the Shariah emphasis on full transparency. With regards to the role of the audit committee, the result shows that having an effective audit committee plays an important role in the overall governance of GCC banks. This result can be used by regulators and bank stakeholders to continue strengthening the role and function of the audit committee for both Islamic and conventional banks.

The result also shows that having an external shariah audit is an important Islamic corporate governance mechanism for Islamic banks as it contributes to greater disclosures. Regulators, standard setters, and stakeholders of Islamic banks can use this result to mandate the external shariah audit on Islamic banks similar to the external audit performed by audit firms to verify the integrity of the financial statements independently and objectively.

8.3. Critical Reflections on the Results in Light of the Integrated Theoretical Framework

Based on the theoretical framework adopted for the study, the overall result of the current study shows that effective corporate governance contributes to greater levels of disclosure and enhances transparency for both Islamic and conventional banks. The result provides support to the hypotheses adopted for the current study and answers the research questions while also providing critical insight into the integrated theoretical framework underpinning the study. The integrated theoretical framework (ITF) is comprised of agency theory, stakeholder theory, legitimacy theory and signalling theory, which are considered in the extant literature as the theories most associated with study of corporate governance and disclosures. The ITF postulates that effective corporate governance enables firms to provide greater levels of disclosure, which helps reduce information asymmetry and fulfil not only the needs of the owners of the firm, but that of all stakeholders. This results in mitigating agency problems, enhancing and maintaining its legitimacy and signalling adherence to social contract, value creation, and compliance with Shariah rules (Islamic banks). While the result is consistent with some components of the ITF, however, it falls short in providing adequate support for other aspects of it. Several important insights can be drawn when analysing the results of the study in light of the ITF.

First, the result shows that effective board and audit committee oversight on management leads to greater levels of transparency and disclosure, which in turn reduces information asymmetry and agency problems. The result also shows that stronger internal control environment contributes to higher levels of disclosure. Therefore, it can be concluded that the result is consistent with the explanations provided by the agency theory. Second, the findings are consistent with the explanations provided by the stakeholder theory, which suggest that effective corporate governance structures enhance transparency and disclosure of information to the various bank stakeholders such as employees, customers, owners, investment account holders, and the community at large.

Third, in the case of Islamic banks, the result provides some important implications, which should be considered by the Islamic bank stakeholders. The result shows that stronger Shariah governance contributes to greater disclosure of information, including Shariah related disclosures, which in turn helps address the information needs of the various Islamic bank stakeholders. While this provides partial support to the expectation of the ITF, however, it falls short in providing full and direct support for the ITF's expected results, which is that Islamic banks provide greater transparency due to the additional governance elements in its structure such as the SSB and *Shuratic* decision-making process. This is because the actual results show that Islamic banks provide less disclosure than their conventional counterparts. This could be explained by fact that Islamic banks' corporate governance is in reality closer to the shareholder based, conventional bank model than it is to the normative Islamic corporate governance model (Abdullah and Asutay, 2021). For instance, even though the *shura* principle is supposed to be operationalized and reflected in all the board and senior management meetings and decision-making activities, however, there is no sufficient evidence that shows this is implemented fully by Islamic banks.

Accordingly, additional effort needs to be made by concerned stakeholders to ensure that Islamic banks fully implement the Islamic corporate governance model and embed its elements in the activities of governing bodies such as the board of directors and the SSB.

Finally, the result shows that an external Shariah audit performed by an independent party strengthens the Shariah governance in Islamic banks and contributes to greater transparency. This result provides support to the ITF as the independent audit helps reduce agency problems and address the need of the stakeholders for more objective independent assessment of the Islamic bank's compliance with the Shariah rules. The independent validation of the Islamic bank's compliance with the Shariah also lends greater legitimacy to the Islamic bank and signals to the stakeholders the Islamic bank's commitment to the teachings of the Shariah.

8.4. Research Limitations

The current study has performed a comprehensive analysis of the impact of various corporate governance characteristics on the extent of disclosure by using a disclosure index comprised of six categories and 70 items. Despite the insightful results gained from the study, it is the case that every study will have some limitations. This research is no exception and therefore has several limitations.

First, the scope of the current study is the GCC region, which plays crucial role in the global Islamic banking industry and has the highest share of Islamic finance assets globally. According to the Islamic Financial Services Board (IFSB), the total assets of the Islamic banks in the GCC countries constitute 52.4% of the total global Islamic finance assets (IFSB, 2021). While the study makes significant contributions in furthering the study of corporate governance related to the GCC countries and shedding light on the corporate governance mechanisms which play a

crucial role in enhancing the level of transparency and disclosure for GCC banks, the result may not be generalized or applied to other regions such as Southeast Asia due to differences in culture, geography and business practices. Therefore, further studies may be required to incorporate other regions such as Southeast Asia. Second, another limitation somewhat related to the first one is sample size and number of years. The sample size, which is 52 GCC Islamic and conventional banks, is based on banks which have annual reports available for the years of the study (i.e., 2015 through 2019) since the data are hand collected from annual reports. Moreover, although the study considers the annual reports for the sample banks for 5 years, it can be argued that more years of data would provide greater insight and more meaningful results.

