AAOIFI GOVERNANCE STANDARDS: SHARIA DISCLOSURE AND FINANCIAL PERFORMANCE FOR ISLAMIC BANKS

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OPEN ACCESS

How to cite this paper: Albarrak, H., & El-Halaby, S. (2019). AAOIFI governance standards: Sharia disclosure and financial performance for Islamic banks. *Journal of Governance & Regulation, 8(1),* 19-37. http://doi.org/10.22495/jgr_v8_i1_p2

ISSN Print: 2220-9352
ISSN Online: 2306-6784

Received: 30.11.2018
Accepted: 15.01.2019

JEL Classification: G21, G34, M410
DOI: 10.22495/jgr_v8_i1_p2

Abstract

The uniqueness of Islamic banks (IBs) is shown through compliance with Islamic law (Sharia) which is approved through Sharia Supervisory Board (SSB) and presented for stakeholders by Sharia Supervisory Board Report (SSBR). This study seeks to achieve three main objectives as follows: (1) it identifies the degree of IBs' transparency in compliance with Sharia and their commitment with the governance standards that issued by Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI); (2) it aims to measure the impact of adoption AAOIFI on the degree of Sharia disclosure; and (3) it seeks to test the economic consequences of Sharia disclosure based on its impact on financial performance. We analyse content of annual reports and websites of 120 IBs across 20 different countries for year 2016. Regression analysis shows compliance level for Sharia disclosure based on our index for SSBR is 53% with higher level compliance for IBs that apply AAOIFI standards comparing with banks that adopting International Financial Reporting Standards (IFRS). Therefore, adopting AAOIFI has a positive effect on enhancing the degree of Sharia disclosure. Moreover, Sharia compliance has a positive influence on financial performance based on both Returns on Assets (ROA) and Tobin's Q as a robustness test. This study adds value to Islamic accounting literature by being a primary study. There is a lack of research on the topic and this paper measures the consequences of Sharia disclosure over the financial performance of IBs as well as the role of Islamic standards (AAOIFI) in enhancing the image of Islamic banks through supporting their compliance with Sharia.

Keywords: Sharia Disclosure, Economic Consequences, Islamic Banks, Financial Performance, AAOIFI Governance Standards

1. INTRODUCTION

The performance of any business organization can be measured based on a number of factors. One of these factors is the customer. Therefore, corporations need to preserve and raise their customer base in an extremely competitive atmosphere. Wilson (1995) observed related to Islamic Banks (IBs), business elements endeavouring to comply with religious commitments have to rival different financial institutions to attract customers. To achieve this, Wilson (1997) argues that IBs need to meet two determinants: run beneficial activities for financial stockholders and fulfil religious commitments. Religious conviction as an intention to pick IBs was depicted through Omer (1992) in an overview in the UK context. Results were corroborated through Al-Sultan (1999), Naser et al. (1999), Metawa and Almossawi (1998) who originate that religious issue was one of the greatest critical measures customers utilized in choosing banks in Kuwait, Jordan and Bahrain correspondingly. Comparative outcomes were accounted for through Dusuki and Abdullah (2007), Zainuddin et al. (2004) who reviewed Malaysian bank clients, Okumus (2005) in Turkey, Gerrard and Cunningham (2001) in Singapore who all concluded that religious issue is the crucial standard that impacts the selection of an IB.

Therefore, religious responsibility is the primary influence of interacting with IBs. Compliance with religious accountability creates a competitive advantage for the whole categories of Islamic financial institutions (IFIs). One of the crucial targets of reporting from an Islamic standpoint is to guarantee the business is responsible and follows Islamic guidelines (Maali et al., 2006). Sharia compliance accountability for IBs is supported and approved through the Sharia Supervisory Board (SSB). Based on AAOIFI (2018), SSB is a self-governing, exterior board with accountability for analyse the behaviour of businesses and offer a declaration to interested parties that business is carried out in agreement with Islamic values. Reports arranged for and supported through SSB give a key affirmation to all stakeholders that IFIs meet their ethical commitments and are reliable with Sharia from an Islamic point of view. The incorporation of the SSB report in the yearly reports is prescribed through AAOIFI governance standards. To fit in with these standards, AAOIFI has issued 48 Sharia standards and 7 governance standards to manage IFIs regarding consistency with Sharia rules (AAOIFI, 2018).

We can break down related literature concerned with disclosure and compliance level in IBs into three main groups as follows: (1) studies that focus on measuring level of disclosure in the annual reports based on adopting method as content analysis (e.g., Aribi & Gao, 2012; Haniffa & Hudaib, 2002; Haniffa & Hudaib, 2007 and Maali et al., 2006); (2) literature that extend the previous group into measuring the main determinants or factors that effect on the level of disclosure whatever related to firm or country characteristics or even corporate governance (e.g., El-Halaby & Hussainey, 2016 and Farook et al., 2011) and finally (3) previous studies that focusing on measuring the contributions or consequences for disclosure on business like its impact on firm value (e.g., Alotaibi & Hussainey, 2016 and Mallin et al., 2014). These three groups related to Sharia disclosure are in the early research stage as – to the best of our knowledge – there is no other study measuring this kind of disclosure in a separate study as well as no previous study measuring the consequences of this category of disclosure by measuring the impact of Sharia disclosure on the financial performance.

This research first measures the disclosure level of Sharia and then measures to what extent adoption AAOIFI governance standards enhances the degree of this disclosure. Lastly, the consequence of this kind of disclosure on the financial performance is measured. The emphasis is on the Sharia Supervisory Board Report (SSBR) through adopting AAOIFI Governance Standard No. 1 (associated with SSB: compositions, appointment and Report), Governance Standard No. 2 (correlated with Sharia auditing) and Governance Standard No. 5 (linked to the independence of SSB). In this study, we used data for 120 IBs across different 20 countries. This study seeks to provide original evidence for the compliance level with religious accountability based on SSB index in addition to measuring the association between this level of compliance and the adopted governance standards related to SSB.

Almost about the targets of AAOIFI standards, this study has a look at adds to the current standards through using setting a framework and works as a guide to IFIs and their fascinated parties to assess responsibility and obedience. Furthermore, this study has a look at emphasises the level of compliance with AAOIFI governance requirements. Therefore, we undertake a combined research approach. First, the manual content analysis becomes used for measuring the disclosure of Sharia disclosure in annual reports. Then a regression analysis was conducted.

In accordance with our expectation, this study found the type of governance standards (AAOIFI) adopted is positively linked with the disclosure of Sharia. This research differs from previous related literature in several aspects. For instance, this study differs from El-Halaby and Hussainey (2016) who measure determinants of compliance with AAOIFI standards at several points. They focus on 43 Islamic banks that adopt AAOIFI, whereas this study's sample includes 120 IBs and whether or not they adopt AAOIFI. Their take a look at focuses best on the determinants of disclosure, while this study looks at extends the previous studies to investigate the contributions of this type of disclosure. This study dietary supplements preceding literature that documents the impact of disclosure on the firm value (e.g., Dhaliwal et al., 2012) through adding to a growing frame of work on the consequences of disclosure. One circulation of studies makes a speciality of disclosure practices (e.g., Hung et al., 2013; Ioannou & Serafeim, 2014) while other studies highlight for what extent the market react for the increasing level of disclosure (e.g., Grewal et al., 2015).

This research explores another stream by inspecting the impact of Sharia disclosure on bank performance. While recognizing that social and financial disclosure may have distinctive impacts in an institutional context, this study supports the concept that, when interested parties interact with moral corporations such as IBs who comply with Sharia disclosure guidelines, it can have positive outcomes on a firm's value. Results indicate that agency conflicts can weaken the positive image of Sharia compliance by banks. The results of this research have many implications for IFIs which strive to increase their customer base and strengthen customers' confidence in their financial services.

This study has a look at makes several incremental contributions for the preceding literature related to the commitment with Sharia by IFIs. Firstly, even as there was insufficient previous literature measuring the association among SSBR and governance standards adopted by IBs, as far as we know, this is original research that empirically study this relationship through adopting a holistic index for SSBR disclosure which spots on members of SSB as well as disclosures based on AAOIFI requirements. Few literatures looks into the disclosure of SSBR to identifies CSR for IBs (e.g., Farook et al., 2011), where our study measuring AAOIFI governance standards which focus on compliance with Sharia. Secondly, this study measures Sharia disclosure for each bank as well as for each country related to SSBR independently, not as a sup dominions in CSR index as measured in the in the literature (e.g., Aribi & Gao, 2012; Abdul Rahman et al., 2010; Haniffa & Hudaib, 2007).

