

STAKEHOLDER INFLUENCE, BANKING PERFORMANCE, COUNTRY
CHARACTERISTICS AND THE DISCLOSURE PRACTICES AMONG ISLAMIC
BANKS

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UNIVERSITI TEKNOLOGI MALAYSIA

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DEDICATION

This small work has many flaws. This is an imperfect work that I am not confident to dedicate it to either my great supervisors or my beloved families. Let me devote this dissertation to my extraordinary husband as he is used to accepting flaws, imperfections, and weaknesses.

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ABSTRACT

Disclosure is the tool to discharge a company's accountability and transparency and by which companies can interact with all stakeholders. However, there are fewer studies conducted in banking sector, especially Islamic banking industry. The disclosure practices must reflect the objective of Shariah called *Maqasid Shariah* practiced by the banks. Islamic bank also has additional stakeholders called *Shariah* Supervisory Board which differentiates this industry from others. There is a lack of empirical research on disclosure practices using *Maqasid Shariah* framework. Some prior studies also found that country values and banking performance also determine the disclosure practices. Therefore, this research aims to examine the effect of stakeholders' influence, banking performance, and country characteristics on the disclosure practices among countries. Panel data regression is applied to analyse the determinants of disclosures practices of Islamic banks in twelve core Islamic banking markets (Jordan, Bangladesh, United Arab Emirates, Saudi Arabia, Qatar, Bahrain, Indonesia, Malaysia, Brunei Darussalam, Kuwait, Turkey, and Pakistan). The total of 405 published annual reports (81 Islamic banks of five-year observations) were examined. The extent of disclosure is measured based on the total of 104 disclosure items classified into four disclosure categories. Content analysis is performed to access the disclosure level provided by each bank. This study found that some variables of country characteristics have significant influence on the disclosure practices. This study found that banking performance and stakeholders do not have significant effect on the disclosure level. This study differs from the previous empirical studies in the area of voluntary disclosure in two aspects. This study adopts *Maqasid Shariah* disclosure which has not frequently used in the prior studies and it tests additional country characteristics factors that have been rarely discussed. This study contributes in the literature by providing the ideas to develop applicable disclosure requirements for Islamic banking industry. It also confirms that Hofstede's theory on country value is relevant to study the impact of a country on companies' behaviour and decision making.

ABSTRAK

Pelaporan dan pendedahan maklumat adalah alat untuk memastikan tanggungjawab akauntabiliti dan ketelusan bagi pihak syarikat dapat diwujudkan melalui interaksi dengan semua pihak berkepentingan. Namun, kajian berkenaan pelaporan dan pendedahan maklumat didapati amat terhad bagi sektor perbankan, terutamanya perbankan Islamik. Praktis pelaporan dan pendedahan maklumat juga perlu telus dalam memberi gambaran berkenaan praktis Objektif Shariah (disebut sebagai Maqasid Shariah). Kewujudan Majlis Penasihat Shariah dalam perbankan Islamik membezakannya dengan industri yang lain. Terdapat kekurangan kajian empirikal mengenai praktis pendedahan maklumat menggunakan kerangka Maqasid Shariah. Beberapa kajian lepas mendapati prestasi perbankan dan nilai kenegaraan mempengaruhi praktis pelaporan dan pendedahan maklumat. Dengan itu, kajian ini bertujuan untuk mengkaji pengaruh kuasa pemegang-pemegang taruh, prestasi perbankan dan nilai kenegaraan ke praktis pelaporan dan pendedahan maklumat. Regresi data panel digunapakai untuk menganalisis faktor penentu bagi praktis pelaporan dan pendedahan maklumat dalam perbankan Islamik di sebelas pasaran utama perbankan Islamik (Jordan, Bangladesh, United Arab Emirates, Saudi Arabia, Qatar, Bahrain, Indonesia, Malaysia, Kuwait, Turkey, and Pakistan). Sejumlah 405 laporan kewangan tahunan (81 perbankan Islamik dengan lima-tahun pemerhatian) telah dikaji. Tahap praktis pelaporan dan pendedahan maklumat dalam kajian ini diukur berdasarkan kepada 104 perihal pelaporan dan pendedahan maklumat yang dikelaskan dalam empat kategori pelaporan. Analisis kandungan dijalankan untuk mengkaji Pelaporan dan pendedahan maklumat. Didapati bahawa nilai-nilai kenegaraan adalah variabel penting mempengaruhi praktis pelaporan dan pendedahan maklumat. Kajian ini mendapati, prestasi perbankan dan pihak-pihak berkepentingan bukanlah variabel utama mempengaruhi praktis pelaporan dan pendedahan maklumat. Perbezaan kajian ini berbanding kajian-kajian lepas berkenaan pelaporan dan pendedahan maklumat tanpa mandat boleh dilihat dari dua aspek. Kajian ini mengambilkira pelaporan dan pendedahan maklumat berdasarkan Maqasid Shariah yang dilihat sering disisihkan dari kajian lepas dan kajian ini juga telah mengkaji nilai-nilai kenegaraan sebagai suatu nilai tambah kepada faktor yang jarang dibincangkan sebelumnya. Kajian ini dijangka dapat menjana idea bagi tujuan penggubalan piawaian pelaporan dan pendedahan maklumat bagi industri perbankan Islamik.