Third, this research unexpectedly finds that CEO role duality is positively associated with the extent of disclosure. This suggests that powerful CEOs contribute to greater transparency and provide more disclosure. However, as this finding is inconsistent with the majority of prior studies which expect CEO duality to have a negative impact on disclosure, the current study is unable to fully explain the reasons for the positive association. Fourth, the current study considers gender (i.e., number of women on the board) as a proxy for board diversity and examines its impact on the extent of disclosure. While this is an important aspect of board diversity, there are other elements such as age and educational background which the current study does not take into account. Accordingly, the study may not be fully capturing some important determinants related to board diversity.

8.5. Future Research Areas

Future research may consider expanding the current study by adding other geographic locations such as Southeast Asia and by performing comparative studies for GCC and Southeast

Asia banks. Moreover, future research can further examine the reasons why, in the GCC banking industry context, CEO duality is positively associated with the extent of disclosure. This can provide insightful analysis which may help the industry and/or regulators determine if combining the role of the CEO and board chairmanship leads to more effective corporate governance of banks and greater transparency.

The study considers the impact of board diversity, measured by the number of women on the board, on the extent of disclosure. The study finds no association between board diversity and the extent of disclosure. Given the fact that the current study considers only gender as a proxy for board diversity, future studies can expand on considering multiple features of board diversity such as age and educational background.

8.6. Conclusion

The current research examines the impact of several corporate governance mechanisms on the extent of disclosure by Islamic and conventional banks in the GCC countries. To this end, the study develops a composite of the main thematic dimensions of corporate governance, namely, board effectiveness, internal control strength and Shariah governance strength. Additionally, the study examines the effect of the individual corporate governance characteristics on the extent of disclosure along with several control variables which are most associated with disclosure. The study undertakes OLS regression analysis to measure the impact of corporate governance characteristics on the extent of disclosure. Further robustness testing and PLS-SEM analysis are performed to support and confirm the result of the main regression analysis.

The results of the regression analysis shows that all three main indexes have a significant and positive impact on the extent of disclosure, providing support to the hypotheses and answering

research questions regarding the impact of corporate governance mechanisms on the extent of disclosure. In addition, the results show that several individual corporate and Shariah governance characteristics have a significant impact on the extent of disclosure by Islamic banks. For instance, board independence, CEO role duality, audit committee size, audit committee financial expertise and internal audit independence are found to have a significant impact on the extent of disclosure.

The overall result of this study provides support that corporate governance mechanisms such as the board of directors, the audit committee, and an internal audit function contribute to greater transparency and result in higher levels of disclosure. Moreover, the results confirm that effective Shariah governance plays an important role in enhancing the disclosure practices of Islamic banks. The results of the findings can be used by regulators, policymakers, Islamic and conventional bank management and their stakeholders to strengthen corporate governance and empower boards and audit committees so that they can promote transparency and better disclosure policies.

APPENDICES

Table A1
Self-Developed Disclosure Index

Disclosure Category	Disclosure Item	References
A) Bank profile & Strategic Information		
	1. Background and overview of the bank	Meek et al. (1995); Haniffa & Cooke (2002)
	2. Mission and vision statement	Barako et al. (2006)
	3. Mission statement reflects commitment to Shariah rules & principles	Haniffa & Hudaib (2007); Abdul Rahman & Bukair (2013)
	4. Statement about the strategic goals and objectives of the bank	Lang & Ludholm, 1992; Lan et al. (2013)
	5. Organizational structure	Brako et al. (2006)
	6. Major customers and markets	Gul & Leung (2004)
	7. Major product lines	Botosan (1997)
	8. Future prospects of the bank	Ho & Wong (2001); Haniffa & Cooke (2002)
B) Corporate Governance		
	9. Board size	CIBAFI (2017)
	10. Separation of the roles of Board Chairperson and CEO	CIBAFI (2017)
	11. Number of independent board members	Barros et al. (2013); CIBAFI (2017)
	12. Board of director names and titles	Akhtaruddin et al (2009)
	13. Pictures of board of directors	Haniffa & Cooke (2002)
	14. Educational qualification of board members	CIBAFI (2017) Saha & Akter (2013)
	15. Board meetings and attendance information	Saha & Akter (2013); CIBAFI (2017)
	16. Compensation of board of directors	Akhtaruddin et al (2009)
	17. Existence of audit committee	Haniffa & Hudaib (2007); Barros et al. (2013) CIBAFI (2017)
	18. Membership of the audit committee	CIBAFI (2017)
	19. Names and titles of the audit committee	Wan Abdullah et al. (2014)
C) Risk Governance		
	20. General risk information	Allegrini & Greco (2013); Abdallah et al. (2015)