Finally, this study divided the index into two main categories: (1) focus on the characteristics of the SSB report while; (2) focus on the characteristics of SSB members and their responsibilities. Therefore, we measure the process of compliance with Sharia through the report and the members who prepared as well.

The paper organized as follows: Sharia Supervisory Board (SSB) and its roles and disclosure standards in addition to the concept of disclosure from an Islamic perspective as well as the importance of compliance with Sharia for IBs are presented in Section 2, then followed by Section 3 which explain the main reasons behind increasing voluntary disclosures by corporations. Section 4 discusses the main literature concerning with the effects of adopting accounting standards from the context of IFRS. Section 5 formulates the hypotheses. The research layout and the discussion of samples and variables are shown in Section 6. The analysis, as well as discussion for the empirical results, are presented in Section 7 and 8. Finally, Section 9 shows the conclusion.

2. DISCLOSURE OF SHARIA COMPLIANCE AND THE SHARIA SUPERVISORY BOARD

IBs are defined as a financial institution that commits to Sharia in their activities. Archer et al. (1998) argue that IBs adopt methods of financial mechanisms that fulfil the philosophies and guidelines of Sharia. Haron (1996) identifies two motives for founding factual philosophies for all IB. Initially, the philosophies will be adopted through policy makers or BOD of banks when framing company objectives and strategies. These philosophies provide an indicator as to whether the specific IBs convey Islamic values. Safieddine (2009) argues that the amenability with Sharia in IBs is confirmed through Sharia scholars employed by the banks. El-Gamal (2006) argue IBs knowingly market and marketing themselves as they raise the flag of Islam and they comply with Islamic morals and Sharia requirements.

Sharia literally is interpreted as the method or pathway which rules each phase of a Muslim's life. Sharia encompasses a set of Islamic guidelines, philosophies as well as restrictions. Sharia involves contacts to be lawful and forbids contracts including interest and transactions concerning with speculation (Maali et al., 2006). Sharia based on Sardar (2003) is a system of ethics and basics which covers all components of human life such as political, social, personal, and economic and knowledge together with its stable behavioural practices and its principle method of adjusting for modification. Sharia recognises entrepreneurial Muslims will necessarily have to take part in secular/material transactions. Nonetheless, it requires such transactions have to be directed by spiritual/religious/ethics of responsibility, justice and social fairness.

Lewis (2001) claims IBs are predictable in revealing holistic information for Ummah (Muslim nation) related to how their contract and activities meet Sharia purposes and enhance the security of society. Disclosure about Sharia compliance is significant in improving and defending the Islamic uniqueness of IFIs (Abu Kasim, 2012). From an Islamic perspective, confirming that corporation discharges the Islamic model of accountability is represent one of the important functions of reporting (Baydoun & Willett, 2000). Therefore, it is compulsory for IBs to reveal as much information succinctly, clearly and truly for all fascinated parties.

Maali et al. (2006) make clear, "the duty for Muslims to uncover the fact is supposed to support the whole stakeholders for knowing the impact of an individual or a corporation on its wellbeing" (p. 273). They identify 3 main objectives which are used as the inspiration for responsibility disclosures for IBs: (1) to display commitment with Sharia; (2) to show for what extent the processes of business have influenced on the security of Islamic society; and (3) to assist Muslims for achieving their religious commitments. Haniffa and Hudaib (2002) revealed the disclosure of legitimate and reliable information should guide all external stakeholders in making religious and financial decisions, in addition to helping BOD in achieving their responsibility towards God, society and other interested parties. Information about commitment with Sharia is matching with that in SSB report. For Sarea and Hanefah (2013), the need for Sharia compliance becomes more significant to bridge the gap between the theoretical models and actual practice.

IBs should hire SSBs as the main mechanism to complying with Sharia and meets the religious expectations for all stakeholders who set compliance as the main priority to interact with these institutions (Daoud, 1996). SSB issue a report showing that bank has complied with Sharia. This board offers the essential reassurance for all investors who deal with IBs that their expectations about compliance with Sharia have been met. For IBs, corporate governance (CG) mechanism is generated from Sharia regulation concerning property contracts and rights. For example, Sharia rules assume whole IFIs should support stakeholders with rights' protection (Bhatti and Bhatti, 2009). SSB is the most important CG mechanisms to make sure that these banks are commitment with Sharia. AAOIFI has created and issued standards concerning with SSB and Sharia auditing under its governance standard (AAOIFI, 2018). Thus, the main factor differentiating IBs from conventional banks is adherence to the necessities of SSB.

Lewis (2006) contends 3 responsibilities for SSB as follows: (1) guiding board for the religious adequacy of business contract and activities; (2) issued independent reports for investors as to compliance of BOD with Islamic ethics; and (3) confirm accurate payments of Zakat through reviewing corporate accounts. Based on Grais and Pellegrini (2006), SSB must portray responsibility, competence, independence, privacy, and disclosure. Numerous specialists (e.g., Ismail & Latiff, 1999) recommend the requirement of a suitable and applicable Sharia report to represent Islamic based transactions. The information related to compliance with Sharia is in the report for Sharia Supervisory Board in IBs. SSB confirms IBs' reliability and legitimacy, in the sense that it imparts public assurance in the transparency of procedures of IFIs. SSB might be one adviser, or more often, the board as a committee includes multi members called Sharia Supervisory Board. SSB has in-house religious counsels who prepare and present a report to whole stakeholders on the bank's annual report which affirms that IBs has complied with Sharia. Karim (1995) argue SSB is accountable for reviewing the contracts and advising the board about their accounting regulations, among other obligations.

Some academics (e.g., Farook et al., 2011; Maali et al., 2006) have testing SSB as a measurement while measuring CSR and CG disclosure of IFIs. Nonetheless, there has been no research to investigate or build up an SSB disclosure model of AAOIFI measures in a separate investigation. This research goes beyond investigating the level of compliance with Sharia by measuring the main determinants of this compliance with bank-variables as well as country factors. Likewise, this investigation goes beyond the determinants of compliance with Sharia through measuring the main economic consequences for this disclosure through testing its impact on financial performance.

3. WHY DO CORPORATIONS MAKE VOLUNTARY DISCLOSURES?

Why ought corporations to present additional information in their financial report over what is required by regulation or law? Matthews (1997) argues a conceivable clarification: a feeling of 'social contract', to upgrade their rightfulness as well as to improving their financial assessments. Since the 1970s, legality identifies with idea that organizations are below intensifying pressure to be believed to work in a technique that displays regard for society and environment in keeping with the political setting (Roberts, 1992). Related to the business concerned, increasing such legitimacy both decrease administrative burden that would somehow or another compel the execution of the corporate procedure, and prevents any potential shame related to notoriety for ecological rashness (Brammer et al., 2006). As indicated by Hahn and Kühnen (2013), increased potential business advantages may accrue for organizations that present supportable data, improve candidness and disclosure, enhance notoriety and brand image, encourage workers and support the association's controls.

There is an expected association of increased firm value when organizations present a positive impression of achieving financial and social goals by publicising those sections of their business that match or surpass interested parties' expectations. Similarly, Aerts and Cormier (2009) contend that the main reason for disclosure is to impact discernments with respect to the expected financial prospects of organization. Additionally, there is evidence that when disclosure is not mandatory, business will prudently choose the part of the information which shows them in a positive sign and in a self-complementary manner (Hodder-Webb et al., 2009). This shows issues related to the legitimacy of business disclosure (Moser & Martin, 2012) and the need for a prerequisite for confirmation of such reports (Simnett et al., 2009).

Using an example of EU (Belgian, Dutch, French and German) and North American organizations, Aerts et al. (2008) prove that upgraded disclosure diminishes the risk of selective information. Chauhan and Kumar (2018) explore the consequence of non-financial transparency on a firm from an expansive example of Indian firms. They determine a positive influence on the corporation's value relating to the non-financial disclosure of the firm's value. Nekhili et al. (2017) study the link between CSR disclosure and a business's value based on a documented information index in the French context. They find a positive link with market-based financial measure through Tobin's Q.

4. CONSEQUENCES OF ADOPTION STANDARDS: EVIDENCE FROM IFRS AND AAOIFI

Several sources of literature measure consequences of IFRS adoption. Majority of studies paint IFRS as meaningfully promoting compliant companies related to lower costs of capital, enhancing the level of transparency, increased cross country investments, improved comparability of annual reports and availability of information for analysts in addition to increasing the degree of disclosure (Emmanuel et al., 2016). Ahmed et al. (2013a) identify the value relevance of equity does not change after adoption IFRS, while value relevance of earnings has grown when assessed adopting price models, and analysts' estimation accuracy has improved after adoption of IFRS. Hung and Subramanyam (2007) associate modification in value relevance for companies selecting to adopt IFRS rather than GAAP report indicator of declining and increasing in the significance of earnings related to IFRS adoption.