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LIST OF ABBREVIATIONS

AAOIFI	-	Accounting and Auditing Organization for Islamic Financial Institutions
CAMELS	-	Capital Adequacy, Asset Quality, Management Quality, Earnings Ability, Liquidity, Sensitivity
CSR	-	Corporate Social Responsibility
DV	-	Dependent Variable
GRI	-	Global Reporting Initiative
IV	-	Independent Variable
MS	-	<i>Maqasid Shariah</i>
MV	-	Moderating Variable
NPF	-	Non Performing Financing
ROA	-	Return on Assets
ROE	-	Return on Equity
SSB	-	Shariah Supervisory Board

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CHAPTER 1

INTRODUCTION

1.1 Introduction

Corporate disclosure is defined as the extent to which the company matters are informed to its stakeholders. It is generally recognized as a good instrument for stakeholders. Some companies believe that providing sufficient information to the stakeholders, having good interactions (Lu and Abeysekera, 2014) and communication with their stakeholders will lead to economic and financial advantages to the companies (Branco and Rodrigues, 2008). Currently, it comprises of financial, social and environmental information (Ibrahim *et al.*, 2008; Sayd *et al.*, 2011; Gunawan, 2015a). The research on disclosure practices has still raised some interests in the last decade (Azid and Alnodel, 2019; Ben Abdallah and Bahloul, 2021; Sencal and Asutay, 2021).

Corporate disclosure is believed as a tool by which companies can communicate and interact with all stakeholders regarding the business achievements (Menassa, 2010). Studies on corporate disclosures vary from different focus (Embong, 2014). Some studies examine the determinants of corporate disclosure (e.g. (Haron *et al.*, 2010; Rahman *et al.*, 2011; Gunawan, 2015a). Other studies focus on differentiating mandatory and voluntary disclosures (Fishman and Hagerty, 2003; Einhorn, 2005; Bagnoli and Watts, 2007; Akhtarudin and Haron, 2010). Researchers also found that disclosure is influenced by the firms' performance (Dawkins *et al.*, 2011; Jiao, 2011; Yusoff *et al.*, 2013; Qiu *et al.*, 2016). Besides, researchers also came up with the disclosure framework for Islamic banks (Haniffa and Hudaib, 2007; Ibrahim *et al.*, 2008; Sayd *et al.*, 2011; Rashid, Abdejawad, *et al.*, 2013). Some disclosure frameworks have been examined by other studies (Sencal and Asutay, 2021; Gadhoun *et al.*, 2022) which attempt to assess the extent of communicated ethical identity disclosure introduced by Haniffa and Hudaib (2007).

Islamic banking industry has been tremendously growing around the world as part of financial business (Ghayad, 2008; Sayd *et al.*, 2011; Asutay and Harningtyas, 2015) both in muslim countries and non- muslim world (Dusuki, 2008; Mia and Al Mamun, 2009). The remarkable growth of the worldwide Islamic banking industry is proven by banking assets which have increased during the last ten years. According to the World Bank Report 2015, the growth of Islamic banking assets has trespassed the conventional banking assets and it has the great potential to diminish the poverty and enhance social welfare and prosperity.

Referring to the data provided by IFSB (Islamic Financial Services Board), Islamic banking assets are dominated by some countries. The figure is displayed as follows:

