

Ethical Disclosure in the *Shari'ah* Annual Reports of Islamic Banks: Discourse on *Shari'ah* Governance, Quantitative Empirics and Qualitative Analysis

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Abstract

Purpose: As an essential component of Islamic governance for ensuring religious compliance, *Shari'ah* Annual Reports (SARs) play an important role in providing communication between *Shari'ah* Board (SB) members and stakeholders. This research, hence, aims at determining the ethical disclosure in SARs to identify how close the *Shari'ah* disclosure to the standards set by AAOIFI and also substantive morality of Islam. The research also aims to examine the factors determining disclosure performance.

Design/Methodology/Approach: Two disclosure indices are developed to generate data from the SARs: (i) the AAOIFI standards for *Shari'ah* governance index for form related approach, (ii) an Islamic ethicality augmented index reflecting on substantive morality approach. The sample consists of 41 Islamic banks from 15 different countries for the period of 2007-2014. Sampled 305 SARs were examined through disclosure analysis in line with the two indices developed for this study. An econometric analysis was run to identify the factors determining disclosure performance.

Findings: The findings suggest that AAOIFI guidelines have an influence on the level of disclosure, even if Islamic banks have not adopted them. However, the level of disclosure for the ethically augmented index is found to be very limited with reliance on general statements in most of the cases. As part of determining factors, the popularity of *Shari'ah* scholars is significant for both indices, while the existence of an internal *Shari'ah* auditing department holds some explanatory power. The adoption of AAOIFI standards at the country level, the regulatory quality and the duration of *Shari'ah* compliance are particularly deterministic factors in terms of complying with AAOIFI standards for SARs.

Originality/Value: Although *Shari'ah* Board is the most crucial division of corporate governance in Islamic banks in terms of securing the 'Islamic' identity of these institutions, their most important communication instrument, namely, SAR, has not been explored sufficiently, alongside an insufficient attempt to constitute ICG. Initially, this study attempted to constitute an Islamic corporate governance framework as a theoretical construct which provides context for the empirical part of the research, and this should be considered a novel approach. Secondly, the empirical part of the research aims to fill the gap observed in the literature, such as small sample size and index construction related matters. This research is conducted with a larger sample size as compared to the available studies in the literature, and it has developed two indices for disclosure analysis along with developing Islamic morality-based index beside an index based on AAOIFI standards.

Keywords: *Shari'ah* Annual Report; Islamic Corporate Governance; Disclosure Analysis; Ethical Disclosure; Islamic Banks

1. Introduction

Corporate governance (CG) has been an emerging topic of study highlighted by an increased interest during the last decade mainly due to its essential role in the financial system and the globalisation of the economy. By playing a crucial role in the working mechanisms of the economy, analyses and explorations of CG from different perspectives have emerged, offering types of corporate governance systems – including outsider and insider systems - (Dignam and Galanis, 2016), information disclosure (Hermalin and Weisbach, 2012) and the role of CG in bank failures (Berger *et al.*, 2016).

With the emergence of Islamic banks (IBs) following the 1970s, CG models in conventional systems were studied from an Islamic perspective to explore possible conformity with Islamic principles and viability in IBs with the objective of locating and/or developing a distinctive GC structure for these institutions in line with Islamic operational principles (Abu-Tapanjeh, 2009; Choudhury and Hoque, 2006; Muneeza and Hassan, 2014). Although IBs' CG is similar to the conventional CG in its structural and functional nature, an essentialisation of Islamic norms, values and forms, as part of its construct, makes Islamic Corporate Governance (ICG) distinct, particularly, in terms of *Shari'ah* governance and accounting practices with a specific emphasis on a holistic approach intrinsic to Islam, articulated through transparency, environmental concerns, the rights of stakeholders and social justice (Choudhury and Hoque, 2004; Kamla *et al.*, 2006; Kamla, 2009; Haniffa and Hudaib, 2011; El-Halaby and Hussainey, 2015). Thus, despite the fact that a majority of the IBs follow shareholder CG in their operation, tempered by some twists of *Shari'ah* compliancy ameliorated via the input of Islamic law or *fiqh* due to the realism of market conditions, ICG is considered to be a product of Islamic Moral Economy (IME) by essentialising the substantive morality inherent within Islam in relation to incorporating the larger stakeholders' interests.

Implementation of Islamic norms and values in the IBs essentialises the 'Islamic identity' of these institutions, which renders them as a separate sector, namely, the Islamic banking sector, within the existing capitalist financial system. However, the practice evidences that convincing the customers of *Shari'ah* compliance of IBs is more important for them than providing *Shari'ah* compliant products and services or managing the IBs in line with the normative expectations of the ICG principles. In order to assure *Shari'ah* compliance of an IB, as well as, its products, services and operations, and ensure customers' trust in *Shari'ah* compliance, IBs incorporate *Shari'ah* Boards (SB), an institution of larger ICG, in various forms and titles, as

a distinct division compared to conventional CG (Malkawi, 2013). Thus, ICG has been relegated to the operation of SBs in a functional sense before even attempting to constitute the ICG, as IBs aim to secure efficiency by only adopting elements of a form-based Islamisation, thereby, ensuring *Shari'ah* compliancy at the expense of ICG's essentialised objective of equity and stake-holding.

The SB constitutes one of the most important and distinguishing features of ICG in IBs. The role of a SB is to assure that operations undertaken by IBs comply with *Shari'ah* rules and principles through directing, reviewing and supervising activities within an IB (Malkawi, 2013). To provide customers with confidence in the *Shari'ah* compliance of products and services offered by IBs, as the AAOIFI (the Accounting and Auditing Organisation for Islamic Financial Institutions) standards identify, SBs are expected to issue an annual *Shari'ah* compliance report to disclose the necessary information to assure stakeholders that the operations of IBs are conducted according to *Shari'ah* rules and principles. Although a SB's annual report provides the most important intermediary between the SB and stakeholders, the extent of disclosure by SBs varies among the IBs considerably being determined by individual SB's efforts and transparency. As a standard setting body for *Shari'ah* compliancy in Islamic financial institutions, the AAOIFI does not possess enforcement powers while their standards are form or *fiqh* oriented rather than reflecting the substantive morality of Islam.

In order to fill the identifiable gaps in the literature, the study explores SAR disclosure levels and performance of Islamic banks through an index developed by virtue of the application of AAOIFI standards in relation to *Shari'ah* governance. In addition, as mentioned above, this study adopts a critical approach towards evaluating AAOIFI standards and constructs a more demanding and extended index based on an ICG framework developed through the ethical positioning of IME. This is rationalised on the grounds that IBs' Islamic compliance should not be limited to 'legal and form' matters, and should also integrate 'substance,' as Islam promotes a comprehensive and integrated view of the world. Thus, Islamic morality augmented index essentialises a more detailed level of disclosure due to its emphasis on ethical outcomes, such as, transparency, along with other features based on the substantive morality argument of IME. This constitutes a significant and critical conceptual contribution by this study to the existing body of knowledge. Consequently, this research examines the content of SARs and their level of disclosure for 41 Islamic banks from 15 different countries for the period of 2007-2014, by applying two different indices.

An econometric analysis of SARs is conducted by examining the factors affecting such disclosure through analysing bank level and country level variables, through the disclosure data generated from the sampled banks. The empirical contribution is also significant as this study provides the largest sample size for SAR-based disclosure analysis available in the literature along with examining data generated through two different sets of indices. Finally, a brief qualitative analysis of SAR reports is attempted to render further evidence qualifying the *Shari'ah* governance issues affecting IBs.

The rest of the paper flows as follows: Section 2 presents a literature review by referring to the empirical studies available on the theme, while Section 3 provides a critical discussion on essentialising a distinctive CG, namely ICG, which aims at rationalising an extended index based on IME used in this study. Section 4 discusses variables and hypothesis development, while Section 5 presents the methodology of the study and data generation. In section 6, the empirical findings of disclosure and regression analysis are presented, and Section 7 culminates with the concluding remarks.

2. Rationalising the Study

The existing body of knowledge demonstrates that the literature regarding the good governance and ethical disclosure, as an articulation of it, is growing in size and quality, particularly after the corruption scandals of big corporations (e.g. Enron) and failures of banks (e.g. Lehmann Brothers). Elmagrhi *et al.* (2016), for instance, explored the UK publicly listed firms during the post-financial crisis period (2008-2013) in terms of their compliance with the good governance principles and to what degree they disclose such information. Their findings suggest that the firms differ in fulfilling the requirements and disclosure of good governance, which can be attributed to several factors such as board size, independent outside directors and director diversity. A similar study was conducted by Jizi *et al.* (2014) to investigate the level of CSR disclosure of large US commercial banks following the financial crisis (2009-2011) to reveal the impact of corporate governance through particular characteristics on disclosure level. They also find that independent boards of directors and larger board size have a positive influence on the level of disclosure. Similar studies to analyse the corporate governance features of IBs and the level of their disclosure are also conducted (*see: Azam et al., 2019; Dalwai et al., 2015; Ghosh, 2017; Nawaz, 2017; Shehata, 2015*). However, the existent paucity of literature indicates that most of the available studies regarding the disclosure of IBs neglect to analyse SARs issued by SBs and mostly focus on the level and determinants of disclosure

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of CSR or other aspects of CG in IBs (*see*: Al-Baluchi, 2006; Darmadi, 2013; Farook *et al.*, 2011; Hameed and Sigit, 2005; Rahman *et al.*, 2010; Hassan and Harahap, 2010; Aribi and Gao, 2010; Mallin *et al.*, 2014).

As a peculiar feature of corporate governance in IBs, investigation of SAR is crucial from both good governance and IME perspectives. Literature, where it exists, focusing on the level of disclosure in SARs is scarce and rudimentary. For instance, Md Rahin (2009) analyses disclosures on the SBs by only investigating their existence without examining the contents of the SARs. Nonetheless, some researchers aimed to fill this gap: Haniffa and Hudaib (2007), for instance, incorporated SB related disclosures in annual reports of IBs, including, but not limited to, some SAR components as dimensions into their ethical identity index with a sample of seven IBs. Although the *Shari'ah* Board dimension to their study includes only 11 index items, only three out of seven SBs were found to be communicative with an average above 50% for the three-year sample period.

In a country-level study, Ibrahim and Hameed (2009) examined the SARs of IBs deploying a sample from Malaysia, Bahrain and Pakistan in 2005 and 2006. Though his study does not employ a disclosure index, they report a big gap in disclosure levels between SARs of Pakistani and Malaysian IBs, with Pakistani IBs being the most comprehensive in contrast to those of Malaysia.

In a more detailed analysis of SARs compared to offerings by Ibrahim and Hameed (2009), Abdullah *et al.* (2013) investigate disclosures by the SBs of 23 IBs from Malaysia and Indonesia by employing a modified version of the disclosure index proposed by Maali *et al.* (2006). Although research by Abdullah *et al.* (2013) is more detailed compared to Ibrahim and Hameed's (2009), their study was limited to only two countries. Subsequent results demonstrate that SB-related disclosure performance of the sampled banks is very limited, which is true even for the disclosure of sensitive and highly necessary information. As for the factors affecting disclosure related SBs, cross-membership with other SBs and the expertise of SB members in finance-related subjects proved influential (Abdullah *et al.*, 2013).

In his detailed analysis of *Shari'ah* governance in Malaysia, GCC and the UK, Hasan (2012) also examined SARs as part of a *Shari'ah* governance framework using a sample of SARs published in the 2007 and 2008 annual reports of several Islamic Financial Institutions (IFIs), albeit not in depth. In his questionnaire-based study, Hasan (2012) demonstrates drastically

low scores regarding the disclosure of duties and services of the SB: 45% of IFIs in Malaysia and 11.1% of IFIs in GCC countries disclosed information about duties and services. The study shows that these scores decrease further when the disclosure of the SB activities are concerned (5% of IFIs in Malaysia and 7.4% of IFIs in GCC countries, and none of the IFIs in the UK). Based on these scores, Hasan (2012) concludes that the majority of IFIs in Malaysia, GCC countries and the UK did not operate according to the AAOIFI format for SARs.

In a recent and comprehensive study, El-Halaby and Hussainey (2016) examined the disclosure practice of 43 IBs that adopted AAOIFI standards for the year 2013. They explored the *Shari'ah* Supervisory Board's disclosure in addition to CSR and financial disclosures. Although their study is not exclusively centred on SARs, as the authors claim, it is the most comprehensive analysis of SARs based on AAOIFI guidelines. They found a relatively high disclosure level (68%) based on an index in which age, size and existence of the internal *Shari'ah* department proved to have a significant impact on such levels of disclosure, along with SSB characteristics.

As the discussion suggests, although a SB is the most crucial division of CG in IBs in terms of securing the 'Islamic' identity of these institutions, their most important communication instrument, namely, SAR, has not been explored sufficiently, alongside an insufficient attempt to constitute ICG. There are three important gaps in the literature in terms of exploring and examining SARs: small sample size and inadequate index construction. Regarding the small sample size, studies conducted to date, contend with mostly one or two years of analysis, which hinder the opportunity to observe changes in the level of disclosure in SARs throughout the sampled years. Furthermore, the sampled IBs have been selected from a small number of countries aside from El-Halaby and Hussainey's (2016) study, which extends the study to eight countries but considers only one year.

The second important gap is the index construction, as the discussed studies either explored SARs with a small number of index items, or at best, with extended index items, limited to AAOIFI standards. In other words, the indices have been constructed on the assumption that AAOIFI standards regarding the SARs provide the best practice, since it is assumed that AAOIFI represents the main standard-setting body.

This brings the issue of the third important gap, namely, available studies only focus on the AAOIFI standards, which are developed according to market conditions through the

application of a realist methodology based on a *fiqhi* consideration of Islamisation. In other words, Islamic norms have been grafted to allow the expectations of the market system prevailing in Islamic banks. This study, therefore, goes beyond this frame by developing the principles of a theoretical construction of an ICG within the normative principles of Islamic morality whereby the existing literature is expanded through a critical approach. This paper, hence, aims to respond to these identified gaps in furthering the existing body of knowledge.