Jermakowicz et al. (2007) show development in earnings and book value of equity after adopting IFRS. Based on Gjerde et al. (2008), the book value of equity increases after IFRS adoption. Chalmers et al. (2012) examine the link between IFRS adoption and improved accuracy of analysts' forecast earnings over time. The results support advanced prediction accuracy following IFRS implementation. Horton et al. (2012) find a decrease in faults in analysts' forecasts after implementation IFRS. Daske et al. (2008) provide evidence about reduction in companies' cost of capital and growth in value estimates when accounting the probability that influences happen before authorised adoption period. Brüggemann et al. (2012) find indications of positive capital market effects following IFRS adoption.

Concerning with the consequences of adoption AAOIFI, Harahap (2003) proposes that initial adoption of AAOIFI standards may improve the IFIs system of reporting and enhancing the level of disclosure. The majority of related earlier studies primarily emphasize measuring the level of adoption with AAOIFI, whereas two or three studies assess the consequences of adopting AAOIFI. For example, Vinnicombe (2010) shows compliance is very high with governance standards of AAOIFI. Sarea and Hanefah (2013) specify IBs in Bahrain are in complete convergence with AAOIFI. El-Halaby and Hussainey (2016) find an average adoption level with SSB index is 68% which is high compared with other studies. Sellami and Tahari (2017) prove an extensive variance in compliance levels among AAOIFI in MENA region. Ahmad and Ben Daw (2017) find compliance with AAOIFI guidelines is low based on Libya context. Ajili and Bouri (2017) compare the degree of adoption for corporations that apply AAOIFI with disclosure requirements delivered corporations that adopt IFRS. The result shows low compliance with AAOIFI comparing with those adoption IFRS. Al-Sulaiti et al. (2018) found a degree of compliance had increased in Bahrain and Qatar after implementation of AAOIFI. Hafij Ullah et al. (2018) found the average commitment level with AAOIFI is low at 46.31%.

Studies that measure the consequences of adopting AAOIFI are rare. For example, Tessema et al. (2017) examine whether obligatory disclosure under the Islamic Standard effects on the information asymmetry for shareholders across GCC countries. The results reveal, after the adoption of Islamic standards, information asymmetry amongst stockholders is lower than before which support the role of enhanced the level of transparency. In the context of Malaysia, Farizal et al. (2015) focus on what is appropriate and essential for Islamic standards in reporting IFIs. With the rapid growth of IFIs, the need for specificity accounting standards for IFIs, such as ones issued through AAOIFI, remains questionable. This paper investigates this issue in more detail. The study measures the impact of adopting AAOIFI standards on the level of Sharia disclosure in IFI reporting.

5. HYPOTHESES ON DEVELOPMENT AND LITERATURE REVIEWS

5.1. Consequence of standards adopted on Sharia disclosure

Vinnicombe (2010) debates whether AAOIFI's purposes are comparable to those of IASB to achieve harmony in accounting practices and simplify reliable reporting of IBs globally. AAOIFI is the leading worldwide not-for-profit body mainly responsible to develop auditing and accounting 'judgments appropriate to IFIs, formulate, broadcast, interpret, analyse and regulate accounting and governance standards for IFIs and to carry out commissioning of study in area of Islamic accounting (AAOIFI, 2018). Based on Maurer (2002), the objective of the standards is to enhance the market performance of IBs, ensure common standards, and simplify transmissions finance activities across national borders.

The formation of the AAOIFI simplified the field of Islamic financial processes (Grais & Pellegrini, 2006). Consequently, AAOIFI is more appropriate than IFRS for improving the level of disclosure in compliance with Sharia. However, numerous IBs have adopted the governance standards set through AAOIFI (Maali and Napier, 2010). So, comprehending the influences of adopting this standard on the level of compliance with Sharia is crucial. Several sources of literature have measured the influence of IFRS adoption on corporate financial disclosure based on the European context (e.g., Glaum, et al., 2013; Iatridis, 2012; Nordlund, 2010). These studies support that corporation' disclosure level has developed by applying IFRS across adopting countries.

IFRS and AAOIFI are the main reference bodies for reporting in IFIs. Despite their crucial differences, the two sets of standards proposal procedures for disclosure of economic data (Belkaoui, 1992). Hameed (2001) display disclosure about Sharia commitment is one of the dominant Islamic accounting benchmarks. Thus, information about Sharia compliance should be revealed voluntarily, even though it might not be compulsory. Ariss and Sarieddine (2007) claim adoption of AAOIFI standards through any IFIs may lead to expand their accounting dependability and improvement their support universal. Based on Harahap (2003) progress of IFIs obligates banks with standards to reveal information, supporting not just universal standards of transparency but corresponding standards concerned with Islamic ethics.

Maali and Napier (2010) discuss, because of uniqueness contracts of IBs, IFRS is not applicable for IBs. Therefore, conventional standards (such as IFRS and GAAP) are inappropriate for Muslim investors and IFIs as IBs (Hameed, 2001). IFRS is formulated depend on diverse accounting model for the one approved through IFIs. AAOIFI depend on Sarea and Hanefah (2013), operating as a guide which imitates exclusive features of IFIs and is a valuable instrument to meet expectations of interested parties. Therefore, adopting AAOIFI in IBs will add value if they practice greater disclosure of information in compliance with Sharia which supports the applicability of this standard for IBs rather than IFRS.

H_1: IBs that adopt AAIOFI standards tend to disclose more information about Sharia compliance than those that adopt IFRS.

5.2. Consequence of Sharia disclosure on financial performance

Disclosure decreases the agency expenditure through motivating stakeholders to engage at a cumulative and transparency level. Increased disclosure level for business generates better-interested parties' commitment and decreasing probability of short-sighted choices. Jo and Kim (2007) argue the level of unbalanced information between the board and all interested parties will be diminished attributable to improved transparency level by continuous and deliberate disclosure. This leads to minimizing earnings management, related-party transactions and insider trading, and consequently improving the firm's value. Brooks and Oikonomou (2018) review the literature on disclosures and the consequences for financial performance. They conclude that increased disclosure is related to improved firm value. Plumlee et al. (2008) reconsider connection between nature of corporation's disclosures about corporate social responsibility (CSR) and firm value by investigating the connection between components of financial performance and voluntary CSR disclosure quality. They provide evidence about the positive impact for CSR disclosure over the firm value through cash flow and the cost of equity and related to their potential.

Chena et al. (2018) analyze how obligatory disclosure impacts firm value in China. The results align with the concept that compulsory disclosure fluctuates with corporate conduct and creates positive externalities to the community to the detriment of investors. Alotaibi and Hussainey (2016) look at the impact of disclosure on the financial performance in non-financial businesses that listed in the Saudi stock market. The examination demonstrates a positive association between market capitalization and level of disclosure. However, they find no association between disclosure and firm value by using different measures (Tobin's Q or Return on Assets). Chai et al. (2018) study the influences of disclosure level based on business internet reporting on firm value for non-financial registered corporations in Malaysia. Results concluded that disclosure has a positive consequence on firm value. This means supplementary associated information that is frequently disclosed may contribute more value to the corporations. Li et al. (2018), using a huge cross-sectional dataset including FTSE 350 registered companies, examined whether superior CSR and business governance disclosure affect financial performance. A positive relationship between financial performance and disclosure is found which signifying that enhanced transparency improved stakeholder confidence play a role in increasing the financial performance for the corporations. Based on previous studies, this study supposes a positive correlation between FP and disclosure.

For the impact of disclosure, we expect mandating Sharia disclosure would decrease customers' doubt about non-compliance with Sharia which leads to increase the value of the firm. That is, once banks disclose their compliance with Sharia, customers may be encouraged to invest in these banks because they meet customers' expectations by applying Sharia. We suggest IBs should disclose more information about compliance with Sharia to present a superior image of IB's best practices in financial performance and improve the IB's reputation for stakeholders. This kind of disclosure will help stakeholders make meaningful investment decisions and persuade them to invest, as a first priority, in those banks which comply with Sharia.