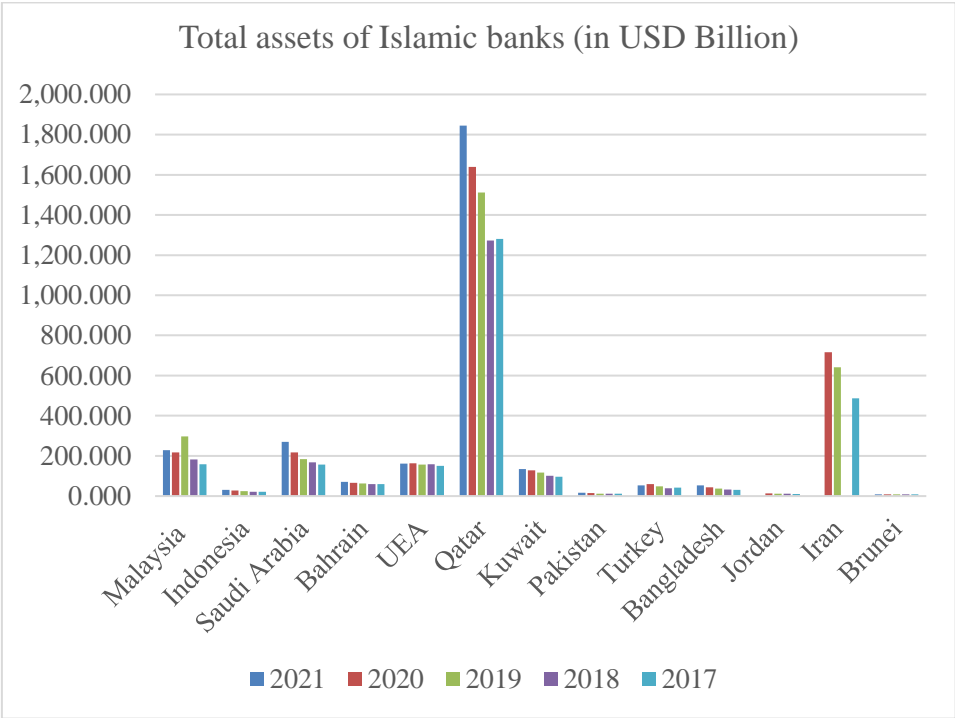


Figure 1.1 Total assets of Islamic banks

Table 1.1 Islamic banking assets in some countries

Country	2021	2020	2019	2018	2017
Malaysia	229,371	216,899	297,000	182,683	158,227
Indonesia	30,961	28,151	25,204	22,023	21,229
Saudi Arabia	270,088	216,943	183,612	168,794	157,231
Bahrain	70,138	66,457	63,123	58,899	58,888
UEA	160,857	163,756	156,905	158,740	149,996
Qatar	1,845,203	1,638,647	1,511,818	1,272,890	1,280,734
Kuwait	134,686	128,544	116,353	101,399	95,854
Pakistan	17,151	15,644	12,448	11,479	12,255
Turkey	53,813	58,914	47,889	39,167	42,477
Bangladesh	52,959	43,727	37,552	33,304	30,464
Jordan		13,826	12,492	11,210	10,849
Iran		716,000	641,000		486,000
Brunei	9,043	8,618	8,970	8,563	8,351

Source: Islamic Financial Services Board (2022)

According to the data provided by ifsb.org (Islamic Financial Services Board) (2022), the data shows that Islamic banking assets were mostly spreaded in the twelve countries. In the last five years, Qatar has dominated Islamic banking assets in the world followed by Saudi Arabia and Malaysia. Those countries have Islamic banks and conventional banks operations except Iran which only has Islamic banks. Either Islamic banking or conventional banking, the core business is banking. Both are profit oriented industry. However, Islamic banking and conventional banking possess some fundamental differences. First, Islamic bank activities and operations must comply *Shariah* (Islamic law) (Maali *et al.*, 2006; Asutay and Harningtyas, 2015; Zarrouk, Khoutem Ben Jedidia, *et al.*, 2016). Islamic law must be the values which guide Islamic banking activities and outlook (Dusuki, 2005). This Shariah rule is reflected in the prohibition of interest. Additionally, Islamic banking transactions cannot consist of any element of *gharar* (uncertainty) and *maysir* (speculation) (Rosly, 2010; Ascarya and Sukmana, 2014; Bedoui and Mansour, 2015). Islamic banks prohibit any investment dealing with alcohol and pork products. All financial transactions must be backed by real asset (Zarrouk, Khoutem Ben Jedidia, *et al.*, 2016). Subsequently, Islamic banks have specific rules on solvency (i.e. capital). Lastly, Conventional banks are considered more experienced than Islamic banks (Zarrouk, Khoutem Ben Jedidia, *et al.*, 2016).

The development of Islamic banking industry has triggered a number of researchers to explore the transparency and disclosure practices in the industry. Some of these studies scrutinized corporate disclosure of Islamic banks in normative ways (Sayd *et al.*, 2011) and not many studies carried out empirical analysis in the area of Islamic banks (Haniffa and Hudaib, 2007). Some studies came up with different disclosure models for Islamic banking industry (Maali *et al.*, 2006; Haniffa and Hudaib, 2007; Ibrahim *et al.*, 2008; Rashid, Abdejwad, *et al.*, 2013).