3. Islamic Corporate Governance Framework and *Shari'ah* Boards

Although conventional CG theories have been instrumental in explaining practices in the mainstream sector, they do not necessarily fit into an Islamic CG frame due to prevailing difference in approaches towards human nature, the source of legitimacy and stakeholders emerging from ontological disparities. Therefore, a distinctive ICG developed within an IME theoretical framework is required so that the CG of IBs articulates Islamic ethics in their everyday application. As mentioned, in current practice the focus has only been placed on compliance related to financial transactions, while Islam's operational impact on the remaining elements of running an organisation is not conceptualised.

Existing *Shari'ah* compliance relates solely to form in *muamalat* or financial transactions, while Islamic ethics or substance should prevail in transactions as well as running of the organisation, taking the form of corporate governance. This can overcome the inconsistency observed in the IB industry, by demonstrating that where the financial operations of an IB are made *Shari'ah* compliant, by definition and nature of its structure, the governance of such an organisation should also be Islamic. In other words, 'Islamic' in an IB should have governance implications beyond financial transactions when articulating Islam's comprehensive normative world encompassing all aspects of life. Such a critical perspective, thereby, rationalises the necessity and emergence of ICG through the specific normative world of Islam, as having the transactions of IBs Islamic, while their governance representing the universal values creates incoherence. In a similar attempt, for example, Koleva (2020) rather than applying the universally accepted CSR checklist to determine the CSR performance of IBs, she has developed an authentic CSR frame and its constituents through the normative worldview of Islam. This paper, hence, aims to overcome the observed gap in developing an authentic ICG frame beyond hybridising the universal models to develop an ICG frame, as detailed below.

Many researchers in the field of Islamic economics have attempted to establish the philosophical and conceptual foundations of IME to provide its coherent theoretical framework (henceforth IPE), such as, Ahmad (1979, 1994, 2004), Chapra (1992, 2000), Naqvi (1981, 2013), Siddiqi (1981), Sirageldin (2000) and Asutay (2007, 2013). IME is articulated through the application of some foundational axioms which can help to define and determine the norms, nature and structure of ICG. Building on such literature, we define these foundational axioms as follows:

The first principle of ICG relates to the ontological core of Islamic teaching and refers to the unitary and complementarity nature of Islamic knowledge and existence that is *tawhid* (God's oneness and sovereignty (Asutay, 2007, 2012; Khan, 2012)). Accordingly, ICG within IME frame and substance essentialises the interests and rights of all stakeholders and necessitates a balance between such rights and responsibilities, as well as, considering their priorities as derived from ontological and epistemological sources. This is further substantiated through applying other axioms, such as *rububiyah* and *tazkiyah*.

In identifying the objective of the functioning of organisations, *rububiyyah* refers to “divine arrangements for nourishment, sustenance and directing things towards their perfection” (Ahmad, 1979: 12), namely, signposting a divinely constructed developmentalist path. This implies that the governance of organisations including corporate governance of financial organisations should be designed to allow all the stakeholders to develop their potential (Asutay, 2013).

Tazkiyah (purification and harmony) is “concerned with growth towards perfection through purification of attitudes and relationships” (Ahmad, 1994: 20) implying growth in harmony. For corporate governance this implies that individuals and other stakeholders are expected to grow without creating imbalances between the interests of all the involved stakeholders according to their perfection via *fitrah*, as identified through the *rububiyah* axiom (Asutay, 2013). However, the scope of *tazkiyah* is not limited to individuals but also encompasses organisations and society.

In constituting the ICG frame, the next principle is *al-'adl* (justice) which provides practical guidelines for the sustenance of all the things based on the ontological sources of Islam. For ICG, this means granting the right to whom it belongs, with the rights of all entities being

defined in Islam. Thus, corporations and organisations are expected to establish their relationships with all the stakeholders within a framework of justice (Asutay, 2013).

In expanding the nature of ICG in terms of socialisation, the principle of *al-ihsan* (beneficence), complements *al-adl* (justice) to achieve higher goals in terms of moral values through which 'good society' is aimed at. It refers to a paradigm in which those who are better off are expected to contribute to the betterment of worse offs so that equilibrium can be achieved in the society (Asutay, 2012, 2013). This implies that organisations, including corporations, should also ensure the expansion of *ihsani* social capital through their direct engagement with the society in which they operate.

ICG, as the articulation of these axioms, aims to realise the objectives of *Shari'ah* (*maqasid al-Shari'ah*), which is defined as 'the well-being of all the stakeholders', which produces *falah* or salvation as the outcome of the process.

An ICG understanding is, therefore, crucial for IBs so that consistency can be achieved within these institutions since, by definition, the working mechanism or the governance of IBs should be determined by the same ontological paradigm that defines their operations. In other words, having their financial instruments achieving *Shari'ah* compliance is not enough, as IME has to determine the nature of their existence and governance so that *tawhid's* complementarity can also be achieved in the integral working and governance of an organisation.

A crucial component of ICG is *Shari'ah* governance determined by IME's substantive morality through which IBs secure that the operations within IBs comply with Islamic law, whereby, they prove to their customers that they are legitimate according to *Shari'ah*. The most important unit in *Shari'ah* governance is SB, which is composed of *Shari'ah* scholars who are knowledgeable in Islamic law while the mechanisms of economics and finance are charged with the duty of achieving the forms and substance requirements implicit within an IME. The main responsibilities of a SB are (i) the provision of legal opinions based on Islamic law; (ii) control and review of the operations within the company to monitor the *Shari'ah* compliance of the firm; and, (iii) preparation of contracts (Banaga *et al*, 1994; Hassan, 2012). A SB constitutes the core department which renders the Islamic identity of these institutions. As Ibrahim *et al*. (2009: 233) also evidence, demand for IB institutions stem from offering *halal* or Islamically legitimate, products and services, as more than 95% of the respondents suggested

that “compliance with *Shari'ah* law is a fundamental requirement in terms of ‘halal’ type of investment and investment structure”.

Since the role of *Shari'ah* scholars in IBs as an institution of an ICG framework is to ensure and demonstrate that IBs are legitimate institutions according to a *Shari'ah* frame and operate within an IPE framework with the objective of fulfilling the ethical expectations of an IME. Therefore, the ICG system demands that SARs of SBs should provide the necessary disclosure to convince all the stakeholders, particularly customers, of not only form oriented partial compliance but also moral compliance.

This study considers that while AAOIFI based CG and *Shari'ah* governance is an important step in the right direction in shaping the operations of Islamic banks. However, as discussed so far, it also argues that *Shari'ah* compliance should not be relegated to a form-oriented understanding in mimicking conventional practice, but rather IBs must also develop their operations and governance within ICG to ensure they have substantive morality related compliance as well. In other words, it is argued that AAOIFI uses conventional institutional logic and Islamises it with Islamic law or a *fiqh* based form-oriented approach implying grafting process, rather than shaping the financial institutions according to Islamic morality as expressed by IME within IPE.

It is important to note that despite the AAOIFI standards are grafted through the market conditions to ensure *Shari'ah* compliance within the market system. Many countries where Islamic finance has significant presence have avoided adopting the AAOIFI standards for their Islamic banking sector, as they want to remain loyal to the universally accepted international standards. This is also because adoption and requirements are not clearly identified which prevents common use of the AAOIFI standards by countries with systematic presence of Islamic banking and finance.

Consequently, after identifying the substantive morality nature of ICG in this section, in order to identify the distinctions, this study constitutes two sets of indices in examining the communicated information in the SAR of IBs. The first one *Shari'ah* Disclosure Index (SDI), namely SDI_{AAOIFI} relates to AAOIFI standards on *Shari'ah* governance, while the second one, SDI_{ICG} , relates to further ethical compliance required by ICG, so that a consistent and integrated approach should be developed, as the latter aims to articulate the normative requirements of IME in the operations of IBs. Such a frame is expected to reveal the

'Islamicity' by further emphasising Islamic ethicality in IBs operations beyond legal forms. The following sections explore published SARs as part of the annual reports of the sampled IBs with the intention of revealing to what extent *Shari'ah* scholars fulfil this mission of essentialising the substantive morality of Islam or consider the extent to which they remain within a *fiqhi* or Islamic rational law's comfort zone.

4. Variables and Hypothesis Development

In order to determine the factors affecting the level of disclosure in SARs, SDI_{ICG} and SDI_{AAOIFI} are used as dependent variables to assess the impact of country-level and bank-level factors.

In modelling, 5 country-level and 12 bank-level control variables were utilised to measure the variation in the level of disclosure of SBs. In determining the control variables, the existing empirical papers, among others, Mollah and Zaman (2015) and Abedifar *et al.* (2013), were consulted. Table 1 provides a list of all independent variables utilised in this study.

Table 1: List of Independent Variables

Country Level Independent Variables			Definition	Source
1	Regularity Quality	Regulatory Quality	Regulatory quality captures perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote	WGI Project
2	Voice and Accountability	Voice and Accountability	Voice and accountability captures perceptions of the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association,	WGI Project
3	CPI	Corruption Index	Corruption is defined as the abuse of entrusted power for private gain.	Transparency International
4	Is Country AAOIFI	Adoption of AAOIFI	Adoption of AAOIFI Governance Standards at the country level.	AAOIFI
5	GDP Growth	GDP Growth Rate	The growth rate of GDP of a country.	World Bank online system
Bank Level Independent Variables				
6	LogSize	Size	Logarithm of total assets which is used as a proxy for size.	The Banker Special Issue
7	ROA	Profitability	Return on assets as a proxy for profitability.	The Banker Special Issue
8	Leverage	Leverage	Ratio of total liabilities to total assets which is used as a proxy for leverage.	The Banker Special Issue
9	Independent Auditor	Type of Auditor	Dummy variable is used to measure the impact if external auditor is one of Ernst & Young, Deloitte, Pricewaterhouse Coopers and KPMG.	Annual Report
10	Internal SAD	Existence of Sharia auditing department	Dummy variable is used to measure the impact if IB has an internal <i>Shari'ah</i> auditing department.	Annual Report
11	Crisis Dummy	Crisis Dummy	Dummy variable to locate year 2009 as a break point to measure the impact of the financial crisis of 2007.	Year 2009

12	Age of Shariah	Age from <i>Shari'ah</i> Compliance	Number of years passed since the <i>Shari'ah</i> compliant activities has started.	Annual Report
13	No of Members	Number of SB members	Number of <i>Shari'ah</i> scholars in a SB in a particular year.	Annual Report
14	Average Education	Average level of education of SB	The variable is calculated by giving a score to each <i>Shari'ah</i> scholar in a SB (1 for undergraduate; 2 for master; and 3 for a PhD degree), and then calculating the average of the scores.	Annual Report and Thomson Reuters Database
15	Popularity	Popularity of SB	If a <i>Shari'ah</i> scholar in a SB has a place in the list provided by Unal (2010), we give a score of 1, and 0 otherwise. Then, calculate the average of all scholars in a SB.	Unal (2010)
16	Board Size	Board Size	Number of members in the Board of Directors.	Annual Report
17	CEO Duality	CEO Duality	Dummy variable is used to measure the impact of CEO duality which is the case that CEO is also the chairman of the Board of Directors.	Annual Report

As displayed in Table 1, the first set of indicators are themed as ‘Regularity Quality and Voice and Accountability’, for which data were obtained from The Worldwide Governance Indicators (WGI) Project which is available online. In the literature, it is argued that higher regulatory quality requires greater transparency (Ernstberger and Grüning, 2013; Leuz *et al.*, 2003). Therefore, it is expected that there should be a positive relationship between regulatory quality and the level of disclosure.

As for the ‘voice and accountability dimension’ of WGI, it is suggested that a high level of voice and accountability leads to ability to pressurise public administrations to prevent corruption (Apaza, 2009), which is related to the level of disclosure as a method of preventing corruption through transparency (Wang *et al.*, 2004). A high level of voice and accountability, thus, is expected to have a positive impact on disclosure levels of SBs. We hypothesise, therefore:

H₁: There is a positive relationship between the regularity quality of the country and level of disclosure in SAR.

H₂: There is a positive relationship between voice and accountability of the country and level of disclosure in SAR.

A ‘Corruption Index’ which is calculated and provided online by Transparency International is also included as an independent variable for the disclosure levels of SBs. This is because, as mentioned above, it is suggested that transparency through disclosure of information is a way

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to tackle the problem of corruption (Wang *et al.*, 2004), and, therefore, is expected to be related to a high level of disclosure.

H₃: There is a positive relationship between the corruption index score of the country and level of disclosure in SAR.

Adoption of AAOIFI standards at the country level is another independent variable included in this study. As El-Halaby and Hussainey (2016) argued, formal adoption of AAOIFI standards increases the level of disclosure in SAR, since the adoption of these standards for IBs at the country level is expected to have a positive impact on the disclosure of SBs at firm-level. Currently, there are four countries in our sampled dataset which adopted AAOIFI standards at the national level, namely, Bahrain, Qatar, Jordan and Sudan.

H₄: The level of disclosure of SAR is expected to be higher in IBs located in countries which adopt AAOIFI standards than in countries that do not adopt AAOIFI.

The last country-level variable is macro-economic factors, namely, 'GDP growth,' which is provided by the World Bank online system. Based on the empirical evidence provided by El-Halaby and Hussainey (2015b) and Wong (2012), we expect that GDP growth has a positive relationship with the level of disclosure since the growth of the country should have a facilitator role in terms of disclosure practices. Therefore, we hypothesise that:

H₅: There is a positive relationship between GDP growth of the country and the level of disclosure in SAR.

As for the bank-level control variables, 15 determinants are selected, which are explained below:

Firstly, a bank-level indicator is the logarithm of total assets, which is used as a proxy for size. Size is included in the study since it is expected that as the size of the firm increases, the number of shareholders increases as well, who are concerned with the activities of the company (Cormier *et al.*, 2005). In addition, larger firms would require to legitimise further their activities which leads to better disclosure practices (Brammer and Pavelin, 2004). Therefore, we hypothesise that:

H₆: SAR of large IBs are more likely to disclose more information than small IBs.

Although agency theory expects a positive relationship between the profitability and corporate disclosure with the objective of revealing the good performance of the agent with the shareholders (El-Halaby and Hussainey, 2016), the empirical findings in the literature on the impact of profitability of a firm on social disclosure is indecisive (Aras *et al.*, 2010; Gray *et al.*, 2001). We, therefore, included return on assets as a proxy for profitability to see if there is any relation between the level of disclosure of SB and profitability. Therefore, we hypothesise that:

H₇: There is an association between profitability and the level of disclosure.