Disclosure Category	Disclosure Item	References
	21. Bank's approach to risk management	Ariffin et al. (2007)
	22. Existence of Risk governance committee	BCBS (2018) CIBAFI (2017)
	23. Chief Risk Officer position exists	CIBAFI (2017)
	24. Types of risks, including financial, operational and other risks	Ariffin et al. (2007) Abdallah et al. (2015) BCBS (2018)
	25. Reserves, including statutory and legal reserves	Abdallah et al. (2015) BCBS (2018)
D) Shariah Governance[30]		
	26. Shariah supervisory board names and titles	AAOIFI, 2012; Haniffa & Hudaib (2007)
	27. Educational background of the SSB members	Abdul Rahman & Bukair (2013); Che Azmi et al (2016)
	28. Cross-directorship in other Islamic banks	Hassan, 2011
	29. Compensation paid to members	Haniffa & Hudaib (2007)
	30. Structure and role of the Shariah Audit Unit	Wan Abdullah et al. (2015); Albassam & Ntim (2017)
	31. Information about the Shariah audits and the Shariah Audit department	Farook et al. (2011); Aribi et al. (2019)
	32. Detailed Shariah audit report, including findings, recommendations and remedial actions	Farook (2011); Wan Abdullah et al. (2015)
	33. SSB fatwas and religious rulings and their basis	Abdul Rahman & Bukair (2013); Aribi et al. (2019)
	34. Report on Shariah compliance and any violations occurred during the period	Che Azmi et al (2016); CIBAFI (2017); Aribi et al. (2019)
	35. Nature and amount of prohibited (haram) income	Abdul Rahman & Bukair (2013); Che Azmi et al (2016)
	36. Information about how the prohibited income is disposed	Aribi et al. (2019)
	37. Zakat calculation and distribution	Haniffa & Huddaib (2007); Ousama & Fatima (2010)
	38. Profit & loss distribution to Investment account holders	CIBAFI (2017)
	39. Information about Qard Hassan	Ousama & Fatima (2010); Che Azmi et al (2016)
	40. Policy on how to deal with late payments, insolvent customers, and defaults	Farook et al. (2011)

[30] Disclosure items related to the Shariah governance category are specific to Islamic banks and are taken into account only when calculating the score for the Islamic banks.

Disclosure Category	Disclosure Item	References
E) Social Responsibility, Sustainability, and Value Creation		
	41. Approach and strategy towards value-based intermediation	Haniffa & Huddaib (2007)
	42. Commitment to value creation, positive impact, and community empowerment	Haniffa & Cooke (2002)
	43. Policy on sustainable business practices	Jizi et al. (2014)
	44. Commitment to good governance	Akhtaruddin et al. (2009)
	45. Information about product offerings aimed at achieved value-based intermediation	Jizi et al. (2014)
	46. Scorecard on measuring the outcome of the value-based intermediation initiative	Allegrini & Greco (2013)
	47. Sponsoring community programs and activities (education, sports	Haniffa & Cooke (2002); Jizi et al. (2014)
	48. Supporting charitable community initiatives	Haniffa & Cooke (2002)
	49. Participation in government initiatives aimed at community development	Meek et al (1995) Lan et al. (2013)
	50. Safety programs and information	Lang & Ludholm, 1992, Meek et al., 1995
	51. Policies on protection and concern for the environment	Wan Abdullah et al. (2015); Albassam & Ntim (2017)
	52. Environmental protection activities	Abdul Rahman & Bukair (2013);
	53. Initiatives and campaigns for the environment such as recycling and energy preservation	Abdul Rahman & Bukair (2013);
	54. Employee welfare	Abdul Rahman & Bukair (2013);
	55. Training provided to employees	Allegrini & Greco (2013)
	56. Significant changes in personnel	Albassam & Ntim (2017)
	57. Employee code of conduct and ethics	Atan et al. (2016)
	58. Information about customer services	Mohammed et al. (2019)
	59. Commitment to customer satisfaction	Atan et al. (2016); Mohammed et al. (2019)
F) Financial Information		
	60. Revenue and market share information	Barros et al. (2013)
	61. Financial ratios	Gul & Leung (2004); Lan et al. (2013)
	62. Income and profitability	Gul & Leung (2004); Lan et al. (2013)
	63. Cash flow analysis	Ho & Wong (2001); Barros et al., (2013)
	64. Details of expenditures (capital and operating)	Ho & Wong (2001)
	65. Comparison of previous financial performance to current year actuals	Gul & Leung (2004)
	66. Significant accounting policies and changes in policies during the period	Meek et al (1995); Barako et al. (2006)

Disclosure Category	Disclosure Item	References
	67. Segment reporting	Barrett (1977); Haniffa & Cooke (2002)
	68. Stock price information and analysis	Meek et al. (1995); Ho & Wong (2001); Gul & Leung (2004)
	69. Financial forecasting and future financial outlook	Ho & Wong (2001); Lan et al. (2013)
	70. Shareholder equity	Barrros et al. (2013)

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