Maali et al (2006) pioneered the research on Islamic banking disclosure practices. They scrutinize the social disclosure issued by the Islamic banks across countries. They proposed the expected disclosures items referring to AAOIFI standards (Accounting and Auditing Organization for Islamic Financial Institutions). Maali et al (2006) concluded that the banks following AAOIFI tend to disclose more. In addition, the banks disclosed the information on *zakah* and *Shariah* supervisory board well, but did not provide any information on banking activities which might receive critical response from the stakeholders. The similar study conducted by Haniffa and Hudaib (2007) examining a series of annual reports of seven IFIs in four Arabian countries. They developed ethical identity benchmark for Islamic banks. It is assumed that all stakeholders require the banks to provide ethical and social communicative information. They classified the ethical identity into eight disclosure dimensions. Unfortunately, they found that Islamic banks in the selected countries provided minimum disclosures (Haniffa and Hudaib, 2007). The study conducted by Haniffa and Hudaib (2007) was re-examined by Rashid et al (2013). They reclassified the eight dimensions of ethical identity into two commitment categories. They found that the reports of Islamic banks are too customer centric and efficiency driven. The commitments to Islamic rules fall far behind the average.

A number of recent studies intensively discuss the intentions behind the objectives of Islamic banking. They refer to *Maqasid Shariah* (the objectives of Shariah/ Islamic law) as the underlying objectives of Islamic banking activities (Ascarya *et al.*, 2015; Asutay and Harningtyas, 2015; Hurayra, 2015a; Mohamad *et al.*, 2015). The concept of *Maqasid Shariah* consists of the goals of the *Shariah* establishment and how the behaviour and activities of human being are directed. A

number of recent studies in Islamic banking and finance have linked this concept into the practices. Some studies propose the measurement based on *Maqasid Shariah* concept (Laldin and Furqani, 2013; Ascarya and Sukmana, 2014; Ascarya *et al.*, 2015; Asutay and Harningtyas, 2015; Ismail and Che Pa, 2015; Mohamad *et al.*, 2015; Mohammed and Taib, 2015). This study uses *Maqasid Shariah* concept to measure disclosure level.

The previous studies proved that the extent of disclosure is influenced by particular stakeholder groups (Fatma *et al.*, 2014; Lu and Abeysekera, 2014; Laidroo and Sokolova, 2015; Sarman *et al.*, 2015). Stakeholders have different degree of influence towards the companies' activities and the companies might not consider all stakeholders to have the same level of importance (Smith *et al.*, 2005). The degree of influence demonstrates the stakeholders' influence to affect the managerial and strategic decisions (Lu and Abeysekera, 2014). It is crucial for companies to understand the different roles and influences of stakeholders (Al-shamali *et al.*, 2013). However, companies should ensure that multiple stakeholders' needs are balanced (Freeman, 2002; Beekun and Badawi, 2005). Lu & Abeysekera (2014) found that shareholders and creditors determine the social and environmental disclosures. Farook *et al.* (2011) argued that public and Shariah supervisory boards could affect the CSR disclosure in Islamic banking industry.

Besides the stakeholders' influence, the disclosure level is also determined by the companies' financial performance (Soana, 2011; Chen *et al.*, 2015; Qiu *et al.*, 2016) and other non-financial performance like social performance (Ibrahim *et al.*, 2008; Fitrijanti and Alamanda, 2013). Companies with high profits will try to be more reliable and credible to society by enhancing the accountability and disclosure (Lu and Abeysekera, 2014). Disclosure is used as a favorable platform when companies have good environmental performance (Dawkins *et al.*, 2011). On the other hand, low social performance might be a pressure for companies to disclose more about their social activities and responsibilities (Hugo and Simão, 2015).

Culture and country were found to affect the disclosure practice as well. The extent of corporate disclosure vary among countries (Ndubizu, 2002; Chanchani and

Willett, 2004; Khanna *et al.*, 2004; Hugo and Simão, 2015; Reed *et al.*, 2016), specifically for the countries with weak governance and investment regulations (Jo *et al.*, 2016). These prior studies are consistent with the idea of Gray's cultural accounting framework stating that cultural values influenced accountants' decision on reporting (Gray, 1983). He argued that accounting has been growing in different societal context with particular values embedded in accounting itself. In addition, Hofstede (2001) suggests that the more judgment an activity requires, the more it is governed by values and cultural dissimilarities. Furthermore, he states that decision making in accounting and its implementation must diverge along cultural differences (Tsakumis, 2007).

Every country has its own Human Development Index representing its human development. Human Development Index (HDI) is a complex indicator encompassing educational elements, life factors and GNI (Gross National Income) of a country. Country with the better human development will have higher human development index (Reed *et al.*, 2016). HDI is used to see the correlation of particular geographical regions and extent of disclosure (Hugo and Simão, 2015).

Islamic banks have been growing tremendously in the countries with more Muslim population (Ernst & Young, 2016). Muslim majority country tends to request for more information on the compliance of Islamic banks (Sayd *et al.*, 2011) because the number of people influence the level of CSR activity (Abbasi *et al.*, 2012). Islamic banks in muslim majority countries are expected to have the same intentions to disclose their information (Wan *et al.*, 2013). Muslim community as part of stakeholder group can affect policies (Crane and Ruebottom, 2011). Muslim population may push the industry to provide more transparent and comprehensive information demanded by them. Besides, Shariah Supervisory Board as part of Islamic banking stakeholder also plays a role as typical corporate governance mechanism for the Islamic banking system. This board might have a moderating effect on the relationship between banking performance and disclosure quality (Ajili and Bouri, 2018a).