Leverage is another financial indicator of a company which, according to literature has a positive relationship with the level of disclosure (Jaggi and Low, 2000; Elshandidy *et al.*, 2013; Jensen and Meckling, 1976). This is because it is expected that the high level of disclosure will reduce the monitoring costs (El-Halaby and Hussainey, 2015b). Hence, we test as to whether high leverage in terms of the ratio of total liabilities to total assets has an impact on the disclosure of SBs. Therefore, we hypothesise that:

H₈: There is a positive relationship between the leverage of an IB and the level of disclosure in a SAR.

Selection of an independent audit firm is also expected to have a positive association with the level of disclosure (Firth, 1979; Haniffa and Cooke, 2002) since it provides credibility to the corporate, particularly in terms of financial status (El-Halaby and Hussainey, 2016). For this, a dummy variable is used to find out if hiring an auditing firm among four big companies, namely Ernst & Young, Deloitte, PWC and KPMG, has any explanatory power on an SDI score.

H₉: The level of disclosure of SAR is predicted to be higher in IBs audited by the Big 4 auditors than in IBs that are audited by non-Big 4 auditors

We also included the existence of an internal *Shari'ah* auditing department or unit in IB as an independent variable, since this department is directly related to the preparation of SB reports. In the literature, it is also empirically shown that there is a positive relationship between the existence of an internal auditing department and level of disclosure (Gordon and Smith, 1992; Schneider and Wilner, 1990). In order to determine the existence of an internal *Shari'ah*

auditing unit, we examined the annual reports to find direct proof of the existence of such a unit.

H₁₀: There is a positive relationship between the existence of internal Shari'ah Auditing Department of IB and level of disclosure in SAR.

In order to discern the impact of the recent global financial crisis on the extent of disclosure, a crisis dummy variable is utilised. Since the impact of the crisis is expected to be reflected on the disclosure in a lagged manner not before the 2009 annual report, we selected 2009 and later as the crisis period. Haji and Ghazali (2012) empirically illustrated that voluntary disclosure has increased after the global financial crisis. Considering the reduced trust accorded to financial institutions after the crisis, voluntary disclosure positively influences the public image of a corporate body.

H₁₁: SAR of IBs after the crisis is more likely to disclose more information than a pre-crisis period.

For the effect of experience in terms of *Shari'ah* compliance, the longevity or age of the IB is considered as an independent variable having an impact on the nature of corporate and *Shari'ah* disclosure. It is hypothesised that the old IBs should have a better disclosure mechanism due to the expected, established practices which are developed over the years. Furthermore, the older IBs are expected to incur less competitive disadvantage (El-Halaby and Hussainey, 2016). The positive relationship between the age and the level of disclosure is also shown in the literature empirically (Cormier *et al.*, 2005; Hossain and Hammami, 2009), despite some exceptions (Alsaeed, 2006). Since a multicollinearity problem may arise in the case of including both the age of starting operations and being *Shari'ah* compliant, we only included age calculated from the year of *Shari'ah* compliance, as the age of the bank must be equal to the years elapsed since the beginning of *Shari'ah* compliance.

H₁₂: Older IBs are expected to disclose more information in SAR than younger IBs.

In our analysis, we also evaluate characteristics of SBs, and further analyse attributes of SB members separately in order to identify the effects of these different attributes of *Shari'ah* scholars have on the extent of disclosure of SB's annual reports, rather than using an index score for a SB as a whole, as Farook and Lanis (2007) did. Three main indicators, namely, the number of members in a SB, the average level of education of the members and average

popularity of members of the SB, are included. It is expected that if the number of members increases, the report should be more detailed since a higher size of the board might decrease the uncertainty and lack of information (Birnbaum, 1984), as well as, reduce the asymmetric information problem (Chen and Jaggi, 2000), thereby, disclose more information (El-Halaby and Hussainey, 2016). This is also true for the level of education due to familiarity with preparing written documents. This is because a higher level of education might result in a deeper understanding of the working mechanisms of IBs and disclosure procedure. As for the popularity of *Shari'ah* scholars, El-Halaby and Hussainey (2016) argued that due to a deep comprehension of modern banking and disclosure structures, popular *Shari'ah* scholars might disclose more information in the SARs. In order to measure the popularity of the members, we use the list published by Unal (Unal, 2011) which provides the top 20 scholars based on their overall positions in terms of the number of *Shari'ah* boards they have been sitting on. Unal (Unal, 2011) used the data available on 31 December 2010, which is the mid-point for the sample period of this study, and hence his estimation should be considered as relevant for this study, as *Shari'ah* scholarship in IBs represent a monopoly (Unal, 2011) and, therefore, there would hardly be any change in the identified positions in Unal (2011). If a *Shari'ah* scholar in the sampled banks has a place on this list, we give a score of 1, and 0 otherwise. Based on this, we hypothesise the followings:

H₁₃: There is a positive relationship between the size of an SSB and level of disclosure in a SAR.

H₁₄: There is a positive relationship between the average level of education of SB members and level of disclosure in a SAR.

H₁₅: There is a negative relationship between popularity of SB and level of disclosure in a SAR.

The size of the board of directors is another variable explored in the literature in terms of its impact on the level of disclosure. As it is discussed in the size of a SB, a higher board size is expected to influence the disclosure positively (Birnbaum, 1984; Chen and Jaggi, 2000). However, the empirical findings are mixed. While some studies suggest that a large board size has a positive impact on level of disclosure due to potential availability of diversified expertise and opinions (Hidalgo *et al.*, 2011; Gandia, 2008; Abeysekera, 2010; Allegrini and Greco 2013), there are also studies which suggest a negative impact on level of disclosure due to

Sencal, Harun & Asutay, Mehmet (2021). Ethical Disclosure in the *Shari'ah* Annual Reports of Islamic Banks: Discourse on *Shari'ah* Governance, Quantitative Empirics and Qualitative Analysis. *Corporate Governance*.

inefficiency and lack of supervision ability (Herman *et al.*, 1981; Lipton and Lorsch, 1992). Furthermore, there are empirical studies, such as Arcay and Vazquez (2005) and Prado-Lorenzo and Garcia-Sanchez (2010), that find an insignificant association between board size and level of disclosure. Following Samaha *et al.* (2015), therefore, we formulate the following hypothesis:

H₁₆: There is an association between board size and level of disclosure in SAR.

Although it is argued that independence of the chairman of the board of directors provides a better monitoring experience of the managers (Fama and Jensen, 1983), empirical evidence regarding the CEO duality is mixed (Samaha *et al.*, 2015). Although some studies evidence a negative relationship between the level of disclosure and CEO duality (Allegrini and Greco 2013; Li, 2008), there are studies which found either an insignificant or positive relationship. Therefore, we formulate the following hypothesis:

H₁₇: There is an association between CEO duality and level of disclosure in SAR.

After defining the econometrics specification and describing the variables, the next section presents the findings of disclosure analysis and regression analysis.

5. Research Methodology

This study generates qualitative data for disclosure analysis through the content analysis of SARs of the sampled Islamic banks as detailed in Section 5.1, while an econometric analysis is conducted to identify the factors determining the disclosure performance of the sampled Islamic banks (see Section 5.1). Furthermore, a critical qualitative reflection on the behaviours of SBs are provided through SARs in Section 6.2.

5.1. Data Generation through Disclosure Analysis

This research utilises SARs issued by IBs as secondary data in order to measure the extent of disclosure in relation to an index which is composed to represent best *Shari'ah* governance practice. Similar to other studies on accounting disclosure, this study employs a content analysis method and is designed as an exploratory case study. In this approach, published SARs are subjected to a disclosure index. The composed index for SARs can be found in Table 1, which implies that the best practice of SARs is expected to disclose information about the listed items. In utilising the constructed index, the existence of an index item in SARs, irrespective

of its length, is used to determine disclosure on that particular index item. It should be noted that in this analysis, headings in SARs are not included as a unit of analysis.

Table 2: Disclosure Index Items

1	Report has an appropriate title
2	Report has been appropriately addressed
3	Report has identified the purpose of the engagement (opening paragraph)
4	Report has identified the nature of the work performed (scope paragraph)
5	Report has identified the management's responsibility
6	Independent judgment in carrying out its responsibilities is disclosed.
7	The role and responsibilities of the board are disclosed.
8	Confirmation that the SB has performed appropriate tests, procedures and review work as appropriate
9	Confirmation that the transaction and dealings are in compliance with Shari'ah rules and principles - scope
10	Treatment of all earnings realized from sources prohibited by Shari'ah is disposed to charitable causes-opinion
11	Compliance of zakah calculation with <i>Shari'ah</i> is disclosed. -opinion
12	Statement on the endorsed conformity of <i>Shari'ah</i> compliance is disclosed -Opinion
13	Distribution of profits and losses comply with Shari'ah is disclosed.
14	Report on the violations of Shari'ah compliance (if any) is disclosed.
15	Period covered is disclosed
16	Date the report as of the completion date of the review is disclosed
17	Report signed by all members.
18	The report is published in the annual report
19	Report signed by chairman
20	Names of members are disclosed.
21	Name of the chairman is disclosed
22	Pictures of members are disclosed
23	Examination of product development ex ante is provided.
24	Examination of product development ex post is provided.
25	Holding meetings during the year is disclosed.
26	The training information of the employees is disclosed.
27	The Shari'ah auditing department in the bank is disclosed.
28	SB adopted one of the standards as guidelines (AAOIFI or IFSB).
29	Report discloses that the management supplies the Shari'ah board with complete, accurate and adequate information in a timely manner
30	Holding meeting with BOD
31	Number of meetings during the year is disclosed.
32	Details of the training information of the employees is disclosed.
33	Details of the violations of Shari'ah compliance (if any) is disclosed.
34	Details of treatment of all earnings realized from sources prohibited by Shari'ah is disposed to charitable causes is disclosed

As can be seen in Table 2, items 1-18 are constructed through AAOIFI standards for SARs. In constructing these index items, the AAOIFI Governance Standard for Islamic Financial Institutions No. 1: *Shari'ah* Supervisory Board: Appointment, Composition and Report is referred to (AAOIFI, 2010). In this standard, the content of a SAR provided by a SB is described. According to this standard, a SAR should be composed of seven parts: (i) The title of the report; (ii) The addressee of the report – addresses the intended recipients of the report; (iii) Opening paragraph – refers to the purpose of the engagement; (iv) Scope paragraph –

describes the scope of the work performed, clarifies the management's responsibility towards *Shari'ah* compliance, and confirms that the appropriate tests, procedures, and review were performed; (v) Opinion paragraph – states the extent of compliance of the institution with *Shari'ah* in its activities; (vi) Date of report – documents the period covered by the report and the date of issuance; (vii) SSB's signature – presents the approval of members of the SB to the contents of the report (Ginena and Hamid, 2015: 353). The index items 1-18, therefore, are constructed in a way to include all requirements of this standard, even if they are trivial items, such as, 'Report has an appropriate title' (Item 1). The rest of the items, namely items 19-34, are included as part of the ICG model developed in the previous section as a best practice to quantify additional information, such as, details of general disclosures, including the details of violations of *Shari'ah*. Thus, the additional index items are developed through the available theoretical (as above) and empirical literature to locate the detailed aspects of the issues beyond the initial general items. In the construction of the expanded items in reflecting the substantive morality of Islam as expressed in ICG, disclosure analysis studies in the literature are also benefitted, such as, El-Halaby and Hussainey (2016) and Abdullah *et al.* (2013).

As for the methodological process, reliability is one of the most important elements of content analysis (Haniffa and Hudaib, 2007). Regarding the reliability of the coded data and dataset, Milne and Adler (1999: 238) suggests that "the most usual ways in which this is achieved is by demonstrating the use of multiple coders and either reporting that the discrepancies between the coders are few, or that the discrepancies have been re-analysed and the differences resolved". To evaluate the reliability of the content analysis conducted in this research, therefore, we employed two methods. Firstly, the analyst repeated the coding process again after ten months with a sample of 10% of the dataset (30 SAR). Secondly, the same sample was given to an independent coder to compare two outcomes with the original coded data. The index items of the *Shari'ah* disclosure index were explained to the independent coder, who was asked to assess the content of SAR and assign related scores. The outcome of the reliability test suggests that discrepancies between the coders are insignificant. Consequently, the reliability of the coding process was assured.

In terms of locating the identified items or the information sought in the SARs, by scoring them, this study employed a dichotomous approach: the score is '1' if the item is disclosed and 0 otherwise. The total score that each SAR earned is calculated additively with equal weight (Haniffa and Hudaib, 2007). If an item is not relevant for a specific report, such as if there is

no violation of rules, the index item to disclose the details of a violation is considered not valid for that particular report; and hence, that item is not considered as part of the disclosure index, and therefore, it is removed from both numerator and denominator.

Following the modified version of Haniffa and Hudaib's (Haniffa and Hudaib, 2007) equation, as below, this study presents the score of disclosure level in the form of an index, namely the *Shari'ah* Disclosure Index (SDI) which is calculated as follows:

$$SDI_j = \frac{\sum_{i=1}^{n_j} X_{ji}}{n_j} \quad (1)$$

where SDI_j is the *Shari'ah* disclosure index for IB_j and X_{ji} is 1 if the item i is in the SAR of IB_j is disclosed and 0 otherwise. The total score is, then, divided by the number of relevant disclosure items (as mentioned above, irrelevant items removed from calculation when the case arose), namely n_j , which in this case is equivalent to 34 (the total number of index items), as in Table 1. After calculating the index value for each SAR of each IBs, the inferential analysis is considered to make sense of the results. For example, a higher index value means the SB report is closer to the best possible disclosure practice level. In other words, if the index value is closer to 1, a SB has successfully and effectively managed to use SAR to communicate with the stakeholders.