In Islamic literature, few studies measuring empirically the disclosure-FP association in the Islamic banking business. Hence a superior empathetic of this association will be valuable for the whole interested parties comprising BOD and stockholders. Mallin et al. (2014) based on 90 IBs across 13 different countries measuring the association between CSRD and firm value. CSRD model clarifies IBs involve across a variety of social accomplishments. The empirical analysis supports the positive relationship between CSRD and FP. Ousama and Fatima (2010) study for what extent degree of disclosure which includes holistic, conventional and Islamic disclosure are presented in financial reports for Sharia Approved Companies (SHAC) listed in Malaysia. The result shows SHAC revealed 19%, 21% and 17% for the 3 categories of disclosure respectively. Therefore, disclosure about conventional matters is comparable with previous works of literature. Therefore, we propose Sharia compliance has a positive consequence on financial performance for IBs.

H_2: IBs that disclose more information about Sharia compliance is more profitable than IBs that disclose less information about Sharia compliance.

5.3. Cross-country controls

Ahmed and Courtis (1999) claim questionable proof on the impact of country-level modifications as factors on the disclosure level. Consequently, quite a few country-level variables to manage for cultural, economic, legal and accounting contexts in countries were included in our study. Previous academics have contended countries' legal systems and cultural integrity are crucial in instructive cross-country alterations. Jaggi and Low (2000) propose a country's legal system may have a robust impact on the level of disclosure. National culture is an additional institutional concern which affects may choices concerning financial reporting and disclosure degree (e.g., Elshandidy et al., 2014). Hofstede (1980) propose 4 dimensions (Individualism (IND); Uncertainty Avoidance (UA); Power Distance (PD) and Masculinity (MAS)), which have been used broadly in previous research to examine the consequence of culture on accounting (e.g., Doupnik & Tsakumis, 2004). Accordingly, we suppose that banks are more likely to have a better degree of disclosure if they come from countries with low PD, low UA, high masculinity and high individualism scores. Moreover, the study controls other country variables, including corruption and the full adoption of AAOIFI through countries.

To control a bank's characteristics, our model includes auditor size, age, and size of the corporation, leverage, ownership and internal Sharia auditing department. Various studies find a positive association between the size of the audit firm and level of disclosure (e.g., Aljifri & Hussainey, 2007; Barako et al., 2006). Chow and Boren (1987) ascribe results for brand name impression, where big auditing offices are inspired to be independent of client pressure for constrained disclosure in light of concerns linked with possible impairment to reputation of the business. Coronations audited through one of the Big-4 auditors indicate greater frankness, projected through advanced level of disclosure (Wang & Chen, 2004). Concerned with the impacts of leverage over the level of disclosure, Karamanou and Vafeas (2005) reveal a positive association between these two factors. Jensen and Meckling (1976) reveal intensely leveraged corporate is more concerned with regulatory costs. Therefore, they moderate these costs by revealing more information for stakeholders. However, Zarzeski (1996) finds a negative association between disclosure and leverage, revealing that remarkably leveraged companies tend to divulge information for their creditors which may not be echoed in their annual reports.

Regarding the corporate size, Wang and Hussainey (2013) find a positive association between corporate size and disclosure level. Leung and Srinidhi (2006) argue that huge companies face sophisticated inspection and are more susceptible to claims than lesser corporations. Depend on the result of Bukh et al. (2005), large businesses impulsively reveal more information as they are healthier capable to stand the cost of disclosure than are slighter businesses. Owusu-Ansah (1998) claim business age may be associated with disclosure for copious reasons: (1) if younger business reveal information about certain matters as research and development; capital expenditure and product development, it will suffer from competitive disadvantage; (2) cost and complexity of accumulating, formulating, and distributing the obligatory information might be greater for younger businesses; and (3) younger corporations may not have a 'big reputation' to depend on for public transparency and may have not as much of information to expose. Alsaeed (2006) finds business age has a minor association with of disclosure based on Islamic banking context

Related to the link between disclosure and ownership of the business, Chau and Gray (2002) claim ownership structure is a system that adjusts the interests of stockholders and BOD. Based on agency theory, where there is a division of ownership and control of a business, possible for agency costs arises as a consequence of incompatible conditions between contracting parties. It is predictable based on Mohd et al. (2006) that agency matters will be superior in generally held corporations due to several benefits of contracting revelries. Through cumulative disclosure levels, BOD provides more information to show their contributions for developing advantage of stockholders. A negative connection between the level of disclosure and private structure is founded in study of Hossain et al. (1994). Xiao et al. (2004) find business with an advanced degree of public ownership make less internet-based disclosures to public.

Sharia auditing is representing as one of the critical corporate governance mechanism of IFIs. Interested parties can confirm suitable Sharia auditing of IFIs over the presence of SSB, Sharia Audit as well as Sharia Compliance Officer. In-house Sharia auditing division is analogous to an internal audit division in any conventional bank. Current literature designates that internal auditing has positive influences on financial reporting omission and constancy. An earlier investigation found associations between firm value and internal auditing (Prawitt et al., 2009). Internal auditors show a level of confrontation against disclosure faults (Mercer, 2004). Besar et al. (2009) suggest the existence of an in-house Sharia auditing division may develop a level of Sharia compliance in IFIs.

6. RESEARCH DESIGN

This study measures the influence of adopting AAOIFI governance standards on disclosure level of Sharia compliance in addition to measuring for what extent Sharia disclosure may effect on the financial performance. The sample includes 120 IBs across 20 countries which are: UK, UAE, Pakistan, Kuwait, Sri Lanka, Jordan, Yemen, Egypt, Bahrain, Qatar, Sudan, Malaysia, KSA, Lebanon, Palestine, Oman, Bangladesh, Syria, Brunei and Iraq. This study adopts a unique cross-country dataset based on data of 2016. Data was collected using Banker Database and Bank scope in addition to the annual reports for the selected banks and websites of central banks for selected countries. To include the bank in our sample, it must have annual reports for 3 years preceding 2016 and annual reports should be issued by English or Arabic. Therefore, we excluded any bank that published the annual report by another language.

Before the previous conditions, our total sample includes the whole available IBs in our selected countries (200 IBs) but after we apply these conditions, the final sample becomes 120 IBs. We test the validation for our sample through conducting a pilot study over 40 IBs which is 33% from our sample to see for what extent there is a variance on the level of disclosure on Sharia in the last 3 years before 2016. Our analysis found slight variances between disclosure levels in these years. This outcome shows the constant disclosure level in the SSB report through the years. Therefore, empirical examination in this study is based on the most current disclosure available for the year 2016. Sharia disclosure reflects what extent IBs comply with Sharia or commitment with AAOIFI governance Standards which links with SSBR disclosure.

In this study, we have three main variables: (1) disclosure; (2) Financial Performance (FP); and (3) AAOIFI standards. Our first dependent is disclosure about compliance with Sharia which measured based on a holistic index and includes items related to SSB members and report about Sharia compliance. Measuring this variable shows to what extent IFIs that raise the flag of Islam really comply with Islam. Our second dependent is FP which is measured based on ROA. IFI as any other bank seeks to achieve profit and aims to develop its FP as well as enhance the wealth of stockholders. Our main independent variable is AAOIFI governance standards related to Sharia compliance. We argue that one of the main mechanisms for IFIs to comply with Sharia and support this priority towards all stakeholders is applying Islamic standards as AAOIFI, in addition, to hire SSB and issued SSBR. Therefore, testing the role of AAOIFI for enhancing the level of disclosure about the compliance with Sharia represent a valuable question.

This research adopts manual content analysis to investigate whether or not our selected IBs disclose items associated with compliance with Sharia in their annual reports as well as their websites. Considerably, it is distinguished banks' disclosures are not repeatedly a straight reflection of their practices. Based on Haniffa and Hudaib (2004), disclosure in annual reports and other media as websites for IBs is one of the main methods to validate that their activities and contracts comply with Sharia. Previous literature related to disclosure has exposed that disclosure may be measured through 2 main techniques: (1) indirect technique (awareness of financial analysts/investors on corporations' disclosure performs); and (2) direct technique (disclosure of content analysis; good/bad news and disclosure guide) (Hassan & Marston, 2010). In this study, we adopt a direct method based on disclosure index which is a widespread list of issues that are revealed through IBs through using content analysis for all available information in annual reports and Websites for our selected banks.