Based on the above discussion, this study attempts to examine the disclosure level in Islamic banks using *Maqasid Shariah* concept which has not been intensively explored in the current studies. It examines if stakeholders, banking performance, and country characteristics influence disclosure level among Islamic banks. Particular stakeholder of Islamic bank called Shariah Supervisory Board and the muslim population are expected to strengthen the role of Islamic banks. Therefore, this study also examines the moderating effect of Shariah Supervisory Board and muslim population in the relationship between disclosure level and the influencing variables.

1.2 Problem Statement

Banking industry has faced increasing pressure since financial crisis in 2008 (Jizi *et al.*, 2014). Particularly, Islamic banking industry get the special attention because of its faster growth in the global financial system (Bukair and Rahman, 2015). In order to restore its credibility, the intention of disclosing more information is purposefully to regain the public confidence and stakeholders' trust in the banking industry. Corporate Social Disclosure becomes the instrument to fulfil social and moral responsibilities (Chan *et al.*, 2014), to ensure transparency and to protect stakeholders' interests (Ben Abdallah and Bahloul, 2021)

The other issue in disclosure practice is the disclosure points and contents which vary among past studies. Corporate social responsibility (CSR) disclosure is good but considered inadequate (Hermalin and Weisbach, 2012). Sufficient disclosures cost much and have more consequences. Therefore companies tend to disclose favourable information (Bukhari *et al.*, 2013; Reed *et al.*, 2016). Companies prefer to disclose good news but keep hiding the bad information (Shalev, 2009; Jiao, 2011). A number of past studies focus on social disclosure elements (Menassa, 2010; Haji, 2013; Dhaliwal *et al.*, 2014) and environmental disclosures (Dawkins *et al.*, 2011; Belal *et al.*, 2015; Qiu *et al.*, 2016). Some other studies propose disclosure points from different perspective (Maali *et al.*, 2006; Haniffa and Hudaib, 2007; Sayd *et al.*, 2011; Rashid, Abdejawad, *et al.*, 2013). The disclosure components are diverse because of different disclosure guidelines. Some studies refer to Global Reporting

Initiatives (Lu and Abeysekera, 2014; Belal *et al.*, 2015; Chen *et al.*, 2015; Laidroo and Sokolova, 2015; Nobanee and Ellili, 2016) while other studies use AAOIFI (Accounting and Auditing Organizations for Islamic Financial Institutions) as the disclosure benchmark (Maali *et al.*, 2006; Haniffa and Hudaib, 2007; Ibrahim *et al.*, 2008).

Islamic banks have a purpose to promote more ethical business and finance (Asutay and Harningtyas, 2015) and its ultimate goal is to achieve the prosperity of the ummah (Hassan and Harahap, 2010; Bukhari *et al.*, 2013). Islamic banks must confirm that their business activities are in line with *Shariah* rules. Islamic banks also claim to have more ethical practices and social responsibilities. Therefore, Islamic banks are expected to conduct more social activities. Social activities relate more to Islamic banking business which uphold Islamic charity called *zakah* and benevolence loan called *qard* (Maali *et al.*, 2006; Fitrijanti and Alamanda, 2013; Nobanee and Ellili, 2016). Having broader social activities, Islamic banks should provide more comprehensive disclosure (Haniffa and Hudaib, 2007).

Islamic banking has a special nature. It operates based on profit sharing principle while conventional banks depend on interest rate (Al-baluchi, 2006; Haniffa and Hudaib, 2007; Safieddine, 2009). Islamic banks prohibit any business transaction comprising the elements of *riba* (interest rate), *gharar* (uncertainty), and *maysir* (gambling). This relates to the *Maqasid Shariah* principles. This fundamental difference leads to different accounting practice. At the end, it produces different components of information disclosed in the financial statements (Maali *et al.*, 2006; Sarea and Mohd Hanefah, 2013; Ahmad and Daw, 2015).

The goals of Islamic banking have been widely discussed by modern Muslim scholars in the world. Unfortunately, they have not discussed in depth into the theoretical framework underlying the objectives of Islamic economics, banking and finance (Mohammed and Razak, 2008). Lacking the emphasize on the framework causes Islamic banking industry focuses only on economic growth and it seems unsuccessful to promote socio-economic development (Asutay and Harningtyas, 2015). Furthermore, Asutay shows insignificant economic development as an

immobile development of long term financing on particular sectors such as agriculture and manufacturing. Another crucial reason is that moral or social expectations have not been integrated into Islamic banking activities. A number of recent studies intensively discuss the intentions behind the objectives of Islamic banking. They refer to *Maqasid Shariah* (the objectives of Shariah/ Islamic law) as the underlying objectives of Islamic banking activities (Ascarya *et al.*, 2015; Asutay and Harningtyas, 2015; Hurayra, 2015a; Mohamad *et al.*, 2015).