In order to explore the impact of AAOIFI standards for SARs, as mentioned above, index items 1-18 in Table 1 are constructed in line with the AAOIFI standards. SDI_{AAOIFI} score, therefore, indicates to what degree SBs of IBs adopt AAOIFI standards in SARs. Such an indicator provides the influence of standardisation on the level of disclosure in SARs. Especially, since 66% of the sampled IBs in this study are not obliged to follow AAOIFI standards, or SDI_{AAOIFI} score also shows the impact of standardisation on disclosure.

AAOIFI standards for SARs, however, demand the disclosure of information at a general level without providing details of activities regarding monitoring or supervising, such as a number of meetings or training of the staff, as well as, the details of violations of *Shari'ah*, if there are any. This is the reason why an additional 16 index items were included to construct a more general disclosure index which integrates the expectations of an IME framework, namely SDI_{ICG} , to explore to what degree SBs disclose information regarding the details of their activities and *Shari'ah* compliance of IBs beyond AAOIFI. Considering transparency as an

important ingredient of IME, SDI_{ICG} score provides to what degree IBs proactively achieve such a dimension in their SARs.

In composing the data, annual reports of 41 Islamic banks from 15 countries are examined in relation to the identified SDI to reveal the level of disclosure of SBs which are published between 2007 and 2014, making in total a collection of 305 SARs. It should be noted that due to the unavailability of 23 *Shari'ah* annual reports within the sample period, this study has a sample of 305 instead of 328 SARs.

As for the sampled Islamic banks, the sampling is based on criteria that they were established in, or prior to 2007, and have published SARs, which are available online and produced in the English or Arabic language for the period of 2007-2014. 2007 is selected as the commencement period since the number of established IBs before 2007 decrease swiftly; hence, to prevent a further decline in the sample size 2007 was chosen. Since 2007 is also the initial period of the global financial crisis, sampling through this year can help to locate the crisis and post-crisis impact on disclosure practice. In addition, we did not select a more recent year with the objective of testing the impact of the global financial crisis of 2007 which should have been reflected in the annual reports around 2009 due to a lag. In addition, only fully-fledged IBs with 100% *Shari'ah* compliant assets were considered for the sample. *The Banker: Special Issue for Islamic Financial Institutions* was utilised as guidance in sampling Islamic banks. If an Islamic bank does not provide more than two annual reports between 2007-2014, we exclude that Islamic bank from the sample. In the sample selection process, therefore, some major Islamic banks are not included in the sample due to lack of available *Shari'ah* annual reports, such as, Alinma Bank, Albilad Bank and Al-Rajhi Bank. Table 3 lists all the sampled Islamic banks in this study.

In calculating the SDI, primary data for disclosure analysis is, hence, gathered from online published annual reports of the IBs on their official websites. As for secondary data for regression analysis, *The Banker Special Issues for Islamic Financial Institutions* (2015) and Datastream is utilised to obtain control variables for the regression analysis along with annual reports of IBs.

As for the estimation method, in determining the factors affecting disclosure levels of SBs, a one-step system of a generalised method of moments (GMM) approach is utilised. One-step GMM is selected over two-step GMM due to the small sample size which leads to the problem

of over-fitting in a two-step GMM and makes asymptotic standard errors not suitable for hypothesis testing (Beck and Levine, 2004). A system GMM approach also resolves the endogeneity of regressors while avoiding dynamic panel bias (Uddin *et al.*, 2017). Following Mollah and Zaman (2015), we treat bank level control variables as endogenous, while country level and macro level variables are exogenous.

Table 3: Sampled Islamic Banks

No	Country	Islamic Bank	No	Country	Islamic Bank
1	Bahrain	Al Baraka Bank	22		Bank Islam Malaysia Berhad
2		Al Salam Bank	23		Bank Kerjasama Rakyat Malaysia
3		Bahrain Islamic Bank	24		Bank Muamalat Malaysia Berhad
4		KFH Bahrain	25		Hong Leong Islamic Bank Berhad
5		Khaleeji Commercial Bank	26	Pakistan	Bank Islami Pakistan
6		ABC Islamic Bank	27		Burj Bank
7		Bank al-Khair	28		Meezan Bank Limited
8	Bangladesh	EXIM Bank of Bangladesh	29	Qatar	Masraf Al Rayan
9		Islami Bank Bangladesh Limited	30		Qatar International Islamic Bank
10	Egypt	Al Baraka Bank Egypt	31		Qatar Islamic Bank
11	Indonesia	Muamalat Indonesia	32	Saudi Arabia	Bank Al Jazira
12		PT Bank Syariah Mandiri	33		Jadwa
13	Jordan	Islamic International Arab Bank	34	South Africa	Al Baraka South Africa
14		Jordan Islamic Bank	35	Sudan	Al Baraka Bank Sudan
15	Kuwait	Boubyan Bank	36		Faisal Islamic Bank
16		KFH	37	UAE	Abu Dhabi Islamic Bank
17	Lebanon	BLOM Development Bank	38		Emirates Islamic Bank
18	Malaysia	Affin Islamic Bank Berhad	39	UK	Al-Rayan Bank
19		Al-Rajhi Bank Malaysia	40		European Islamic Investment Bank
20		KFH Malaysia	41		Bank of London and The Middle East
21		Asian Finance Bank Berhad			

5.2. Econometric Specifications for Locating the Factors Determining Disclosure in SARs

As mentioned above, two disclosure indices are developed and calculated: SDI_{ICG} and SDI_{AAOIFI} indices. The former is based on the index elements defined in Table 1 representing a larger number of items based on the more stringent and substantive moral definition of

disclosure, while the latter is defined through AAOIFI standards and composed of items 1-18 in Table 2.

In order to determine the factors affecting SDI_{ICG} and SDI_{AAOIFI} indices calculated through the data generated by disclosure analysis, the following two model specifications are estimated:

$$\begin{aligned}
 SDI_{ICG,t} = & \alpha_0 + \alpha_1 x SDI_{ISG_{i,t-1}} + \alpha_2 x Crisis2009_{i,t} + \alpha_3 x NoofMembers_{i,t} \\
 & + \alpha_4 x PopularityofMembers_{i,t} + \alpha_5 x AverageEducation_{i,t} + \alpha_6 x InternalSAD_{i,t} \\
 & + \alpha_7 x AgeofShariah_{i,t} + \alpha_8 x IsCountryAAOIFI_{i,t} + \alpha_9 x Leverage_{i,t} \\
 & + \alpha_{10} x IndependentAuditor_{i,t} + \alpha_{11} x LogSize_{i,t} + \alpha_{12} x ROA_{i,t} + \alpha_{13} x CPI_{i,t} \\
 & + \alpha_{14} x GDPGrowth_{i,t} + \alpha_{15} x RegularityQuality_{i,t} + \alpha_{16} x VoiceandAccountability_{i,t} \\
 & + \alpha_{17} x CEODuality_{i,t} + \alpha_{18} x BoardSize_{i,t} + \varepsilon_{i,t}
 \end{aligned} \tag{2}$$

$$\begin{aligned}
 SDI_{AAOIFI,t} = & \alpha_0 + \alpha_1 x SDI_{AAOIFI_{i,t-1}} + \alpha_2 x Crisis2009_{i,t} + \alpha_3 x NoofMembers_{i,t} \\
 & + \alpha_4 x PopularityofMembers_{i,t} + \alpha_5 x AverageEducation_{i,t} + \alpha_6 x InternalSAD_{i,t} \\
 & + \alpha_7 x AgeofShariah_{i,t} + \alpha_8 x IsCountryAAOIFI_{i,t} + \alpha_9 x Leverage_{i,t} \\
 & + \alpha_{10} x IndependentAuditor_{i,t} + \alpha_{11} x LogSize_{i,t} + \alpha_{12} x ROA_{i,t} + \alpha_{13} x CPI_{i,t} \\
 & + \alpha_{14} x GDPGrowth_{i,t} + \alpha_{15} x RegularityQuality_{i,t} + \alpha_{16} x VoiceandAccountability_{i,t} \\
 & + \alpha_{17} x CEODuality_{i,t} + \alpha_{18} x BoardSize_{i,t} + \varepsilon_{i,t}
 \end{aligned} \tag{3}$$

where i denotes individual banks and t denotes the time dimension. While the first equation uses 17 explanatory variables to explain the variation in SDI_{ICG} , the second equation uses the same variables to explain the variation in SDI_{AAOIFI} .

6. Empirical Analysis

6.1. Analysis of Disclosure Index Scores

In the first part of this section, we examine SDI_{ICG} and SDI_{AAOIFI} results of sample data. Table 4 presents the SDI_{ICG} scores for each bank between 2007-2014. In terms of average score over the eight years, Bahrain Islamic Bank has the highest score with 72%, which is followed by Meezan Bank Limited of Pakistan with 63% disclosure score. ABC Islamic and Bank Al-Khair are third and fourth in the rank having 62% and 61% score, respectively. As can be seen in Table 4, 66% of the sampled IBs achieved a disclosure level between 40-59%. At the bottom of the list, a Malaysian bank, Al-Rajhi Malaysia is found to have a 24% score on average as its SAR disclosure performance. Relatively high scores of Bahraini IBs might be due to the influence of AAOIFI standards which are developed in Bahrain. Furthermore, the relatively low scores of Malaysian IBs on average are mostly due to the poor disclosure performance in 2007 and 2008, which show a gradual increase throughout the sample period. Even, Bank Islam Malaysia Berhad disclose the highest level along with Bahrain Islamic Bank in 2014. It is also interesting that despite the proximity of Qatar to Bahrain and adoption of AAOIFI governance standards at the country level, all three IBs in our sample from Qatar perform very poorly in terms of disclosure.

Table 4: SDI for ICG Index for the Sampled Banks

	2007	2008	2009	2010	2011	2012	2013	2014	Average
Bahrain									
ABC Islamic	0.62	0.62	0.62	0.62	0.62	0.62	0.62	0.62	0.62
Al Baraka Bank	0.56	0.53	0.59	-	0.59	0.59	0.59	-	0.57
Al Salam Bank	0.53	0.53	0.53	0.62	0.62	0.56	0.56	0.56	0.56
Bahrain Islamic Bank	0.74	0.77	0.71	0.71	0.71	0.71	0.71	0.71	0.72
Bank alKhair	0.58	0.61	0.56	0.62	0.62	0.62	0.62	0.62	0.61
KFH Bahrain	0.44	0.44	0.47	0.62	0.65	0.62	0.62	0.62	0.56
Khaleeji Commercial Bank	0.47	0.50	0.53	0.53	0.53	0.53	0.53	0.53	0.52
Kuwait									
Boubyan Bank	0.29	0.32	0.32	0.32	0.41	0.41	0.44	0.53	0.38
KFH	0.32	0.32	0.32	0.50	0.50	0.62	0.62	0.56	0.47
Malaysia									
Affin Islamic Bank Berhad	-	0.15	0.38	0.41	0.59	0.59	0.59	0.59	0.47
Al-Rajhi Bank Malaysia	0.15	0.15	0.18	0.15	0.15	0.21	0.44	0.47	0.24
Asian Finance Bank Berhad	0.15	0.41	0.47	0.56	0.44	0.44	0.44	0.38	0.41
Bank Islam Malaysia Berhad	0.15	0.65	0.62	0.65	0.65	0.62	0.62	0.71	0.58
Bank Kerjasama Rakyat Malaysia	-	0.15	-	0.15	0.44	0.56	0.53	0.56	0.40
Bank Muamalat Malaysia Berhad	0.15	0.15	-	0.15	0.44	0.44	0.47	0.47	0.32
Hong Leong Islamic Bank Berhad	0.41	0.35	0.35	0.35	-	0.41	0.65	0.65	0.45
KFH Malaysia	0.50	0.50	0.50	0.47	0.50	0.53	0.53	0.62	0.52
Pakistan									
Bank Islami Pakistan	0.29	-	0.38	0.44	0.35	0.41	0.41	0.41	0.39
Burj Bank	0.29	-	0.44	0.58	0.47	0.53	0.56	0.56	0.49
Meezan Bank Limited	0.59	0.62	0.62	0.62	0.62	0.65	0.65	0.65	0.63
Qatar									
Masraf Al Rayan	-	-	0.32	0.32	0.32	0.32	0.26	0.26	0.30
Qatar International Islamic Bank	-	-	0.44	0.44	0.44	0.44	0.29	0.29	0.39
Qatar Islamic Bank	0.35	0.35	0.35	0.35	0.32	0.32	0.26	0.26	0.32
Saudi Arabia									
Bank Al Jazira	-	0.24	0.41	0.53	0.53	0.44	0.44	0.44	0.43
Jadwa - Investment Bank	-	0.44	0.44	0.41	0.41	0.41	0.41	0.41	0.42
UAE									
Abu Dhabi Islamic Bank	0.29	0.56	0.56	0.56	0.62	0.62	0.62	0.62	0.56
Emirates Islamic Bank	0.47	0.56	0.50	0.56	0.53	0.53	0.53	0.53	0.53
UK									
BLME	0.42	0.42	0.42	0.42	0.42	0.44	0.42	0.42	0.42
EIIB	0.41	0.47	0.47	0.47	0.47	0.47	0.47	0.47	0.46
Islamic Bank of Britain	0.35	0.35	0.35	0.35	0.47	0.47	0.53	0.53	0.43
Bangladesh									
EXIM Bank of Bangladesh	0.44	0.44	0.44	0.44	0.44	0.38	0.38	0.38	0.42
Islami Bank Bangladesh Limited	0.50	0.53	0.53	0.50	0.50	0.50	0.50	0.50	0.51
Egypt									
Al Baraka Bank Egypt	-	-	0.26	0.26	0.26	0.26	0.29	0.41	0.29
Indonesia									
Muamalat Indonesia	0.26	0.26	0.26	0.26	0.26	0.32	0.32	0.32	0.29
PT Bank Syariah Mandiri	0.26	0.26	0.38	0.38	0.41	-	0.41	0.41	0.36
Jordan									
Islamic International Arab Bank	-	0.50	0.53	0.53	0.59	0.59	0.56	0.59	0.55
Jordan Islamic Bank	-	0.53	0.56	0.56	0.56	0.56	0.56	0.56	0.55
Lebanon									
BLOM Development Bank	-	0.59	0.53	0.56	0.59	0.56	0.59	-	0.57
South Africa									
Al Baraka South Africa	0.59	0.56	0.62	0.59	0.59	0.59	0.59	0.59	0.59
Sudan									
Al Baraka Bank Sudan	0.41	0.41	0.41	0.38	0.38	0.38	0.38	0.41	0.40
Faisal Islamic Bank	-	0.44	0.44	0.44	0.44	0.44	0.44	0.44	0.44
Average	0.40	0.44	0.46	0.46	0.49	0.49	0.50	0.50	

When we examine the individual SARs of each IB during the sample period, we observe that the reports were written shortly without any detailed information. In search of possible explanations for such similarity among the three IBs, it is noticed that two *Shari'ah* scholars dominated the SBs of three IBs for most of the sample period, namely, Waleed Bin Hadi and Abdul Sattar Abud Ghuddah. Considering the close structures and disclosure levels of SARs of each IB, this fact shows how individual scholars might be influential in the preparation of SAR and the level of disclosure it involves.