Content analysis technique has been commonly approved in social accounting research (e.g., Parker, 2005; Gray et al., 1995). Based on Ahmad and Sulaiman (2004), adoption of content analysis to examine annual reports for corporations is impregnable since they ensure that study is analogous with earlier researches in the context and from year to year. In this study, disclosures in annual reports and website were used to determine the disclosure level about Sharia and SSB issues. This study utilises separate methods as units of examination and examines issues connected with a commitment to Sharia. The annual reports of the 120 IBs were content analysed looking for any disclosure related to these SSB. All parts on the website were correspondingly analysed for content that might comprise associated information for SSBR and SSB members (Paisey & Paisey, 2006). Lastly, content analysis can be used through manual and electronic technique. This study adopts manual scoring which is supporting with several preceding literature (e.g., Cheng & Courtenay, 2006; Santema et al., 2005).

Predominantly, a disclosure index based on Arvidsson (2003) is a list of contradictory items. For Sulaiman and Willett (2003), enterprises as IFIs should voluntarily reveal Islamic matters in their financial reporting as one approach of developing Islamic corporate report. Haniffa and Hudaib (2004) contend that information disclosure should support Muslim investors, customers and anyone who interacts with the banks in making rational economic decisions in accordance with their religious beliefs and within a framework of Islamic business ethics. This study adopted the full suggested index by El-Halaby and Hussaiey (2016). The adopted index was constructed based on 3 AAOIFI governance standards as follows: (1) Standard No. 1 which focuses on SSBR; (2) Standard No. 2 which focus on Sharia auditing; and (3) Standard No. 5 which spot on the independence of SSB. Based on El-Halaby and Hussaiey (2016) "The index considers previous related literature for Sharia disclosure (e.g., Besar et al., 2009; Vinnicombe, 2010; Williams & Zinkin, 2010; Rashid et al., 2013; Mallin et al., 2014; Aribi & Gao, 2012; Haniffa & Hudaib, 2007 and Maali et al., 2006). The index includes 20 items which are categorized into two themes: items connected with SSBR (9 items) and items associated with SSB members (11 items)" (for more details about the construction of the adopted index, read work of El-Halaby & Hussaiey, 2016).

Plentiful approaches are obtainable when developing a scoring structure to regulate disclosure degree of annual reports which are weighted and un-weighted index has been adopted through academics. Hossain et al. (1994) and Ahmed and Nicholls (1994) approved a dichotomous procedure in which a component scores one if revealed in the annual report and zero if not released. This technique is called the un-weighted method. For Courtis (1979), weighted technique allocates weights for each item of information which are revealed. Coombs and Tayib (1998) concluded that adoption of un-weighted and weighted scores can make little or no variance for the final results. Consequently, the un-weighted technique for measures the whole disclosure about compliance with Sharia (TD) score is adopted:

$$TD = \sum_{i=1}^{n} d_i \qquad (1)$$

Where: $d = 1$ if the item d_i is disclosed; $0 =$ if the item is not disclosed; n = number of items.

Empirical model (1) for the impact of adoption AAOIFI on Sharia disclosure:

$$\begin{aligned} DISCLOSE_{it} = \alpha + \beta_1 STA_{it} + \beta_2 AUD_{it} + \beta_3 AGE_{it} + \beta_4 SIZE_{it} + \beta_5 FP_{it} + \beta_6 LEV_{it} + \\ \beta_7 SDEP_{it} + \beta_8 OWN_{it} + \beta_9 POW_{it} + \beta_{10} IND_{it} + \beta_{11} MAS_{it} + \beta_{12} UNC_{it} + \beta_{13} CORR_{it} + \beta_{14} LEG_{it} + \\ \beta_{15} ADOPT_{it} + e \end{aligned} \qquad (2)$$

Empirical model (2) for consequence of Sharia disclosure on financial performance:

$$\begin{aligned} FP_{it} = \alpha + \beta_1 DISCLOSE_{it} + \beta_2 STA_{it} + \beta_3 AUD_{it} + \beta_4 AGE_{it} + \beta_5 SIZE_{it} + \beta_6 LEV_{it} + \\ \beta_7 SDEP_{it} + \beta_8 OWN_{it} + \beta_9 POW_{it} + \beta_{10} IND_{it} + \beta_{11} MAS_{it} + \beta_{12} UNC_{it} + \beta_{13} CORR_{it} + \beta_{14} LEG_{it} + \\ \beta_{15} ADOPT_{it} + e \end{aligned} \qquad (3)$$

Where: $DISCLOSE$ = total disclosure provided by the Disclosure Index; STA refers to the adopted accounting standard where 1 = Bank that uses *AAOIFI*, 0 = Bank that uses IFRS or Local standards; AUD refers to the auditor where 1 = Bank were audited by one of the Big 4 auditors, 0 = Bank were not audited by Big 4 auditor; AGE = age of bank from the foundation date; $SIZE$ = size of the bank based on total assets; FP refers to financial performance depend on Return on Assets (ROA); LEV refers to leverage depend on total liabilities/Total assets; $SDEP$ refers to existence of Sharia auditing internal department; where 1 = Bank has Sharia auditing department, 0 = Bank that has no Sharia auditing department; OWN refers to ownership level where 1 = Publicly-held IB, 0 = Privately-owned IB; Culture Dimensions based on Hofstede model which included 4 dimensions: POW = power distance; IND = Individualism; MAS = Masculinity; UNC = Uncertainty avoidance; LEG refers to the country legal system: 1= Sharia Law, 0 = other non-Sharia Law (e.g. Civil Law, Common Law or Hybrid Law); $ADOPT$ refers to the full country adoption for AAOIFI standards: 1 = if country is Full adoption AAOIFI, 0 = if country does not wholly adoption of AAOIFI and $CORR$ refers to the corruption Index % of Corruption level for each county. The whole variables are described in Table 1.

7. EMPIRICAL RESULTS

7.1. The level of Sharia disclosure

Table 2 demonstrates the mean disclosure level for 120 IBs that are identified in SSB reports and data identified by members of SSB. The result demonstrates that the average disclosure level with AAOIFI prerequisites, in accordance with governance standards numbers 1, 2 and 5, is 53%. Our outcome does not match the prediction that IBs ought to be highly consistent with Sharia and completely agree with AAOIFI standards. The compliance rate (53%) demonstrates not every IB is complying with AAOIFI. This study inspects the key potential explanations for this compliance degree. Table 2 identifies disclosure about SSB members in the yearly reports is higher than some other variables by 74%. This result supports the argument about the extent to which IBs care about publishing information for SSB in their financial reports. The most minimal rate in our analysis is identified for the independence of SSB (10%). Our analysis additionally shows 58% of involved IBs reveal data about SSB reports, which implies that 42% of IBs do not have SSB reports to support consistency with Sharia, or they do not reveal any data about compliance with Sharia.

Table 2 also demonstrates 25% of chosen banks reveal information about Fatwas (Sharia suppositions) issued through SSB to the whole interested parties showing bank conforms to Islamic sentiment which supports confidence of shareholders. Based on our analysis, just 31% of our selected banks have an internal department which is accountable for auditing for activities' compliance with Sharia. The average compliance level with SSB regulations (i.e. 53%) is predictable and agrees with Hassan and Harahap (2010) through their investigate CSR for IFI and include SSB as a dimension in CSR's 7-dimensional index. Their result shows 47% as an average compliance level with the SSB index. Different investigations reveal high compliance and disclosure with Sharia such as Vinnicombe (2010) who investigates 27 IBs across Bahrain for compliance with AAOIFI. The researcher finds a superior degree of compliance with SSB requirements by 90%. Matching with this result, Aribi and Gao (2012) find the same ratio for disclosure about SSB in IFIs by 90%.

AAOIFI specifies in Governance Standard Number 1 that the lowest number of SSB members must be 3. The results presented in Table 3 demonstrate that 33 IBs do not have SSB compliance (29%). The table also demonstrates that five banks have less than three SSB members. 67% of our selected banks conform to AAOIFI standards for an SSB by at having least three members.