Maqasid Shariah has been directly inferred by a number of scholars (Chapra, 2008). *Maqasid Shariah* is interpreted as the objectives of *Shariah* (Laldin and Furqani, 2013). The concept of *Maqasid Shariah* consists of the goals of the *Shariah* establishment and how the behaviour and activities of human being are directed. At the end, *Shariah* is expected to achieve welfare and human wellbeing (maslahah) (Farook *et al.*, 2011; Ascarya *et al.*, 2015; Ismail and Che Pa, 2015). A number of recent studies in Islamic banking and finance have linked this concept into the practices. Some studies propose the measurement based on *Maqasid Shariah* concept (Laldin and Furqani, 2013; Ascarya and Sukmana, 2014; Ascarya *et al.*, 2015; Asutay and Harningtyas, 2015; Ismail and Che Pa, 2015; Mohamad *et al.*, 2015; Mohammed and Taib, 2015).

It is broadly accepted that companies have common groups of stakeholders including shareholders/investors, creditors, suppliers, auditors, regulators, customers, employees, and communities (Smith *et al.*, 2005; Mia and Al Mamun, 2009; Rahman *et al.*, 2011). Additionally, Islamic banks have an exceptional stakeholder group called *Shariah* Supervisory Board (Ghayad, 2008; Ibrahim *et al.*, 2008; Aribi and Gao, 2010; Hashim *et al.*, 2015). *Shariah* Supervisory Board consists of the *Shariah* experts who are appointed to sit in the board. The board is responsible for ensuring that Islamic bank is in conformance with *Shariah* laws and principles both *Shariah* compliance and operating activities. *Shariah* supervisory board performs as a part of self-governing mechanism control to ensure that the banks' operations are in line with *Shariah* requirements. The stakeholders have different interests and tendencies. Islamic banks' managers should protect the interest of all stakeholders (Bukair and Rahman, 2015), not only shareholders and creditors.

The composition of the country population, human development and the country value are found to have impact on disclosure practices. National cultures affect the disclosed information (Oriji, 2010). Relating to the disclosure practice, Gray (1988) stated the conservatism and secrecy value vary from country to country. Conservatism and secrecy as two of accounting sub-cultural dimensions create differences in accounting measurements and disclosure practices across nations (Gray, 1983).

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2011; Rashid, Abdeljawad, *et al.*, 2013). The global Islamic banking assets have been dominantly dispersed in particular countries (Islamic Financial Services Board, 2015; Ernst & Young, 2016; IFSB, 2016), taking Gray's hypothesis saying that country value determines the disclosure could be one advantage. *Therefore this study attempts to propose disclosure framework for Islamic banking industry. Furthermore, it examines the influence of the stakeholders' influence, banking performance, and country characteristics on disclosure practice in different countries.*

1.3 Research Objective

The following figure describes the flow of research problem.