In terms of temporal analysis, we observe an increase in the average SDI_{ICG} score of all sampled IBs from a 40% disclosure level in 2007 to 50% in 2014. Furthermore, although SDI_{ICG} score of an IB does not change substantially between 2007-2014, in some IBs, we notice a substantial change in disclosure level. Especially, IBs in Malaysia exhibit sharp increases in their disclosure level, such as, Affin Islamic Bank Berhad (from 15% in 2008 to 38% in 2009), Al-Rajhi Bank Malaysia (from 21% in 2012 to 44% in 2013), Asian Finance Bank Berhad (from 15% in 2007 to 41% in 2008), Bank Islam Malaysia Berhad (from 15% in 2007 to 65% in 2008), Bank Kerjasama Rakyat Malaysia and Bank Muamalat Malaysia Berhad (both from 15% in 2010 to 44% in 2011), KFH of Kuwait (from 32% in 2009 to 50% in 2010), Abu Dhabi Islamic Bank of UAE (from 29% in 2007 to 56% in 2008), Bank Al Jazira of Saudi Arabia (from 24% in 2012 to 41% in 2013). On the other hand, in the case of some other IBs no change is observed in their SDI_{ICG} , such as, ABC Islamic Bank of Bahrain (stable at 62% during the sampled period) and Faisal Islamic Bank of Sudan (stable at 44% during the sampled period).

As for the second index, SDI_{AAOIFI} , we observe a considerable increase in score of all sampled banks compared to the SDI_{ICG} , implying that the sampled IBs are more inclining to fulfil AAOIFI expectations, while they are not willing to take the extra measures to better perform in line with IME. Table 5 presents the SDI_A scores for each bank between 2007-2014. In terms of average score over the eight years, ABC Islamic Bank and Bank Al-Khair of Bahrain shares the highest score with 94%. BLOM Development Bank of Lebanon follows them with 92%, while Bahrain Islamic Bank of Bahrain has a 90% score, which also has the highest score in SDI_{ICG} . As the results depict, Muamalat Indonesia is at the bottom of the list with a 32% score, while Al-Rajhi Bank Malaysia with 37% is the second-worst performer, which also has the worst score in SDI_{ICG} .

Table 5: SDI for AAOIFI Index for the Sampled Banks

	2007	2008	2009	2010	2011	2012	2013	2014	Average
Bahrain									
ABC Islamic	0.94	0.94	0.94	0.94	0.94	0.94	0.94	0.94	0.94
Al Baraka Bank	0.89	0.83	0.89	-	0.89	0.89	0.89	-	0.88
Al Salam Bank	0.56	0.56	0.61	0.72	0.72	0.67	0.67	0.67	0.65
Bahrain Islamic Bank	0.94	0.94	0.89	0.89	0.89	0.89	0.89	0.89	0.90
Bank alKhair	0.94	0.94	0.89	0.94	0.94	0.94	0.94	0.94	0.94
KFH Bahrain	0.67	0.67	0.67	0.89	0.94	0.89	0.89	0.89	0.81
Khaleeji Commercial Bank	0.67	0.67	0.72	0.72	0.72	0.72	0.72	0.72	0.71
Kuwait									
Boubyan Bank	0.33	0.39	0.39	0.39	0.56	0.56	0.61	0.78	0.50
KFH	0.35	0.35	0.35	0.67	0.67	0.72	0.72	0.67	0.56
Malaysia									
Affin Islamic Bank Berhad	-	0.28	0.72	0.78	0.78	0.78	0.78	0.78	0.70
Al-Rajhi Bank Malaysia	0.22	0.22	0.22	0.22	0.22	0.28	0.78	0.78	0.37
Asian Finance Bank Berhad	0.22	0.67	0.78	0.89	0.72	0.72	0.72	0.72	0.68
Bank Islam Malaysia Berhad	0.28	0.83	0.83	0.89	0.89	0.83	0.83	0.89	0.78
Bank Kerjasama Rakyat Malaysia	-	0.28	-	0.28	0.72	0.83	0.83	0.89	0.64
Bank Muamalat Malaysia Berhad	0.28	0.28	-	0.28	0.83	0.83	0.83	0.83	0.60
Hong Leong Islamic Bank Berhad	0.67	0.61	0.61	0.61	-	0.67	0.89	0.89	0.71
KFH Malaysia	0.83	0.83	0.83	0.78	0.78	0.83	0.83	0.94	0.83
Pakistan									
Bank Islami Pakistan	0.28	-	0.33	0.39	0.39	0.44	0.44	0.39	0.38
Buri Bank	0.33	-	0.44	0.67	0.56	0.67	0.67	0.67	0.57
Meezan Bank Limited	0.56	0.61	0.61	0.61	0.61	0.67	0.67	0.67	0.63
Qatar									
Masraf Al Rayan	-	-	0.44	0.44	0.44	0.44	0.33	0.33	0.41
Qatar International Islamic Bank	-	-	0.61	0.61	0.61	0.61	0.33	0.33	0.52
Qatar Islamic Bank	0.50	0.50	0.50	0.50	0.50	0.50	0.39	0.39	0.47
Saudi Arabia									
Bank Al Jazira	-	0.33	0.67	0.78	0.78	0.67	0.67	0.67	0.65
Jadwa - Investment Bank	-	0.67	0.67	0.61	0.61	0.61	0.61	0.61	0.63
UAE									
Abu Dhabi Islamic Bank	0.44	0.89	0.89	0.89	0.94	0.94	0.94	0.94	0.86
Emirates Islamic Bank	0.67	0.67	0.67	0.67	0.67	0.83	0.83	0.83	0.73
UK									
BLME	0.65	0.65	0.65	0.65	0.65	0.67	0.65	0.65	0.65
EIIB	0.67	0.72	0.72	0.72	0.72	0.72	0.72	0.72	0.72
Islamic Bank of Britain	0.5	0.5	0.5	0.50	0.72	0.72	0.78	0.78	0.63
Bangladesh									
EXIM Bank of Bangladesh	0.56	0.56	0.56	0.56	0.56	0.50	0.50	0.50	0.53
Islami Bank Bangladesh Limited	0.61	0.67	0.67	0.61	0.61	0.61	0.61	0.61	0.63
Egypt									
Al Baraka Bank Egypt	-	-	0.50	0.50	0.50	0.50	0.56	0.78	0.56
Indonesia									
Muamalat Indonesia	0.28	0.28	0.28	0.28	0.28	0.39	0.39	0.39	0.32
PT Bank Syariah Mandiri	0.33	0.33	0.44	0.50	0.50	-	0.50	0.50	0.44
Jordan									
Islamic International Arab Bank	-	0.61	0.72	0.72	0.78	0.78	0.72	0.78	0.73
Jordan Islamic Bank	-	0.83	0.89	0.89	0.89	0.89	0.89	0.89	0.88
Lebanon									
BLOM Development Bank	-	0.94	0.89	0.89	0.94	0.89	0.94	-	0.92
South Africa									
Al Baraka South Africa	0.83	0.83	0.89	0.89	0.89	0.89	0.89	0.89	0.88
Sudan									
Al Baraka Bank Sudan	0.61	0.61	0.61	0.56	0.56	0.56	0.56	0.61	0.58
Faisal Islamic Bank	-	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Average	0.55	0.61	0.64	0.65	0.69	0.70	0.70	0.71	

The overall performance over the sample period demonstrates an increase in average SDI_{AAOIFI} scores from 55% in 2007 to 71% in 2014. Hence, we can argue that although there is a general increase in disclosure level of SBs, compliance with AAOIFI guidelines is progressed better throughout the years as compared to the results with SDI_{ICG} .

As can be seen from the results for average SDI_{ICG} scores at country level in Table 6, the Bahraini Islamic banking sample has the highest score with 60%, while an Egyptian Islamic banking sample has the lowest score with 29%. Considering that the only sample from Egypt is Al-Baraka Egypt, which is a foreign subsidiary of a Bahraini bank, namely Al-Baraka, this shows the impact of local factors on SDI, as the Egyptian subsidiary has a considerably lower score despite being a part of the same group. Although, Al-Baraka Egypt scores very poorly in terms of SDI_{ICG} , they provide a one-page long SAR. However, throughout the sample period, they did not disclose any information beyond AAOIFI guidelines for SAR. Even though they follow the template prepared by AAOIFI for SAR to a certain extent, they do not disclose every item in that template either. Some of the items they do not disclose are technical items, such as, 'Report signed by all members' or 'Date the report as of the completion date of the review is disclosed'. However, they also skip some of the important parts of the template as well, such as, 'Treatment of all earnings realized from sources prohibited by Shari'ah is disposed to charitable causes', 'The role and responsibilities of the board are disclosed' or 'Report has identified the management's responsibility' which are disclosed in SAR of Al-Baraka of Bahrain. As a summary, the Islamic banking sample in 11 out of 15 countries scored within 40-59% range, which shows that index scores are relatively close to each other.

When we calculated the average SDI_{ICG} score of the banks over the years in total, we clearly observed an increase in SDI_{ICG} score throughout eight years. However, when the average is calculated for each country instead of total average, this pattern is lost. Although the average score of all banks throughout the sampled years suggest a pattern of increasing disclosure in SARs in terms of SDI_{ICG} score, we cannot claim a similar pattern at the country level. Kuwait, the UK and Egypt are the only exceptions at country level which exhibit an increasing SDI score over the years. Nevertheless, we can argue that most of the countries have a higher score in 2014 compared to 2007 on average with the exceptions of Qatar and Bangladesh.

Table 6: SDI_{ICG} of SDI_{AAOIFI} by Country Level

	2007		2008		2009		2010		2011		2012		2013		2014		Average	
	ICG	AAOIFI	ICG	AAOIFI														
Bahrain	0.56	0.80	0.57	0.79	0.57	0.80	0.62	0.85	0.62	0.87	0.61	0.85	0.61	0.85	0.61	0.84	0.60	0.83
Kuwait	0.31	0.34	0.32	0.37	0.32	0.37	0.41	0.53	0.46	0.61	0.51	0.64	0.53	0.67	0.54	0.72	0.43	0.53
Malaysia	0.25	0.42	0.31	0.50	0.42	0.67	0.36	0.59	0.46	0.71	0.47	0.72	0.53	0.81	0.56	0.84	0.42	0.66
Pakistan	0.39	0.39	0.62	0.61	0.48	0.46	0.54	0.56	0.48	0.52	0.53	0.59	0.54	0.59	0.54	0.57	0.52	0.54
Qatar	0.35	0.50	0.35	0.50	0.37	0.52	0.37	0.52	0.36	0.52	0.36	0.52	0.27	0.35	0.27	0.35	0.34	0.47
Saudi Arabia	-	-	0.34	0.50	0.43	0.67	0.47	0.69	0.47	0.69	0.43	0.64	0.43	0.64	0.43	0.64	0.43	0.64
UAE	0.38	0.56	0.56	0.78	0.53	0.78	0.56	0.78	0.57	0.81	0.57	0.89	0.57	0.89	0.57	0.89	0.54	0.80
UK	0.39	0.60	0.41	0.62	0.41	0.62	0.41	0.62	0.45	0.70	0.46	0.70	0.47	0.72	0.47	0.72	0.43	0.66
Bangladesh	0.47	0.58	0.49	0.61	0.49	0.61	0.47	0.58	0.47	0.58	0.44	0.56	0.44	0.56	0.44	0.56	0.46	0.58
Egypt	-	-	-	-	0.26	0.50	0.26	0.50	0.26	0.50	0.26	0.50	0.29	0.56	0.41	0.78	0.29	0.56
Indonesia	0.26	0.31	0.26	0.31	0.32	0.36	0.32	0.39	0.34	0.39	0.32	0.39	0.37	0.44	0.37	0.44	0.32	0.38
Jordan	-	-	0.51	0.72	0.54	0.81	0.54	0.81	0.57	0.83	0.57	0.83	0.56	0.81	0.57	0.83	0.55	0.81
Lebanon	-	-	0.59	0.94	0.53	0.89	0.56	0.89	0.59	0.94	0.56	0.89	0.59	0.94	-	-	0.57	0.92
South Africa	0.59	0.83	0.56	0.83	0.62	0.89	0.59	0.89	0.59	0.89	0.59	0.89	0.59	0.89	0.59	0.89	0.59	0.88
Sudan	0.41	0.61	0.43	0.56	0.43	0.56	0.41	0.53	0.41	0.53	0.41	0.53	0.41	0.53	0.43	0.56	0.42	0.55

When we examine SARs of IBs in Qatar closely, we observe a change in the template of the reports in three IBs in 2013 and 2014 which decreased the number of required disclosed items, as in 2014, items 5-8 from AAOIFI standards as listed in Table 1 were removed resulting into lesser disclosure. This result could be attributed to the change in the composition of SB or the change in the behaviours of *Shari'ah* scholars. However, we observe that the only substantial change in SB composition is the addition of *Shari'ah* scholar, Ahmad Ahmin, in 2012 to Masraf Al Rayan and Qatar International Islamic Bank, and in 2013, to Qatar International Bank; while *Shari'ah* scholars Waleed Bin Hadi and Abdul Sattar Abud Ghuddah were the permanent members of all three SBs in Qatar between 2010 and 2014. Such a change in the template which decreases the level of disclosure without a substantial transformation in SB bring along questions about the impact of *Shari'ah* scholars on the preparation of SARs.