Table 1. Variables definition and proxies

Variable	***Notation***	***Proxy***
		Dependent and Independents variables
Disclosure degree	$DISCLOSE_{it}$	Total disclosure level provided in the annual report based on the Disclosure Index
Financial performance	ROA_{it}	Return on Assets
Type of standards	STA_{it}	1=Bank that adopts AAOIFI; 0=Bank that adopts IFRS or Local standards
		Control variables for bank-level
Type of auditor	AUD_{it}	1=Bank's annual report was audited through Big 4 auditor; 0=Bank's annual report was not audited through Big 4 auditor
Age	AGE_{it}	Age of bank from the foundation date until 2016
Size	$SIZE_{it}$	The natural log of total assets
Leverage	LEV_{it}	Total liabilities/Total assets
Existence of Sharia auditing division	$SDEP_{it}$	1 = Bank that has Sharia auditing Davion; 0=Bank that has no Sharia auditing Davion
Ownership	OWN_{it}	1 = Publicly-held Islamic bank; 0= Privately-owned Islamic bank
		Control variables for country-level
Hofstede culture dimensions	POW_{it} IND_{it} MAS_{it} UNC_{it}	1 = Power distance 2 = Individualism 3 = Masculinity 4 = Uncertainty avoidance
Country legal system	LEG_{it}	1 = Sharia Law; 0 = Other non-Sharia Law such as Civil Law, Common Law, or Hybrid Law
Full adoption of AAOIFI by Country	$ADOPT_{it}$	1 = if the country is Full adoption for AAOIFI; 0 = Country is otherwise
Corruption Index	$CORR_{it}$	% of Corruption degree for county

Table 2. The compliance level for the SSB report index for 120 Islamic banks

	Items associated with SSB members	***% ****
1	Names of Sharia supervisory board (SSB) members	74%
2	Momentary background about each member of SSB	35%
3	Numbers of SSB	47%
4	Pictures of each SSB	25%
5	The management position for the SSB depend on organization structure	37%
6	Role and accountabilities of SSB	53%
7	Authorities of SSB	63%
8	Is bank includes Sharia auditing department	39%
9	Number of SSB meeting	17%
10	Does website of bank comprise Fatwas for Sharia board related to Islamic services?	25%
11	Does website disclose board's role for spreading awareness about Islamic banking values?	40%
	Items associated with SSB report	***% ****
1	SSB report apportioned from the board members	58%
2	Information about bank's accountabilities of Zakat	49%
3	Information about bank's accountabilities when activities do not fulfil with Sharia and how bank interact with this issue	42%
4	Information about how profit allocation process in bank is confirmed with Sharia	48%
5	Information about the independence of SSB with charter display objectivity of SSB	10%
6	Information on board's opinion about compliance with rules of Sharia	62%
7	Board reveals its opinion after reviewing all documents and all financial statements for bank	60%
8	Does report show bank fulfils with AAOIFI's Sharia standards or not?	13%
9	Are date of report (period covered) and name of bank presented or not?	58%
	Average disclosure for SSBR	***53%***

*Note: * The unweighted approach attaches equal weights to all disclosed items within the checklist. Therefore, if the item is disclosed in the annual report it takes "1" otherwise it takes "0". The disclosure score for each accountability level is calculated as a ratio of the total items disclosed to 20. The level of disclosure (%) is measured for each bank as the ratio of the score obtained to the maximum possible score (20) relevant for that company (this methodology was first proposed by Cooke (1989)).*

Table 3. Number of SSBs in IFIs based on AAOIFI requirements

	Number of banks	***%***
No SSBs (Central Sharia auditing from central bank)	33	28%
From 1:2 members at SSB	5	4%
Minimum 3 as set by AAOIFI	40	33%
From 4-6 members on SSB	35	29%
More than 6 members on SSB	7	6%
Total	*120*	*100%*

The average compliance level with Sharia standards for every country is presented in Table 4. It demonstrates that Pakistan has the greatest degree of compliance (65%), followed by Bahrain (62%) and Bangladesh (59%). Sudan has the lowest compliance with (45%). In light of the overview for countries that adopt International Financial Reporting Standards (IFRS) or AAOIFI, Table 5 demonstrates countries that applied AAOIFI as a mandatory for all banks have accompanying disclosure levels: Yemen (55%), Sudan (45%), Palestine (70%), Bahrain (62%), Qatar (52%), Syria (55%) and Jordan (68%). Outcomes for these countries demonstrate the average level for compliance is 59%. The table demonstrates that the countries which adopted AAOIFI have higher Sharia compliance than countries that adopted IFRS. Based on previous outcomes identified in connection with compliance and disclosure about SSB and countries' adoption of AAOIFI, Table 5 explains the contrast between the countries that fully adopt AAOIFI (7 countries) against different countries that partially adopt AAOIFI, or make IFRS obligatory (13 countries). The group which is fully compliant with AAOIFI (100%) has a higher rate of disclosure (59%) than those which did not adopt AAOIFI (32%).

Table 4. The disclosure levels of SSBR for 20 countries

Country	*Number of banks*	*Average of Sharia disclosure*	*Country*	*Number of banks*	*Average of Sharia disclosure*
Malaysia	16	51%	Jordan	4	68%
Bahrain	15	62%	UK	4	47%
Sudan	14	45%	Oman	3	60%
Pakistan	9	65%	Yemen	3	55%
Bangladesh	9	59%	Syria	2	78%
UAE	8	52%	Palestine	2	70%
Qatar	6	52%	Egypt	2	45%
Kuwait	5	54%	Lebanon	2	38%
KSA	5	43%	Sri Lanka	1	65%
Iraq	5	19%	Brunei	1	60%

Table 5. Comparison between banks adopting AAOIFI and banks adopting IFRS

	Number of countries	*%*	*Number of banks*	*%*	*Average disclosure of banks*
Countries with full adoption of AAOIFI	7	35%	47	39%	59%
Countries with partial adoption of AAOIFI	13	65%	73	61%	32%
Total	*20*	*100%*	*120*	*100%*	*Variance (27%)*

7.2. Descriptive and correlation analyses

The result of descriptive and correlation analyses which includes disclosure level about SSBR and factors identified with IFI's attributes as well as variables that control variances between countries are presented in this section. Descriptive statistics are presented in Table 6. The average level of disclosure about Sharia compliance is 53% which does not support the assumption regarding high consistency with Sharia for banks that raise the banner of Islam. Visser (2009) and Kuran (2004) argue that IBs essentially promote themselves as operating under Sharia law. The highest degree of Sharia disclosure is 90% and the lowest degree is 10% in a few banks in Iraq. 37% of our selected banks adopt AAOIFI, while 63% of banks adopt other standards, such as IFRS or local standards. 61% of our selected banks are audited by one of the 4 big auditors, such as KPMG. 60% of our nominated IBs have an internal Sharia auditing division. The average age for our selected banks is 19 years. Regarding ownership structure, 79% of the sample is public while 21% are private banks. In terms of full adoption of AAOIFI by countries, 7 countries, such as Sudan and Bahrain, adopted AAOIFI for all their IBs. The average rate for leverage is 72.7%

Table 6. Descriptive statistics

Variables	*Minimum*	*Maximum*	*Mean*	*Std Deviation*
$DISCLOSE_{it}$	0.40	0.90	0.53	.213
ROA_{it}	-13.39	21.57	1.05	3.46
STA_{it}	0	1	.37	.484
AUD_{it}	0	1	.61	.491
AGE_{it}	2	54	18.80	12.05
$SIZE_{it}$	1.176	4.873	3.08	.80
LEV_{it}	.02	.98	.72	.25
$SDEP_{it}$	0	1	.60	.49
OWN_{it}	0	1	.79	.412
POW_{it}	35.00	100.00	82.4	14.8
IND_{it}	14.00	89.00	30.7	13.3
MAS_{it}	34.00	66.00	52.9	6.5
UNC_{it}	35	85	64.4	15.9
$CORR_{it}$	1.10	7.70	4.00	1.8
LEG_{it}	0	1	.68	.467
$ADOPT_{it}$	0	1	.32	.470

Correlation analysis is presented in Table 7. It identifies a significant relationship between disclosure degree about compliance with Sharia based on SSBR and Sharia departments, auditor size, ownership and the legal system. Therefore, no relationship between disclosures about Sharia compliance and other variables exists. Table 7 also reveals a significant association (0.187) with the size of auditor at a 95% confidence interval. It identifies significant correlation (0.558 with a 99% confidence interval) with an existing Sharia auditing division inside IB. Outcome additionally identifies a significant association with ownership ($\bar{r}$ = 0.193 with a 95% confidence interval). Finally, our analysis found a positive association with the legal system ($\bar{r}$ = 0.278 with a 99% confidence interval).