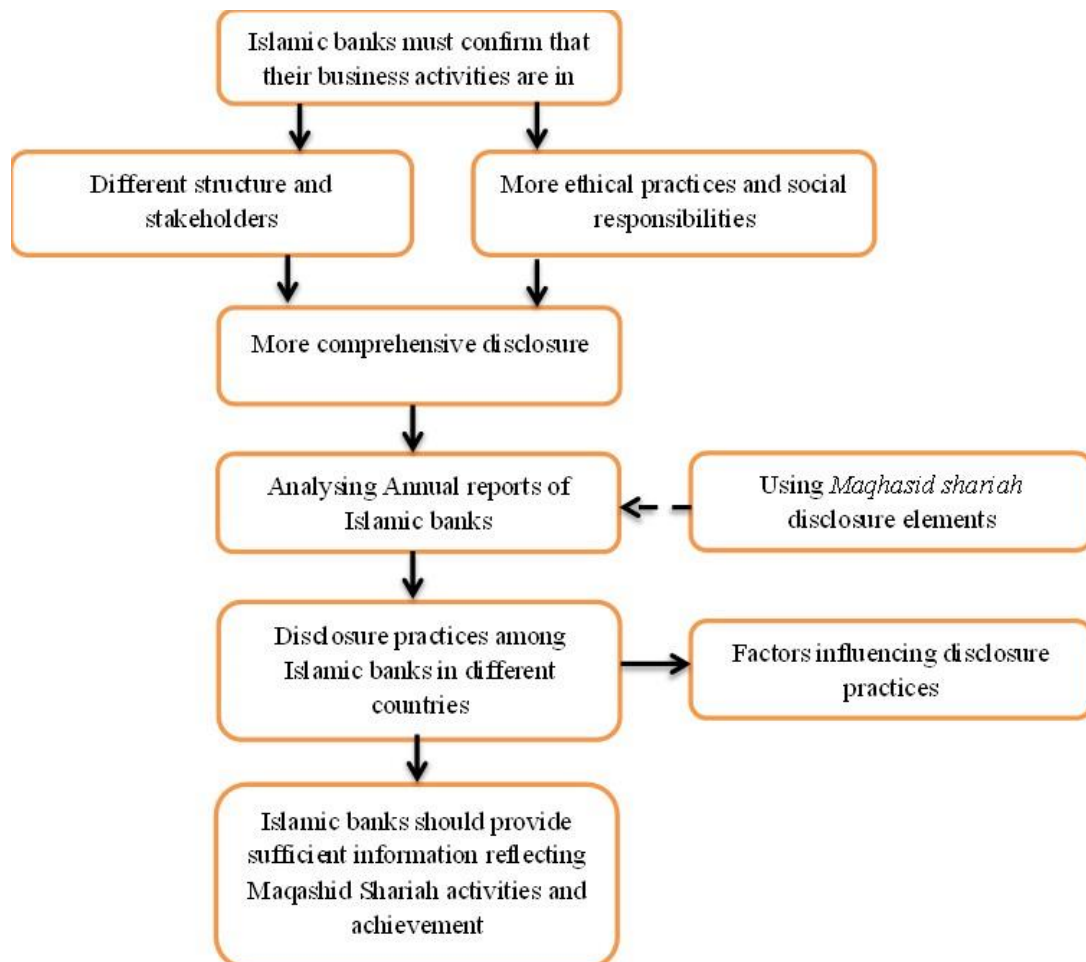


Figure 1.2 Flow of Research problem

Based on the background of the study and the arguments stated in the problem statement, this current study has four objectives:

- a. To explore stakeholders' influence comprising of shareholders, customers, auditors, regulators, and *Shariah* Supervisory Board on the *Maqasid Shariah* based disclosure level among Islamic banks.
- b. To investigate the influence of banking performance encompassing capital adequacy, asset quality, management efficiency, earning, liquidity and asset size on the *Maqasid Shariah* based disclosure level among Islamic banks.
- c. To examine the influence of country characteristics including country values, muslim population, human development, and democracy index on the level of *Maqasid Shariah* based disclosure level among Islamic banks.
- d. To investigate the moderating effect of Muslim population and the existence of *Shariah* Supervisory Board on the relationship between stakeholders' influence, banking performance and the disclosure level among Islamic banks.

1.4 Research Questions

This study raises some following questions:

- a. Does stakeholders' influence influence the *Maqasid Shariah* based disclosure practice?
 - 1) Do shareholders determine disclosure level?
 - 2) Do customers affect disclosure level ?
 - 3) Do auditors influence disclosure level?
 - 4) Do regulators influence disclosure level
 - 5) Do SSB size affect disclosure level?
- b. Does banking performance determine disclosure level?
 - 1) Does capital adequacy affect disclosure level?
 - 2) Does asset quality affect disclosure level?
 - 3) Does management efficiency affect disclosure level?
 - 4) Do earnings affect disclosure level?
 - 5) Does liquidity position affect disclosure level?
 - 6) Does asset size affect disclosure level?
- c. Do the country characteristics influence the disclosure level?
 - 1) Do country values (Individualism, Masculinity, Uncertainty Avoidance, Power distance) affect disclosure level?
 - 2) Does the percentage of Muslim population affect the disclosure level?
 - 3) Does the level of human development influence the disclosure level?
 - 4) Does the level of democracy index influence the disclosure level?
- d. Do the percentage of Muslim population and the existence of SSB strengthen the relationship between stakeholders' influence and banking disclosure level?

1.5 Scope of Study

This study is restricted to certain points. Regarding the sample size, this study does not include all the countries having Islamic banks but focuses on the selected Islamic banks in twelve countries (Malaysia, Indonesia, Saudi Arabia, Bahrain, United Arab Emirates, Qatar, Jordan, Kuwait, Pakistan, Turkey, Bangladesh) where they dominate Islamic banking assets. This study examines 5 years observation started in 2011-2015. Most Islamic banks in those countries started publishing governance report between in the years. Five years are considered enough to see the trend of disclosure practices.