As for Bangladesh, the cause of the decrease in the level of disclosure is more surprising. Although Islami Bank Bangladesh Limited exhibited a stable performance in SAR disclosure throughout the sampled period, in the case of EXIM Bank Bangladesh, the level of disclosure decreased between 2012 and 2014, which is due to the non-disclosure of items 2 and 31. Although item 31, namely, disclosure of a number of meetings is an important detail, item 2 appears as a trivial detail, which is the report being addressed appropriately. These structural changes without necessarily providing a refinement for reporting suggests the existence of bank-level factors beyond SB, such as, internal *Shari'ah* auditing departments, as it is shown in panel data analysis in the next section. Such a bank-level impact might also explain the fluctuations between 2007 and 2014 in most of the sampled countries, as many of these states could not achieve gradual progress.

The average SDI_{AAOIFI} scores for the sampled banks were drawn are also displayed in Table 6. As can be seen from the results, based on average scores, Lebanon is the top scoring country with a 92% of disclosure score, while South Africa is the second, with 88% of the AAOIFI required items being disclosed in the SARs. Although Bahrain has two IBs with highest SDI_{AAOIFI} scores in our sample, namely, ABC Islamic and Bank Al-Khair, at the country level, it achieved the highest third SDI_{AAOIFI} score with 83% on average. One of the important reasons for such an outcome is the difference in the sample size for each country. While Bahrain is represented by seven IBs, Lebanon and South Africa are represented with only one IB each. Therefore, although Bahrain has two highest scoring IBs in SDI, due to the other IBs in the

sample, its average score declined by bringing the country level average to third place. Indonesia is located at the bottom of the list with a 38% score. Overall, unlike SDI_{ICG} , SDI_{AAOIFI} score of countries is dispersed between 38% and 92% without clustering within a small range.

In the findings, AAOIFI membership, national culture of the respective country, the presence of a national *Shari'ah* board as well as the willingness of the authorities to develop Islamic finance has been important alongside the political regimes of the countries. It seems that the countries which have provided level playing field for IBs through state incentives, such as Malaysia, has demonstrated a reasonable performance, while Qatar and Saudi Arabia has managed to follow Malaysia's success. Thus, summary data in Table 6 presents an opportunity to compare the performance of the sampled countries. However, attempting to correlate the SAR disclosure performance with the presence of a National Shari'ah Boars does not present a meaningful result.

To further investigate the characteristics of country-level SDI scores, Table 7 and Table 8 presents descriptive statistics for SDI_{ICG} and SDI_{AAOIFI} , respectively. In terms of mean value, all countries lay in the range of 40-59% score levels, except Qatar (34%) and Egypt (29%). Bahrain and South Africa have the highest mean values with 59%, while Egypt has the lowest mean value at 29%, almost half of the highest mean value.

In further analysing the data, as can be seen in Table 7, the Malaysian sample has the highest standard deviations with 0.17. Although Malaysia has the highest number of observations (59 out of 305) which might also play a role in such dispersion, based on Table 6, we can argue that an increase in SDI_{ICG} throughout the sampled period and sharp jumps in SDI_{ICG} scores of individual banks in different years play the most important role in the observed high standard deviation. On the other hand, Pakistan which is represented by three IBs in this study owes its relatively high standard deviation score mostly to the heterogeneity of sampled IBs among themselves rather than progress in the time period of eight years. Although Bahrain has the second highest number of observations (54 out of 305), with a 0.07 standard deviation, it exhibits uniformity in disclosure practices within IBs in Bahrain and throughout the sampled period, which is also evident from the results displayed in Tables 4 and 6. As can be seen, the lowest standard deviation belongs to Lebanon and South Africa (0.02) which are represented in this study by only one IB each. However, while Egypt is also represented by one IB, it has a

standard deviation of 0.06 which shows that the number of IBs is not the only explanation for standard deviation as the Bahraini case proves.

Excess kurtosis statistic shows the peak of the data where a normally distributed data should have a kurtosis of 0. As depicted in Table 7, higher values suggest heavier tails for the distribution compared to normal distribution, such as, the case of Saudi Arabia, UAE, Egypt and South Africa, while the lower values suggest lighter tails, such as, the case for Indonesia, Sudan, Kuwait and Pakistan. Although the rest of the countries do not have exactly a kurtosis of 0, they are relatively close to 0.

As an indicator for the symmetry of the distribution, if the data is symmetric, the value of skewness should be close to 0, while the degree of skewness increases as it gets further away from 0. While a negative value for skewness suggests the data is skewed to the left, a positive value suggest the opposite. According to Table 7, Egypt is the only country with a strong right-skewed distribution, while Qatar, with a less than half value of skewness, also displays a similar picture. As the results depict, the countries with strong negative skewness are UAE and Saudi Arabia. Although most of the countries are skewed to the left (9 out of 15), the value of skewness of these countries is not far away from 0.

Table 7: Descriptive Statistics by Countries for ICG Index

	Mean	Std Dev.	Kurt	Skew	Range	Min	Max	Observation
Bahrain	0.59	0.07	0.14	0.16	0.33	0.44	0.77	54
Kuwait	0.43	0.11	-1.25	0.48	0.32	0.29	0.62	16
Malaysia	0.43	0.17	-0.95	-0.51	0.56	0.15	0.71	59
Pakistan	0.51	0.12	-1.19	-0.40	0.35	0.29	0.65	22
Qatar	0.34	0.06	-0.49	0.68	0.18	0.26	0.44	20
Saudi Arabia	0.43	0.07	5.09	-1.37	0.29	0.24	0.53	14
UAE	0.54	0.08	6.23	-2.10	0.32	0.29	0.62	16
UK	0.44	0.05	-0.29	-0.21	0.18	0.35	0.53	24
Bangladesh	0.46	0.05	-1.06	-0.44	0.15	0.38	0.53	16
Egypt	0.29	0.06	5.12	2.25	0.15	0.26	0.41	6
Indonesia	0.32	0.06	-1.60	0.46	0.15	0.26	0.41	15
Jordan	0.55	0.03	0.24	-0.53	0.09	0.50	0.59	14
Lebanon	0.57	0.02	-0.30	-0.86	0.06	0.53	0.59	6
South Africa	0.59	0.02	3.50	0.00	0.06	0.56	0.62	8
Sudan	0.42	0.03	-1.55	-0.43	0.06	0.38	0.44	15
Total	0.47	0.13	-0.16	-0.49	0.63	0.15	0.77	305

In further examining the descriptive statistics for SDI_{ICG} , the scores in Table 7 depict that Malaysia has the highest range with 0.56, which is followed by Pakistan with 0.35. The lowest ranges also belong to Lebanon and South Africa.

Table 8 presents descriptive statistics for SDI_A . In terms of mean value, countries are dispersed within a long range of mean values, namely 38-92% score range, while 9 out of 15 countries are clustered between 53-66% score range. Lebanon has the highest mean value with 92% disclosure score, while Indonesia has the lowest mean value with 38%. As the results show, South Africa, Bahrain, Jordan and UAE achieve a higher SDI_A score by exceeding 80%. In terms of standard deviation, Malaysia has the highest value with 0.24, being followed by Kuwait (0.16) and UAE (0.15). The lowest standard deviation scores for SDI_A observed in the case of Lebanon and South Africa (0.03), as it is also the case for SDI_{ICG} .

Unlike SDI_{ICG} , as descriptive statistics for SDI_{AAOIFI} show, the only countries with higher excess kurtosis values are Saudi Arabia and Egypt, while Indonesia, Sudan, Kuwait, Lebanon and Pakistan all have excess kurtosis values lower than a normal distribution. However, South Africa, which has a high positive excess kurtosis for SDI_{ICG} , has exactly an excess kurtosis of 0 in the case of SDI_{AAOIFI} , while other countries are relatively close to 0.

Table 8: Descriptive Statistics by Countries for AAOIFI Index

	Mean	Std Dev.	Kurt	Skew	Range	Min	Max	Observation
Bahrain	0.83	0.12	-0.92	-0.74	0.39	0.56	0.94	54
Kuwait	0.53	0.16	-1.78	0.06	0.44	0.33	0.78	16
Malaysia	0.66	0.24	-0.67	-1.00	0.72	0.22	0.94	59
Pakistan	0.53	0.13	-1.36	-0.47	0.39	0.28	0.67	22
Qatar	0.47	0.10	-0.92	0.12	0.28	0.33	0.61	20
Saudi Arabia	0.64	0.10	6.09	-1.85	0.44	0.33	0.78	14
UAE	0.80	0.15	0.25	-0.90	0.50	0.44	0.94	16
UK	0.66	0.08	0.14	-0.97	0.28	0.50	0.78	24
Bangladesh	0.58	0.05	-0.76	-0.05	0.17	0.50	0.67	16
Egypt	0.56	0.11	5.13	2.25	0.28	0.50	0.78	6
Indonesia	0.38	0.09	-1.59	0.26	0.22	0.28	0.50	15
Jordan	0.81	0.09	-0.23	-0.72	0.28	0.61	0.89	14
Lebanon	0.92	0.03	-3.33	0.00	0.06	0.89	0.94	6
South Africa	0.88	0.03	0.00	-1.44	0.06	0.83	0.89	8
Sudan	0.54	0.05	-1.55	0.43	0.11	0.50	0.61	15
Total	0.66	0.20	-0.74	-0.39	0.72	0.22	0.94	305

According to the results of SDI_{AAOIFI} as depicted in Table 8, Egypt is the only country with a strong right-skewed distribution, as it is also the case with SDI_{ICG} , while Saudi Arabia, South Africa and Malaysia have strong negative skewness. Although most of the countries are skewed to the left (9 out of 15), the value of skewness of these countries is not far away from 0.

As the comparative results from Table 7 and 9 show, range values for SDI_{AAOIFI} is similar to SDI_{ICG} . While Malaysia has the highest difference between the minimum and maximum values, Lebanon and South Africa have the lowest range. However, the range of disclosure scores of UAE, Saudi Arabia and Kuwait are relatively high for SDI_{AAOIFI} as compared to SDI_{ICG} . This suggests that some IBs in these countries achieved a higher compliance with AAOIFI standards for SARs in terms of the level of disclosure during the sample period compared to the general index of this study, while Malaysia, Lebanon and South Africa follows a stable pattern in both SDI_{ICG} and SDI_{AAOIFI} .

Table 9 displays the annual mean disclosure scores of all sampled IBs for individual items as part of SDI. In order to develop a better snapshot, results depicted in Table 9 are classified as scores between 0.71-1.00, 0.50-0.70, and scores less than 0.50. These are highlighted in Table 10.

In general, we observe an increase in item or dimension score from 2007 to 2014, which suggests a refinement in each year. Furthermore, the disclosure level of items determined by AAOIFI standards is considerably greater than custom items. This difference is especially evident for the items 22-34. However, because index items 19-21 are a subset of index item 17, we can claim that all index items which are not derived from AAOIFI standards for SAR are disclosed considerably low in sampled IBs in this study. This suggests that AAOIFI guidelines for SARs have an impact on the preparation of the reports, even for the IBs which did not officially adopt AAOIFI standards. This further suggests that the majority of SBs do not prefer to disclose detailed information regarding their activities and monitoring processes.

Table 9: SDI by Individual Items

		2007	2008	2009	2010	2011	2012	2013	2014
1	Report has an appropriate title	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
2	Report has been appropriately addressed	0.47	0.47	0.56	0.58	0.58	0.58	0.56	0.54
3	Report has identified the purpose of the engagement (opening paragraph)	0.37	0.53	0.49	0.50	0.50	0.55	0.56	0.62
4	Report has identified the nature of the work performed (scope paragraph)	0.60	0.64	0.79	0.78	0.83	0.80	0.78	0.79
5	Report has identified the management's responsibility	0.53	0.56	0.67	0.65	0.75	0.80	0.73	0.77
6	Independent judgment in carrying out its responsibilities is disclosed.	0.43	0.47	0.54	0.53	0.63	0.68	0.66	0.69
7	The role and responsibilities of the board are disclosed.	0.50	0.56	0.64	0.63	0.70	0.80	0.73	0.77
8	Confirmation that the SB has performed appropriate tests, procedures and review work as appropriate	0.37	0.47	0.54	0.58	0.68	0.68	0.73	0.72
9	Confirmation that the transaction and dealings are in compliance with Shari'ah rules and principles	0.47	0.61	0.64	0.63	0.70	0.70	0.76	0.74
10	Treatment of all earnings realized from sources prohibited by Shari'ah is disposed to charitable causes	0.50	0.50	0.59	0.58	0.65	0.63	0.68	0.67
11	Compliance of <i>zakat</i> calculation with <i>Shari'ah</i> is disclosed. -opinion	0.47	0.56	0.56	0.53	0.60	0.63	0.61	0.62
12	Statement on the endorsed conformity of <i>Shari'ah</i> compliance is disclosed	0.90	0.97	0.95	0.98	0.98	0.98	0.98	0.97
13	Distribution of profits and losses comply with Shari'ah is disclosed.	0.37	0.44	0.54	0.58	0.65	0.68	0.71	0.69
14	Report on the violations of Shari'ah compliance (if any) is disclosed.	0.40	0.36	0.31	0.35	0.30	0.33	0.34	0.36
15	Period covered is disclosed	0.90	0.94	0.92	0.93	0.90	0.90	0.90	0.90
16	Date the report as of the completion date of the review is disclosed	0.47	0.53	0.51	0.48	0.50	0.48	0.49	0.46
17	Report signed by all members.	0.30	0.42	0.38	0.48	0.53	0.53	0.56	0.54
18	The report is published in the annual report	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
19	Report signed by chairman	0.63	0.64	0.64	0.65	0.75	0.75	0.73	0.74
20	Names of members are disclosed.	0.50	0.61	0.62	0.65	0.63	0.65	0.66	0.64
21	Name of the chairman is disclosed	0.83	0.83	0.85	0.83	0.88	0.88	0.88	0.85
22	Pictures of members are disclosed	0.10	0.11	0.10	0.13	0.13	0.10	0.15	0.15
23	Examination of product development ex ante is provided.	0.13	0.14	0.23	0.20	0.23	0.18	0.20	0.21
24	Examination of product development ex post is provided.	0.00	0.00	0.03	0.03	0.00	0.00	0.00	0.05
25	Holding meetings during the year is disclosed.	0.13	0.19	0.18	0.20	0.18	0.20	0.24	0.26
26	The training information of the employees is disclosed.	0.23	0.17	0.18	0.18	0.20	0.18	0.17	0.18
27	The Shari'ah auditing department in the bank is disclosed.	0.37	0.42	0.49	0.48	0.53	0.53	0.51	0.51
28	SB adopted one of the standards as guidelines (AAOIFI or IFSB).	0.07	0.08	0.08	0.08	0.08	0.08	0.07	0.08
29	Report discloses that the management supplies complete, accurate and adequate information in a timely manner	0.10	0.11	0.10	0.10	0.10	0.08	0.07	0.08
30	Holding meeting with BOD	0.07	0.08	0.10	0.08	0.10	0.08	0.07	0.08
31	Number of meetings during the year is disclosed.	0.13	0.17	0.15	0.15	0.15	0.15	0.17	0.18
32	Details of the training information of the employees is disclosed.	0.07	0.08	0.08	0.08	0.05	0.05	0.07	0.10
33	Details of the violations of Shari'ah compliance (if any) is disclosed.	0.20	0.14	0.13	0.15	0.15	0.13	0.17	0.15
34	Details of treatment of all earnings realized from sources prohibited is disposed to charitable causes is disclosed	0.10	0.08	0.08	0.08	0.10	0.13	0.15	0.15
	Average	0.40	0.44	0.46	0.46	0.49	0.49	0.50	0.50