Table 7. Pearson correlation matrix (Part I)

Variables	$DISCLOSE_{it}$	STA_{it}	AUD_{it}	AGE_{it}	$SIZE_{it}$	ROA_{it}	LEV_{it}	$SDEP_{it}$	OWN_{it}	POW_{it}
$DISCLOSE_{it}$	1	0.169	0.187*	0.028	0.131	0.037	-0.027	0.558**	0.193*	-0.127
STA_{it}		1	0.033	-0.013	-0.221*	0.132	-0.437**	0.118	0.051	0.037
AUD_{it}			1	0.022	0.383**	0.085	-0.061	0.233*	0.221*	0.116
AGE_{it}				1	0.306**	-0.028	0.301**	-0.024	0.170	0.113
$SIZE_{it}$					1	-0.057	0.434**	0.236*	0.230*	0.328**
ROA_{it}						1	-0.251**	0.209*	-0.093	0.100
LEV_{it}							1	-0.131	0.131	0.057
$SDEP_{it}$								1	0.041	-0.018
OWN_{it}									1	-0.035
POW_{it}										1

Table 7. Pearson correlation matrix (Part II)

Variables	IND_{it}	MAS_{it}	UNC_{it}	$CORR_{it}$	LEG_{it}	$ADOPT_{it}$
$DISCLOSE_{it}$	-0.110	-0.001	-0.001	0.082	0.278**	0.134
STA_{it}	0.251**	0.306**	0.326**	0.030	0.290**	0.872**
AUD_{it}	0.124	-0.004	0.009	0.633**	-0.058	0.072
AGE_{it}	-0.229*	-0.195*	0.011	0.001	0.102	0.005
$SIZE_{it}$	-0.127	-0.265**	-0.055	0.306**	-0.073	-0.172
ROA_{it}	0.002	-0.001	0.170	-0.057	0.048	0.192*
$RISK_{it}$	0.395**	0.144	0.090	0.283**	-0.119	0.274**
LEV_{it}	-0.267**	-0.247**	-0.241**	-0.247**	0.020	-0.371**
$SDEP_{it}$	-0.088	0.143	0.201*	0.182*	0.118	0.084
OWN_{it}	-0.005	-0.065	-0.110	0.282**	0.228*	0.094
POW_{it}	-0.375**	-0.202*	0.012	0.080	0.108	0.004
IND_{it}	1	0.504**	-0.222*	0.387**	-0.321**	0.222*
MAS_{it}		1	-0.146	0.184*	0.086	0.116
UNC_{it}			1	-0.184*	-0.246**	0.326**
$CORR_{it}$				1	-0.255**	0.100
LEG_{it}					1	0.236*
$ADOPT_{it}$						1

7.3. Regression analyses for the impact of AAOIFI adoption on Sharia disclosure

Regression analysis for the association between Sharia disclosure and AAOIFI governance standards adopted is shown in Table 8. The result demonstrates a positive coefficient on adopted accounting standard (β = 0.344, *t-value* = 1.678). This result supports the contribution and added value of adopting AAOIFI by IBs and endorses the argument about the applicability of AAOIFI for IFIs rather than other standards, such as IFRS. Our result matches Muller et al. (2011) who appraise the impacts of the improved disclosure obligatory under IFRS on the degree of information asymmetry challenged through stockholders. They find corporations did not voluntarily reveal fair values before obligatory IFRS adoption revealed superior improvement in information asymmetry, i.e., greater drops in their bid-ask spreads, upon IFRS adoption. Moreover, this result aligns with El-Mahjoub and Dicko (2017) who measure whether the degree of disclosure depends on IFRS compared to the disclosure level depending on GAAP. Results display IFRS adoption has had a positive influence on the quantity of information released by the annual report. Thus, disclosure levels depending on IFRS are more advanced than previously under Canadian GAAP. Our result supports previous literature which finds a positive association between adopting standards such as IFRS enhancing the level of disclosure (e.g., Liu & Sun, 2015; Thornton, 2015; Khan et al., 2014; Pfeffer et al., 2012; Tsalavoutas, 2011). Consequently, the hypothesis proposes that Sharia disclosure is affected by IBs that adopt AAOIFI.

Multicollinearity based on Gujarati (1995) is a problematic issue when the relationship between variables is greater than 0.80, or when variance inflation factor (VIF) surpasses 10 (Myers, 1990). Table 8 demonstrates that multicollinearity is probably not going to be dangerous in the multivariate assessment in light of the fact that no VIF surpasses 10 for any of the variables (e.g., Hair et al., 2006). However, we have 2 values in excess of 0.7-0.878 that demonstrates the association between adopted standards and complete adoption of AAOIFI through countries and 0.708 demonstrates the relationship between Literacy and Corruption Perception. Multicollinearity occurs depend on Pallant (2011) when autonomous factors are profoundly related when r = 0.9 or more.

Table 8. Regression analysis for the impact of adoption of AAOIIF on Sharia disclosure

Variables	*Coefficient*	*t-value*	*Sig*	*VIF*
$DISCLOSE_{it}$		2.309	0.023	
STA_{it}	0.344	1.678	0.009**	7.518
AUD_{it}	0.053	.434	0.665	2.630
AGE_{it}	-0.006	-.071	0.944	1.339
$SIZE_{it}$	0.010	.085	0.932	2.562
ROA_{it}	-0.047	-.532	0.596	1.376
LEV_{it}	0.044	.363	0.718	2.586
$SDEP_{it}$	0.576	6.006	0.000	1.646
OWN_{it}	0.105	1.132	0.260	1.547
POW_{it}	-0.185	-1.294	0.199	3.643
IND_{it}	-0.009	-.044	0.965	7.256
MAS_{it}	-0.188	-1.515	0.133	2.773
UNC_{it}	-0.242	-1.645	0.103	3.889
$CORR_{it}$	-0.164	-.873	0.385	6.286
LEG_{it}	0.089	.604	0.548	3.852
$ADOPT_{it}$	-0.014	-.064	0.949	8.259
Model summary		$R^2 = 0.464$ F= 4.156 Sig = 0.000		

*Note: **p<0.01; *p<0.05; ***p<0.001.*

7.4. Regression analysis for the impact of Sharia disclosure on financial performance

For the consequence of Sharia disclosure, as expected, the results display a positive link between increasing the degree of disclosure and financial performance based on ROA. Table 9 displays a substantial and positive coefficient on Sharia disclosure variable (β = 0.065, *t-value* = 2.214). This result supports the argument by Jo and Kim (2008) relating to the impact of the level of asymmetric information and enhancing the firm's value. Our result complements Chai et al. (2018), Li et al. (2018), Alotaibi and Hussainey (2016), who suggest upgraded transparency and responsibility and improved interest parties trust play a role in improving financial performance. This result supports our study's argument about the importance of Sharia disclosure especially when investigating banks that raise the flag of Islam and invest based on compliance with Sharia.

Table 9. Regression analysis results for Sharia disclosure consequence

Variables	*Coefficient*	*t-value*	*Sig*	*VIF*
ROA_{it}		1.365	0.173	
$DISCLOSE_{it}$	0.062	2.214	0.002**	1.320
STA_{it}	.030	1.095	0.274	1.239
AUD_{it}	.030	1.191	0.234	1.058
AGE_{it}	-.490	-13.530	0.000	2.180
$SIZE_{it}$	.320	9.261	0.000	1.989
LEV_{it}	-.130	-2.016	0.044	6.948
$SDEP_{it}$	-.004	-.157	0.876	1.374
OWN_{it}	.026	.903	0.367	1.388
POW_{it}	-.001	-.037	0.971	2.767
IND_{it}	-.121	-2.014	0.044	5.971
MAS_{it}	-.007	-.176	0.860	2.545
UNC_{it}	.030	.480	0.631	6.388
$CORR_{it}$	.093	1.694	0.091	4.973
LEG_{it}	-.019	-.461	0.645	2.811
$ADOPT_{it}$	-.004	-.103	0.918	2.485
Model summary		$R^2 = 0.571$ F= 48.458 Sig = 0.000		

*Note: **p<0.01; *p<0.05; ***p<0.001.*

Our result agrees with Lusyana and Sherif (2017) who find a positive relationship between corporate performance and Sharia-compliant Stock Index of included shares. This result supports the significant effect for the ethical investment on the performance of shares market income. The study's result extends the result of Lusyana and Sherif (2017) as well as Mallin et al (2014) but relates to a compliance level with Sharia more than ethical investment and disclosure of corporate social responsibility respectively. Finally, this result supports the outcomes of Algahtanj and Boulanouar (2017) who examine the influence of Sharia compliance on stockholder demand for original stocks which subsequently enhances values of banks that issued these shares.

8. DISCUSSION

The result shows that compliance with AAOIFI governance standards by IBs is contingency low at 53%. This result does not reflect the priority of IFIs. This result agrees with other literature (e.g., Ahmad & Ben Daw, 2017; Hafij Ullah et al., 2018) which shows low disclosure and compliance levels concerning compliance with Sharia. However, our other result does not agree with previous literature which finds a high compliance level with AAOIFI governance standards as well as compliance with Sharia (e.g., El-Halaby & Hussainey, 2016; Sarea & Hanefah, 2013; Vinnicombe, 2010). This observation concerning the degree to which IBs reveal information about their compliance with Sharia shows low commitment from these banks to develop their disclosure. It also reveals a problem in these banks concerning their actual compliance with Sharia as well as their perspective towards the importance and value of disclosure generally, and disclosure about compliance with Sharia definitely. This result raises issues about the questionable priorities of IBs and their objectives for disclosure in compliance with Sharia.