The selection of performance indicators could also limit this study. There are a number of ratios describing financial and social performance. However, this study selects some indicators which are assumed to describe banking financial performance better and those indicators were frequently adopted in the past studies. In addition, measuring performance using financial ratios may have some constraints. Ratios can depict significant comparisons of firm performance in similar industries. Nevertheless, the ratios possess some limitations. For instance, a number of ratios are calculated based on the balance-sheet numbers. These balance-sheet numbers may not describe one year's position. Some numbers may increase or decrease at the end of accounting period due to some factors. Other than that, the choice of accounting method also influences the ratios. Different accounting method will lead to different ratios.

Disclosure covers a wide discussion which entails many aspects such as environmental issues, energy issues, social and political issues, financial issues, and so on. However, this study focuses on *Maqasid Shariah* based disclosure comprising four disclosure categories namely preservation the values of human life, preservation the human self, preservation the society, and preservation the environment. The selection of *Maqasid Shariah* aspect is based on the nature of Islamic banks which have to ensure the conformance with *Shariah* requirements and objectives to achieve the public welfare.

1.6 Significance of Research

From the theoretical angle, this research is expected to contribute toward the current literature on disclosure. This study is also projected to extend the literature on disclosure in Islamic banks because it examines the unexplored area of research in disclosure and accounting. It is expected to provide empirical evidence on the issues of factors affecting the disclosure level in Islamic banking industry. Other than that, its contribution exists in its ability to explore the theories relating to disclosures such as agency theory, legitimacy theory, signalling theory and stakeholder theory and how the theories occur in Islamic banking context.

From a practical perspective, this study provides cross country comparisons on the disclosure practices which Islamic banks can learn from other countries. Each country may have unique and different regulations. It is expected to give some contributions for Islamic banks and banking regulators. It is projected to come up with the *Maqasid Shariah* based disclosure index in which can be a benchmark for Islamic banking disclosure. The findings are also predicted to propose disclosure framework for Islamic banking industry. Disclosure framework will promote credibility and accountability of the banks. This is important to ensure that Islamic banks perform their roles. This study is also expected to show the dispersed roles and influences of Islamic banks' stakeholders. It is a comparative study involved twelve countries.

1.7 Conceptual Framework

Based on some past studies, this study has identified some of the important gaps regarding disclosure practices among Islamic banks. The gaps suggest that Islamic banks should have more comprehensive and deeper disclosure. The disclosure practices should capture the practice of *Maqasid Shariah* (the objectives of Islamic Law/Shariah) implemented by the banks. Moreover, Islamic banks has distinctive stakeholders called *Shariah* Supervisory Board members having responsibility for confirming Islamic banking transactions and activities are consistent with *Shariah* principles. Stakeholders and banking performance have been found to influence

disclosure practices. In addition, the composition of the country population, human development and the country value are found to have impact on disclosure practices. The following figure shows the overall conceptual framework of the study.

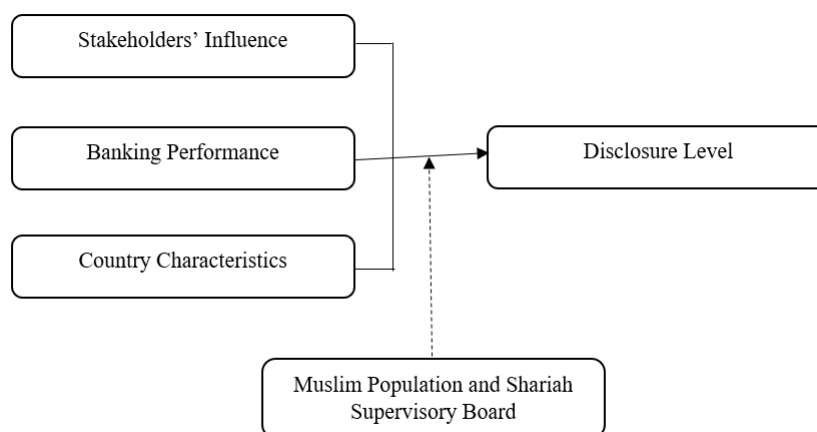


Figure 1.3 Conceptual framework

Figure 1.3 shows the basic models regarding stakeholders' influence, banking performance, country characteristics on the disclosure practices among Islamic banks. Stakeholders' influence represents the parties are interested in banking activities and reporting. Banking performance is expected to trigger the banks to disclose more information. Country characteristics have also been found to have impact on accounting and reporting practices. Therefore, this study aims to investigate if stakeholders' influence, banking performance, country characteristics affect the level of disclosure practices among Islamic banks.

1.8 Summary

This chapter is started with brief arguments for the choice of the research topic. Basically, this study has the objective to investigate the impacts of the stakeholders' influence, banking performance, and country characteristics on disclosure practice in different countries. At the end, the study will test the moderating effect of Muslim population and the existence of SSB whether both can strengthen the relationship between social performance and disclosure practice. The study is limited to a few

circumstances such as sample size, performance indicators, and the disclosure themes. Nevertheless, the study is expected to contribute towards academic literature and practice.

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