Index items, or dimensions 1 and 18 have a perfect full score in each year of the sampled period which is included in both SDI_{AAOIFI} and SDI_{ICG} . However, since the annual report of IBs was the only tool to obtain SARs of these IBs, this item is tautological and does not provide information, which is included only due to being part of AAOIFI guidelines. The third highest score belongs to item 12 which is a 'Statement on the endorsed conformity of *Shari'ah* compliance is disclosed'. This item actually is the core of the SAR, since it legitimises the IBs' activities on the sight of customers; therefore, even the shortest SARs (*e.g.* 3-4 sentences long) document this item. However, it is important to note that this item only checks the consent of a SB without looking for any justification for such consent or expecting an explanation of the methodology of how a SB is convinced of such compliance.

Similar to the report title, another technical detail is the period covered by the report which also has a high disclosure level throughout the years. Similarly, a high disclosure score is found with item 21, which is the disclosure of the name of the chairman. However, when it comes to disclosure of names of all members of a SB (item 20) or signatures of the chairman and members (item 19 and 17), the disclosure level decreases for all the sampled years.

Item 14, which is 'Report on the violations of *Shari'ah* compliance (if any) is disclosed', stays within relatively low levels of disclosure compared to the other AAOIFI standards required items, 1-18. For this item, we checked whether there is any disclosure for the violations even if the income generated from such a transaction is disposed to charitable causes. Although, most of the banks disclose the fact that they disposed of impure income to charitable causes, they do not disclose the existence of a violation of *Shari'ah* in the report. We believe, in terms of rhetoric, this is an important distinction. Furthermore, for those who disclose the violation of *Shari'ah* in relation to this particular item, the nature of the violation is mostly omitted and contented within the disclosure of violation only.

Another point to note is the progress over time. It is evident that in general, there is a refinement in the reports from one year to the other in relation to the AAOIFI items. However, we cannot observe such a positive change in non-AAOIFI items with some exceptions such as item 19 and 27. Considering that the latter items indicate pro-activity beyond voluntary disclosure and transparency, it seems that IBs are not necessarily prepared to act in a pro-active manner in disclosing the expected items in their SARs.

6.2. Analysis of Qualitative Data from SARs

Although statistical findings help us to reflect on the degree *Shari'ah* scholars pay attention to the substantive morality articulated by IME, qualitative analysis of the published SARs through textual analysis reveals further details which cannot be detected in the statistical analysis. In this section, therefore, we focus on the content of SARs to show how *Shari'ah* scholars might be contented with approval of *Shari'ah* compliance without substantiating it through any disclosure, and the concerns and the warnings of *Shari'ah* scholars raised in SARs are being ignored by the top-level management, which evidences the lost legitimacy and lost negotiating power of *Shari'ah* scholars and the hegemony of the market system in shaping their decision-making process.

The SAR published by the *Shari'ah* board of Affin Islamic Bank of Malaysia in 2008, for example, shows how a *Shari'ah* committee expects stakeholders to have trust in their judgement without disclosing any details of how the operations in Affin Islamic Bank were conducted. The following paragraph was the content of the whole SAR in 2008:

We, Dr. Hailani Muji Tahir and Dr. Md. Khalil Ruslan, two of the members of the Shariah Committee of AFFIN Islamic Bank Berhad, do hereby confirm on behalf of the Shariah Committee, that in our opinion, the operation of the Bank for the financial year ended 31 December 2008 have been conducted in conformity with the Shariah principles.

Although Malaysian Islamic banks have increased the level of information disclosed after 2008 as evidenced in this empirical research, such a short report of Affin Islamic Bank was not an exception in Malaysia during 2007 and 2008. Such reports imply that the trust accorded to *Shari'ah* scholars' supervision of IBs does not stem, in most of the cases, from substantiated knowledge communicated through SARs or other channels but is directly reliant on the existence of a SB and the esteem attached to their approval of the operations. Thus, *Shari'ah* scholars have been using their position to impose themselves on the stakeholders via claiming *Shari'ah* hegemony, while working towards enhancing the shareholders' interests under the hegemony of a market mechanism. In other words, they work within the institutional logics of the market system as represented by IBs and expect stakeholders to have trust in the outcomes and process of IBs as part of the market system, by definition, due to being designated as a *Shari'ah* scholar.

In terms of the influence of *Shari'ah* scholars in affecting the everyday operations of IBs, the content of SARs of Bank Al-Khair from Bahrain evidences the lack of power of *Shari'ah*

scholars, at least for some IBs. It is not common to observe *Shari'ah* scholars issuing public warnings to management in terms of a lack of *Shari'ah* compliance, such as, through SARs. However, the SB of Bank Al-Khair disclosed the lack of *Shari'ah* compliance within, the Taj Mall project, which was cited in their 2010 SAR. However, details referred to within subsequent years' SARs suggests that the management did not exit from the project as soon as possible, while the bank increased its involvement in other non-*Shari'ah* compliant projects (*such as*: Open-Silicon and Logistics & Warehousing) along with the continued Taj Mall project. This was mainly because they did not submit the projects for the approval by the SB in advance, as non-*Shari'ah* compliance issues later revealed by the SB. Below is an excerpt of the related section from the SARs of Bank Al-Khair between 2010-2014 (the emphasis in the quotations are added):

2010: The contracts, transactions and dealings entered into by the Group during the year ended 31 December 2010 are in compliance with the rules and principles of Islamic *Shari'ah*, except the investment in **Taj Mall project** which the *Shari'ah* Board advised in a previous resolution to exit as soon as possible.

2011: The contracts, transactions and dealings entered into by the Group during the year ended 31 December 2011 are in compliance with the rules and principles of Islamic *Shari'ah*, except the investment in **Taj Mall project** which the *Shari'ah* Board advised in a previous resolution to exit as soon as possible.

2012: The contracts, transactions and dealings entered into by the Group during the year ended 31 December 2012 are in compliance with the rules and principles of Islamic *Shari'ah*, except for the investment in **Taj Mall** which the *Shari'ah* Board advised in a previous resolution to exit as soon as possible.

2013: The contracts, transactions and dealings entered into by the Group during the year ended 31 December 2013 are in compliance with the rules and principles of Islamic *Shari'ah* except part of the investment in **Taj Mall project, Open Silicon and The Independent For Logistics & Warehousing** which were not submitted to the *Shari'ah* Board for approval before its execution, and appear later to be having explicitly non-*Shari'ah* Compliance issues.

2014: The contracts, transactions and dealings entered into by the Group during the year ended 31 December 2014 are in compliance with the rules and principles of *Shari'ah* except part of the investment in **Taj Mall project, Open Silicon and Logistics & Warehousing** which were not submitted to the *Shari'ah* Board for approval before its execution, and appear later to be having explicitly non-*Shari'ah* Compliance issues.

As clarified by the above excerpts and examples, top-level strata of management do not always act in line with the advice of a SB. Considering that non-*Shari'ah* compliant projects have increased in later years, this attitude is not due to the constraints of one particular project, but outlines the management's approach towards the SB in general, namely, they impose market restraints on the *Shari'ah* scholars and expect *Shari'ah* legitimacy to be granted in return for a place on their SB. As discussed in the following chapters, where *Shari'ah* scholars' legitimacy is drawn from their affiliation with a particular SB, they do not possess negotiation powers

beyond issuing advice. Since the top-management at IBs are aware of the attractiveness of SB posts amongst *Shari'ah* scholars, *fatwa* shopping, *fatwa* re-positioning (Ullah *et al.*, 2018), and *Shari'ah* arbitrage (El-Gamal, 2007) facilitates the process by imposing market requirements and institutional logics of the bank on the *Shari'ah* scholars, as conditions.

In summary: these qualitative analyses show the role and status of *Shari'ah* scholars in modern IBs. In other words, the mere existence and approval of IB instruments and transactions by a SB without substantive evidence can sustain the 'Islamic' identity of an IB, while their role of supervision does not significantly impact upon everyday practices of an IB, at least within some IBs.

6.3. Determinants of Disclosure Performance: Econometrics Analysis

After presenting and discussing the statistical findings in relation to the disclosure scores and the qualitative analysis, this section focuses on the findings in relation to a system-GMM analysis by using SDI_{ICG} index and SDI_{AAOIFI} index as dependent variables.

The pairwise correlation matrix of independent variables, as depicted in Table 10, suggest, in general, a low correlation among the pair of variables and there is no perfect multicollinearity among them. Tables 11 and 12 present the System GMM test results for SDI_{ICG} and SDI_A , respectively, where we consider SDI_{ICG} and SDI_{AAOIFI} as dependent variables, respectively.

As depicted in tables 11 and 12, the number of observations is decreased to 179 from 305 in both models. This decrease is related to the internal process of system-GMM calculations which uses lagged values of variables and therefore decreases the number of observations utilised. As for the independent variables, the popularity of *Shari'ah* scholars is significant in both models. The popularity of *Shari'ah* scholars is significant at a 10% significance level in both models. The significance of popularity of *Shari'ah* scholars in both models suggests that sitting on multiple chairs positively influences the preparation of *Shari'ah* annual reports. This result suggests that if a SB is composed of *Shari'ah* scholars who have positions in multiple boards, level of disclosure in SAR increases, especially, in terms of providing details.

Table 10: Pairwise Correlation Matrix of Independent Variables

Name of the Variable	No of Members	Leverage	Ind. Auditor	Internal SAD	Size	ROA	AgeOf Shariah	CPI	GDP Growth	Reg Quality	VandA	IsCountry AAOIFI	Popularity SB	Crisis Dummy	Av. Education	Board Size	CEO Duality
No of Members	1.00																
Leverage	0.05	1.00															
Ind. Auditor	0.04	0.04	1.00														
Internal SAD	0.15	0.25	-0.24	1.00													
Size	0.36	0.41	-0.13	0.25	1.00												
ROA	0.04	0.17	0.12	0.08	0.29	1.00											
AgeOfShariah	-0.02	0.27	0.00	0.17	0.22	0.24	1.00										
CPI	-0.04	-0.39	-0.29	0.05	0.10	-0.17	-0.21	1.00									
GDPGrowth	0.15	0.09	0.00	0.12	0.30	0.32	0.11	0.09	1.00								
RegQuality	0.03	-0.40	-0.36	0.06	0.00	-0.26	-0.33	0.89	0.01	1.00							
VandA	-0.19	-0.30	-0.06	-0.36	-0.33	-0.29	-0.27	0.56	-0.28	0.57	1.00						
IsCountryAAOIFI	-0.14	-0.10	-0.08	0.23	-0.05	0.20	0.42	-0.03	0.23	-0.11	-0.51	1.00					
PopularitySB	-0.02	-0.39	-0.40	0.16	-0.17	-0.22	-0.22	0.35	-0.17	0.32	0.16	0.06	1.00				
CrisisDummy	0.03	0.08	0.01	0.20	0.25	-0.10	0.17	-0.02	-0.19	-0.01	-0.08	0.05	0.00	1.00			
Av. Education	-0.07	-0.19	-0.02	-0.10	0.08	-0.09	-0.05	0.08	-0.02	0.01	-0.16	0.24	0.07	0.09	1.00		
Board Size	0.24	-0.12	-0.07	0.14	0.00	0.10	0.27	-0.08	0.03	-0.11	-0.20	0.28	0.22	0.01	-0.23	1.00	
CEO Duality	0.23	-0.10	0.16	0.11	-0.21	-0.13	0.01	-0.04	-0.27	0.08	0.01	-0.14	0.16	-0.09	-0.16	0.11	1.00

Table 11: System GMM Test Results for SDI_{ICG}

Variable	Coefficient	Robust Std. error	t	P> t
SDI _{General} (Lag1)	0.285	0.168	1.700	0.100
RegularityQuality	0.003	0.002	1.610	0.118
VoiceandAccountability	0.000	0.002	-0.150	0.883
CPI	-0.040	0.032	-1.240	0.224
IsCountryAAOIFI	-0.099	0.093	-1.060	0.296
GDPGrowth	-0.020	0.236	-0.080	0.934
CEODuality	-0.076	0.133	-0.570	0.572
LogSize	-0.029	0.044	-0.660	0.515
Leverage	-0.058	0.161	-0.360	0.720
ROA	-0.452	0.398	-1.130	0.265
IndependentAuditor	0.026	0.026	0.990	0.330
InternalSAD**	0.216	0.098	2.200	0.035
CrisisDummy	-0.009	0.020	-0.450	0.653
AgeofShariah	0.004	0.003	1.400	0.171
NoofMembers	-0.005	0.025	-0.180	0.855
AverageEducation	0.072	0.048	1.500	0.143
Popularity***	0.070	0.036	1.960	0.058
BoardSize	0.016	0.016	1.050	0.304
Constant	0.036	0.381	0.100	0.924
No of Obs.	179			
No of Groups	33			
No of Instruments	28			
AR(1)	0.048			
AR(2)	0.380			
Hansen Test (p-val)****	0.276			

Notes: *p < 0.10; **p < 0.05; ***p < 0.01; **** Since robust standard errors were utilised, we only report Hansen test result.