The analysis demonstrates the role of the adoption of Islamic standards (AAOIFI) to increase the level of disclosure related to compliance with Sharia. This outcome affirms the relevance of AAOIFI for IBs rather than conventional accounting standards such as IFRS (Maali & Napier, 2010). This result approves the applicability of AAOIFI for IBs through providing guidelines and ideal practices for these banks to cover the treatment of all Islamic services and products provided by IBs. AAOIFI, furthermore, provides the ability for IBs to shows all information related to SSB, and compliance with Sharia, based on governance standards which guide IBs to reveal to stakeholders their commitment to Sharia and their priority.

The analysis, as presented in the previous table, shows a positive effect for Sharia disclosure on the bank's financial performance. This result supports the argument of Lang and Lundholm (1993) who observed that organizations are encouraged to release high-value information when their financial position is ideal and high. Our outcome supports a positive relationship between ROA and disclosure which was confirmed by various academics (e.g., Akhtaruddin et al., 2009; El-Gazzar et al., 2008; Gallery et al., 2008; Aerts et al., 2007). As profitable businesses have more positive news to impart to their interested parties, they have impetus to reveal more than would a less profitable business. Consequently, a positive correlation is confirmed between a superior performance business and disclosure level (Chau & Gray, 2002). Haniffa and Cooke (2002) argue that high financial performance encourages BOD to present comprehensive information to support the trust and confidence of stakeholders which affects the board's compensation. A highly profitable organization may indicate its superior financial position and performance by disclosing more information to the market (Wallace & Naser, 1995). This result is supported in IFIs' context by financial institutions which focus on their single most valuable piece of information which is compliance with Sharia. Therefore, IBs which disclose their compatibility with Sharia to all their stakeholders in annual reports, gain the trust of stockholders which leads to a consequent increase in FP.

Related to control variables, the analysis demonstrates that IBs that have a Sharia auditing division to audit wholly exchanges have greater disclosure degree for compliance with Sharia than banks which do not have this division. This outcome matching with Farook et al. (2011) who affirm that the presence of a Sharia auditing department in IBs enhances the bank's performance, and in this way escalates the level of disclosure for all interested parties. The outcomes show disclosure level under AAOIFI guidelines and the compliance level with Sharia is contingency great in countries which implement AAOIFI standards for all IFI as obligatory. The outcome, likewise, indicates an immaterial relationship between disclosure level under Sharia and culture in accordance with the Hofstede model which shows that IBs are not influenced by culture. This result agrees with Chambers et al. (2013) who initiate an insignificant relationship between disclosure and financial performance among organizations from 7 dissimilar Asian nations.

Alsaeed (2006) and Akhtaruddin (2005) found that the age of a bank bears an irrelevant relationship with Sharia disclosure level. It demonstrates that complete disclosure in compliance with Sharia is predictable and accords with the idea of Islamic responsibility that contends that acquiescence with Sharia principles and transparency is an objective in itself. Disclosure for IFIs as a moral and religious partnership ought not to intrude on financial performance indicators or any other economic ratios since it ought to agree with the concepts of Islam. Whatever the level of profitability, leverage or age of IBs, they should disclose information consistent with Sharia to all interested parties. Conversely, leverage, size and age factors have an inconsequential influence on the degree of Sharia disclosure.

However, these outcomes agree with various literature that originate an irrelevant connection between the level of disclosure and these factors. For instance, no association between organization size and level of disclosure originated based on Stanga (1976). The relationship between disclosure and financial performance is not predictable according to Hossain (2001). From an Islamic viewpoint, a corporation must reveal all information about its position, whether or not it is creation an earnings (Haniffa, 2002). The connection between leverage and disclosure is supported by Collett and Hrasky (2005) who found no link between these two factors. Likewise, this study demonstrates that the size and extent of an auditing firm influence the level of disclosure by SSB and is relative to an improved Sharia compliance level. This outcome is not consistent with Wang and Chen (2004) who found organizations audited through the Big-5 auditors' offices would be advised to honesty based on the quantity of accounting information provided.

Robustness tests

For additional tests on the effect of Sharia disclosure on financial performance, we used economic measure (Tobin's Q) as a dependent variable for a sensitivity test. Tobin's Q is calculated as a proportion of the market value of a corporation to the additional cost of its total assets, has been adopted to clarify numerous critical angles of corporate finance. The result shows the impact of Sharia disclosure on the value of IBs is similarly positive. With the second test, Hofstede's measurements were changed to Gray's model for measuring the influence of culture as a control variable on Sharia disclosure. Gray (1988) modified four accounting values' measurements, namely, conservatism in accounting measurement, uniformity of accounting rules, professional regulation of accounting, and transparency in accounting disclosures. One of these measurements – transparencies versus secrecy - is pertinent to this research. Gray (1988) contended: "the greater nation positions as far as uncertainty avoidance and power distance and the minor it positions as far as individualism and masculinity, at that point the more probable it is to rank exceptionally as far as secrecy" (p. 11). Our result matching with fundamental examinations for the variable of 'adopted financial standards' being critical and significant. This result demonstrates Sharia disclosure is influenced by cultural variances in light of both Hofstede and Gray models.

9. CONCLUSION

This study seeks to analyse the disclosure degree of compliance with Sharia for IBs related to governance standards of AAOIFI. The study furthermore measures the impacts of adoption of AAOIFI on Sharia disclosure according to SSB reports and AAOIFI regulations. It furthermore examines whether Sharia disclosure has a positive influence over financial performance by utilizing an extensive example of IBs over 20 distinct countries for the year 2016. We found that average disclosure degree is generally low at 53% of the aggregate example. The study presumes a degree of disclosure level for IBs about SSB and Sharia compliance is positively connected with adopted AAOIFI standards. We document that Sharia disclosure is positively connected with financial performance. Our analysis concludes that Sharia disclosure can upgrade a bank's value through enhanced disclosure and responsibility to improve interested parties' trust in IBs' compliance with Islamic Sharia. Our outcomes remain the same when we utilise two diverse measures for financial performance, i.e., Tobin's Q and ROA.

This study has critical implications for IBs, investors and central banks, as well as regulators. Based on the result, IBs and any IFIs should consider increasing their level of Sharia compliance to reflect their commitment towards their customers. The study has significant implications for how IBs could enhance their Sharia obedience disclosures to build a competitive advantage with capitalising on a niche clientele that is growing rapidly. While we demonstrate the role of adopting AAOIFI on Sharia disclosure as we demonstrate that prevalent Sharia divulgence may enhance the value of the corporation, we underline that our investigation is not free of constraints. Regarding the relevance of our result for auxiliary investigation, one significant concern is reliance on a disclosure pointer from a secondary source, namely annual reports and websites. Further investigation could adopt qualitative methods such as interviews and questionnaires for determining the effects of Sharia disclosure on the image of IBs. Through investigation on the compliance level with AAOIFI standards, this study only focuses on Governance Standards No. 1, 2 and 5, rather than other standards, such as accounting or auditing. The research did not measure the perspective of interested parties to SSB and the effect of this report on decisions markers.

Depending on the previous result, we recommend some applicable future research. As this study covers only one year, we suggest investigation of Sharia compliance with AAOIFI standards over an extended time period to measure the variances in the compliance degrees and correlate it with differences in corporation value. Furthermore, future research may explore the Sharia disclosure before and after adopting AAOIFI to see the role of these standards for developing this kind of disclosure. In addition, we prescribe investigating the role of SSB and its components; researching the SSB's observations about the fundamental issues confronted inside IBs; looking at the effect of an SSB on interested parties and how this influences IBs' value. An increased comprehension of the matters presented in this research could be reached through comprising more elements that could affect the degree of disclosure (e.g., corporate governance factors). This study measures the economic consequences of Sharia disclosure over its influence on a firm's value. Further research may measure other consequences such as the impact of Sharia disclosure over the cost of capital and earning management. This study does not include factors concerned with the macroeconomic welfare of the countries. Further researches may add variables to measure the role of a macroeconomic situation (such as inflation, GDP, corruption and stability of political situation) in the country for influence on the financial results of a bank as well as operating in this country.

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