This might be due to the exposure to different reporting and disclosure styles on different boards. In other words, there might be a knowledge transfer from one institution to another where a *Shari'ah* scholar has a chair in both. Another explanation for the significance of this variable might be due to the prestigious status of these *Shari'ah* scholars who, in line with their reputation and experience, wants to issue quality reports with high disclosure levels. This finding is also consistent with the finding of El-Halaby and Hussainey (2016) who argued that exposure of reputable *Shari'ah* scholars to modern banking and disclosure structures might help to produce a higher level of disclosure. Considering that the measure of popularity in this study is occupying a high number of chairs in multiple IFIs, in terms of policy making, placement of *Shari'ah* scholars in multiple chairs might be promoted to increase the level of

disclosure. Furthermore, both coefficients for the popularity of *Shari'ah* scholars are close to each other (0.070 for General index and 0.094 for AAOIFI index).

Table 12: System GMM Test Results for SDI_{AAOIFI}

Variable	Coefficient	Robust Std. error	t	P> t
SDI _{AAOIFI} (Lag1)**	0.416	0.187	2.220	0.034
RegularityQuality**	0.007	0.003	2.490	0.018
VoiceandAccountability	-0.005	0.003	-1.470	0.150
CPI	-0.026	0.043	-0.620	0.541
IsCountryAAOIFI***	-0.209	0.117	-1.790	0.083
GDPGrowth	-0.327	0.324	-1.010	0.319
CEO Duality	-0.216	0.162	-1.340	0.191
LogSize	-0.073	0.064	-1.140	0.262
Leverage	-0.046	0.228	-0.200	0.840
ROA	-0.407	0.504	-0.810	0.425
Independent Auditor	0.020	0.034	0.610	0.549
Internal SAD	0.069	0.171	0.400	0.691
Crisis Dummy	-0.012	0.034	-0.340	0.736
Age of Shariah***	0.009	0.005	1.840	0.074
No of Members	0.021	0.041	0.510	0.613
Average Education	0.000	0.088	0.000	0.998
Popularity***	0.094	0.052	1.790	0.083
Board Size	-0.005	0.020	-0.270	0.790
Constant	0.900	0.664	1.360	0.185
No of Obs.	179			
No of Groups	33			
No of Instruments	28			
AR(1)	0.122			
AR(2)	0.169			
Hansen Test (p-val)****	0.338			

Notes: *p < 0.10; **p < 0.05; ***p < 0.01; **** Since robust standard errors were utilised, we only report Hansen test result.

The existence of an internal *Shari'ah* auditing department is the second significant variable for the first model. The findings show that having a dedicated *Shari'ah* auditing department in the bank also affects the level of disclosure and suggests that IBs with an internal *Shari'ah* auditing department disclose more (with an amount of 0.167) compared to the IBs without such a department in terms of SDI_{ICG} score while the existence of an internal *Shari'ah* auditing department is insignificant in terms of the level of disclosure in a SDI_{AAOIFI} score. The positive impact of the existence of an internal *Shari'ah* auditing department may stem from providing necessary information and reports to the SB for revision and helping them to compile more comprehensive annual reports. While SDI_{ICG} contains detailed information over the AAOIFI

guidelines, the existence of such a department might facilitate the flow of information to fulfil the expectation of such a comprehensive index. This result is also consistent with the empirical findings of the literature regarding the positive influence of an internal auditing department (Gordon and Smith, 1992; Schneider and Wilner, 1990). Furthermore, this finding suggests that regulatory authorities at the state level or independent institutions, such as, AAOIFI should pay more attention to the establishment of internal *Shari'ah* auditing departments to increase the level of disclosure.

As can be seen in Table 12, there are four control variables unique to the second model, namely, the Lag of SDI_{AAOIFI} , Regularity Quality, Country AAOIFI and Age of Shariah variables. The Lag of SDI_{AAOIFI} has a 5% significance level with a coefficient of 0.416 which shows that experience of the previous year influences the next year's performance. Regularity Quality, however, has a small positive impact with a coefficient of 0.007, which suggests that regularity quality of a country increases the level of disclosure according to AAOIFI standards, which is meaningful since AAOIFI standards for SARs are also part of regularity framework. This result is also consistent with the literature in which regulatory quality has a positive impact on the disclosure level (Ernstberger and Grüning, 2013; Leuz *et al.*, 2003). This suggests that to improve the transparency and level of disclosure at IBs in line with the governance standards of AAOIFI, it is also important to consider country-level factors such as regulatory quality and strive to develop them further at the country level. Adoption of AAOIFI standards at the country level is also significant in the second model as it is expected, as El-Halaby and Hussainey (2016) suggested since a formal adoption of AAOIFI standards at country level creates a regulatory pressure to comply with the AAOIFI standards at the bank level. The sign of the coefficient, however, is negative. Although at first sight, this seems contradictory, when we examine Table 6, the reason becomes more obvious. Out of four countries who adopted AAOIFI governance standards, while Bahrain and Jordan have a high level of disclosure (0.83 and 0.81, respectively), Sudan and Qatar perform quite poorly (0.55 and 0.47, respectively). On the other hand, countries such as the UAE, South Africa, Lebanon, UK and Malaysia perform very well and above 65% despite not adopting AAOIFI standards at the country level. This shows that adoption of AAOIFI governance standards at a country level does not yield the same result in all cases, as Bahrain and Qatar, while both adopting the standards and being neighbouring states, produce very different outcomes in terms of disclosure levels. This requires further analysis of country or bank level determinants. As mentioned earlier, one such reason might be *Shari'ah* scholars employed at IBs, and their personal influence in SARs, as

all three IBs in Qatar have the same chairman in their SBs. As for the AgeofShariah variable, it is significant at 10% significance level with a coefficient of 0.009. This indicates that as the IB gets more experience in *Shari'ah* compliance, it further fulfils the AAOIFI's guidelines. This finding is consistent with those of Cormier *et al.* (2005) and Hossain and Hammami (2009).

In providing a brief conclusion, Table 13 summarises the results of hypotheses testing process by presenting the results together.

Table 13: Summarising the Results through Hypotheses

Hypothesis	SDI _{General}	SDI _{AAOIFI}
<i>H1: There is a positive relationship between regularity quality of the country and level of disclosure in SAR.</i>	Rejected	Failed to Reject**
<i>H2: There is a positive relationship between voice and accountability of the country and level of disclosure in SAR.</i>	Rejected	Rejected
<i>H3: There is a positive relationship between corruption index score of the country and level of disclosure in SAR.</i>	Rejected	Rejected
<i>H4: The level of disclosure of SAR is expected to be higher in IBs located in countries which adopts AAOIFI standards than in countries that do</i>	Rejected	Failed to Reject***
<i>H5: There is a positive relationship between GDP growth of the country and level of disclosure in SAR.</i>	Rejected	Rejected
<i>H6: SAR of large IBs are more likely to disclose more information than small IBs.</i>	Rejected	Rejected
<i>H7: There is an association between profitability and the level of disclosure.</i>	Rejected	Rejected
<i>H8: There is a positive relationship between leverage of IB and level of disclosure in SAR.</i>	Rejected	Rejected
<i>H9: The level of disclosure of SAR is predicted to be higher in IBs audited by the Big 4 auditors than in IBs that are audited by non-Big 4</i>	Rejected	Rejected
<i>H10: There is a positive relationship between existence of internal Shari'ah Auditing Department of IB and level of disclosure in SAR.</i>	Failed to Reject**	Rejected
<i>H11: SAR of IBs after the crisis are more likely to disclose more information than pre-crisis period.</i>	Rejected	Rejected
<i>H12: Older IBs are expected to disclose more information in SAR than younger IBs.</i>	Rejected	Failed to Reject***
<i>H13: There is a positive relationship between size of SSB and level of disclosure in SAR.</i>	Rejected	Rejected
<i>H14: There is a positive relationship between average level of education of SB members and level of disclosure in SAR.</i>	Rejected	Rejected
<i>H15: There is a positive relationship between popularity of SSB and level of disclosure in SAR.</i>	Failed to Reject***	Failed to Reject***
<i>H16: There is an association between board size and level of disclosure in SAR.</i>	Rejected	Rejected
<i>H17: There is an association between CEO duality and level of disclosure in SAR.</i>	Rejected	Rejected

Notes: *p < 0.10; **p < 0.05; ***p < 0.0

7. Conclusion

This paper explored and examined the level of disclosure in SARs of 41 IBs from 15 countries over an eight-year period, and the factors affecting the level of disclosure. In addition, to assess the influence of AAOIFI standards for SAR related disclosure, we constructed two indices, one is completely based on AAOIFI standards (SDI_A), while the second index (SDI_{ICG}) has 16 additional items to explore regarding whether SARs disclose any further information through pro-active behaviour beyond the AAOIFI standards to provide transparency with the objective of identifying voluntary disclosure in line with Islamic moral economy expectations.

Based on the scores of SDI_{ICG} and SDI_{AAOIFI} , we can argue that SDI_A scores are considerably higher than SDI_{ICG} , which suggests that published guidelines of AAOIFI standards regarding SARs are influential in the preparation of the reports regardless of the commitment of the country to AAOIFI standards. Especially, detailed analysis of SARs shows that most of the SBs use the template provided by AAOIFI close to mimicry level. Also, for both indices, the results demonstrate that there is a gradual increment in disclosure practice year on year within the sampled period. Nevertheless, this is not valid for some IBs, since there are some examples where the level of disclosure decreases. As for the SDI_{ICG} score, in general, it has scored a lesser level of disclosure compared to the SDI_A . This result suggests that going beyond the general statements to inform stakeholders about the activities and *Shari'ah* compliance issues of IBs with the aim of providing transparency as an articulation of IME in the Islamic finance sector is highly neglected. Thus, it seems that there are some positive developments in voluntary disclosure in the sense of complying with AAOIFI standards for SAR; however, as discussed above, 'substantive morality' related expectations in IB industry are not fulfilled in disclosure practice either. Hence, the recent debate focusing on 'form vs substance' indicating that IBs have focused on form compliance and neglected the substantive morality in their operations seems to be relevant for disclosure practices as well.

As the discussion on ICG indicates, IBs need to operate within ICG in order to have consistency between their *Shari'ah* complaint operations and their governance structure, which may help to overcome the observed problems relating to the lack of substantive morality. Since this study aimed at essentialising such a comprehensive understanding of governance in IBs, we developed SDI_{ICG} beyond the compliance or form oriented nature of AAOIFI standards as expressed in SDI_A . However, the scores for SDI_{ICG} compared to SDI_{AAOIFI} are an indication of

the mentioned neglect on substance-related issues even though the index did not impose the essential ethical requirement as expected from an Islamic moral economy based ICG.

It should be noted that the findings of this empirical analysis based on the disclosure analysis of SAR is not only a matter of difference between two sets of indices, one being more detailed than the other, but, moreover, symptomatic of a serious paradigm shift. This paradigm shift refers to a movement from the initial imagination of an Islamic morality-based understanding of Islamic economics and finance by the founding fathers, towards a form-oriented everyday practice of IBs through the negative screening process applied by the SBs. Disclosure level in SARs, in this regard, should be considered as a symptom of this problem and could be treated only through the implementation of an IPE theoretical structural framework at the CG level, which means adoption of an ICG system as constituted by the substance of IME within the IPE structure.

Regarding content analysis, the SARs revealed two pieces of information. In communicating with the shareholders, SBs of some IBs, particularly in Malaysia, remained content with only releasing approval of *Shari'ah* compliance rather than disclosing any further details. This indicates that some SBs expect shareholders to maintain full trust in their decision-making capabilities. Considering that such limited disclosure practice does not have a negative impact on 'Islamic' identity of respective IBs, we can argue that they succeed in holding the Islamic identity by the mere existence of a SB. Secondly, the example of Bank Al-Khair from Bahrain, reveals that the advice of a SB on the operation of an IB might exert very limited impact on the everyday operations. This is an important matter, as considering that the Islamic economics movement in its origin aimed to create an alternative system authenticated through Islamic ontology, yet IBs, as envisaged to be part of that system, have failed to generate such an authentic outcome as discussed in this paper. Such pragmatism has resulted in sluggish development in IB patronising even in the Muslim countries. In the largest and relatively democratic Muslim countries, namely in Indonesia and Turkey, IBs share in the financial system has not moved to a significant level despite the push from the state apparatus. The trust in IBs in terms of delivering Islamic solutions as opposed to the form fulfilment has not been formed to encourage public to patronage IBs, as the Islamicity of IBs is questioned continuously (see, among others: El-Gamal, 2007; Khan, 2010; Asutay, 2012), which partly due to unscrupulous practices by the *Shari'ah* compliancy process through the SSBs as directly evidenced by the qualitative evidence (see Section 6.2) in particular.

In terms of factors affecting the level of disclosure, we can conclude that the popularity of *Shari'ah* scholars is a significant variable for both SDI_{ICG} and SDI_A. While the existence of an internal *Shari'ah* auditing department has some explanatory power for SDI_{ICG}, it disappears in the case of SDI_A. On the other hand, we observe four new factors influential in the SDI_{AAOIFI} score: lag of dependent variables, adoption of AAOIFI standards at the country level, regulatory quality of country and age of *Shari'ah* compliance which might indicate that these four variables are particularly deterministic in terms of complying with AAOIFI standards for SARs.

These results indicate that disclosure of SB members in their annual reports by itself does not contain adequate details to convince stakeholders that *Shari'ah* compliance exists within the institution. However, their explicit approval for *Shari'ah* compliance of the institution in these reports without disclosing details of their analysis seems a sufficient condition for the stakeholders considering the high growth rate of the Islamic banking sector during last decades. Therefore, as future research, it is necessary to explore *ifta* (legal ruling issuing) as an institution, further detailing its historical trajectory to reveal how such trust has been gained and whether similar conditions are valid for *Shari'ah* scholars employed in a modern Islamic banking sector today.

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