Corporate governance and Islamic banks' products and services disclosure

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Abstract

Purpose: The purpose of this paper is to examine the determinants of Islamic banks (IBs) product and services disclosure (PSD).

Design/methodology/approach: A computer-based content analysis is run upon the annual reports for a sample of 78 IBs operating in 11 countries from 2004 to 2012 to find the number of product and services statements. The levels and trends of PSD are identified. A regression analysis to identify the factors affecting PSD in IBs is also used.

Findings: The findings suggest that there has been a significant improvement of PSD over time. The results show a positive association between PSD and *Shariah* board size, board size, chief executive officer (CEO) tenure, duality in position, blockholders and investment account holders. However, they show a negative association between PSD and institutional ownership. In addition, it appears that board independence does not affect significantly banks' PSD. It is also found that the bank performance, bank age, leverage, listing, adoption of international financial reporting standards, adoption of Accounting and Auditing Organization for Islamic Financial Institutions and country transparency index have a positive effect on the PSD.

Originality/value: This study offers an original contribution to corporate disclosure literature by being the first to develop and investigate PSD for a large sample of IBs during a long period of time. It links P&S with bank corporate governance characteristics. The findings have many important policy implications. More specifically, this paper encourages regulators in the studied countries to improve corporate governance mechanisms in their Islamic banking systems through the optimization of ownership structure, CEO's characteristics and the board's characteristics, to promote PSD. Moreover, the findings support the theoretical predictions of the generalized agency theory. This study's empirical evidence enhances the understanding of the corporate social responsibility disclosure environment in general and the PSD environment in particular for IBs. This study is the first one that measures PSD in the annual reports for a large cross-countries sample of IBs during a long period of time. It is also the first one that links PSD with IBs corporate governance mechanisms.

Keywords: Governance, Content analysis, Islamic Banks

1. Introduction

The adoption of BASEL II directives for the banking sector and especially the Pillar III "The market discipline"[1] highlights the importance of disclosure, especially products and services (P&S) disclosure. The adoption of BASEL II directives for the banking sector and especially the Pillar III "The market discipline"1 highlights the importance of disclosure, especially Products and Services (P&S) disclosure. The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) has issued governance standard No. 7: *Corporate Social Responsibility, Conduct and Disclosure for IFIs*. In this standard, corporate social responsibility (CSR) in IFIs refers to all activities carried out by an IFI to meet its religious and ethical responsibility to their stakeholders. Islamic Banks (IBs) should follow Shariah to gain trust of the stakeholders. IBs offer distinct financial P&S and as such have grown significantly over the past two decades. They are accountable to fulfil a social and ethical role inherent in their character as an IFI. In addition, they have a duty to show their accountability through disclosing CSR information, consistent with the principals of Islam. Disclosure about Islamic P&S is a dimension of ethical CSR disclosure. In particular, an IB should specifically disclose key points concerning its P&S. Disclosure about Islamic P&S could be considered as ethical identity disclosure.

The objective of this paper is to examine the impact of corporate governance on P&S disclosure for Islamic banks. We contribute to existing literature by investigating relatively unexplored research issue that measure levels of P&S disclosure and its determinants for IBs. We are also the first to provide a cross-country evidence on the impact of corporate governance on P&S disclosure for a large sample of IBs.

The paper is structured as follows. Section 2 reviews the literature and develops the research hypotheses. Section 3 presents the methodology. Section 4 discusses the empirical findings. Section 5 concludes.

2. Literature Review and Hypotheses Development

Disclose information regarding Islamic P&S may attract investors who are conscious about the authenticity and ethical value of the activity of the bank. It also promotes the development of the Islamic banking industry by supporting its competitive advantages versus the conventional counterpart (Farag et al., 2014; El-Halaby and Hussainey, 2015). Whilst the trend is towards mandatory Islamic reporting standards, AAOIFI standards are mandatory in some countries and voluntary in others. In fact, these standards tried to improve disclosure regulatory framework for the Islamic banking industry. In the following paragraphs, we review relevant theories, empirical literature on governance and disclosure to develop our research hypotheses.

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[1] The aim of Pillar III is to allow market discipline to operate by requiring institutions to disclose details on the scope of application, capital, risk exposures, risk assessment processes.

2.1 Ownership structure

2.1.1 Blockholders ownership

Zouari and Taktak (2014) argue that concentrated ownership is a common feature in IBs. More than 70 per cent equity is dominated by the top five shareholders. In line with the agency theory, most of studies in emerging markets provide evidence that there was a negative association between ownership concentration and the level of voluntary disclosure (Haniffa and Cooke, 2002; Htay, 2012). Grassa and Chakroun (2016) find that corporate governance disclosure negatively associated with the number of blockholders in GCC banks. In addition, Htay et al. (2012) find that lower block ownership in Malaysian listed banks has higher social and environmental information disclosure.

However according to the stakeholder-agency theory, the agency conflicts are mitigated when IBs managers' decisions concerning voluntary disclosure are aligned with all the stakeholders' interests. Consequently, the existence of higher percentages of blockholders in IBs tends to encourage the managers to disclose P&S information requested by the stakeholders of IBs. Besides, IBs owned by large blockholders tend to disclose more P&S information than other IBs. In fact, blockholders differently to minor shareholders fully benefit of being associated to a bank with large P&S disclosure. Consequently, blockholders would incite managers to adopt policies that improve bank's P&S disclosure. Hence, we set our first hypothesis as follows:

H1. There is a positive association between the percentages of blockholders' owners and levels of P&S disclosure.

2.1.1 Institutional Ownership

In emergent markets, institutional investors play a crucial role in monitoring management and improving P&S disclosure which help firms to meet its fiduciary responsibilities and to improve performance. Zouari and Taktak (2014) suggest that the ultimate owner in IBs is institutional. Therefore, IBs with large institutional ownership have to disclose more P&S in order to satisfy institutional investors' particular needs. Thus, Xiao et al.'s (2004) provide evidence of the existence of a positive relationship between institutional ownership and corporate disclosure. In addition, Grassa and Chakroun (2016) suggest that the institutional ownership is related positively but insignificantly to corporate governance disclosure of GCC banks.

Besides, in line with the stakeholder-agency theory of (Hill and Jones, 1992) we could predicted that high concentration of institutional ownership might ensure the financial market that the IB seeks to protect stakeholders' interests by increasing the level of P&S disclosure in their annual reports. In relation to the stakeholder-agency theory and to the findings of previous work, we assume the existence of a positive relationship between institutional ownership and P&S reporting. Hence, our second hypothesis is as follows:

H2. There is a positive relationship between institutional ownership and levels of P&S disclosure.

2.1.3 Investment account holders (IAH)

IAH are a special category of investors that are not represented on the board and without granted control nor monitoring rights (Safieddine, 2009). Magalhaes and Al-Saad (2013) focus on the relationship between corporate governance practice and the safeguarding of the IAH as major stakeholders in IBs. They find that the current practices implemented by IBs in protecting the rights of IAH are not effective enough in the light of standard corporate governance practices. IBs face a number of agency problems. The contractual structure of these banks may affect the P&S disclosure in their annual reports. The specificity of agency problems is the existence of two types of principals (IAH and shareholders). There is asymmetric information between these principals and management particularly about P&S. Farook et al. (2011, p 366) state "*the IAH, if it is comprised of Islamic investors would also be interested in the level of compliance of the bank with Islamic laws and principals*".

IAH do not have voting rights and are expected to be more interested in the P&S disclosure, especially if it is comprised of Islamic investors, than the shareholders. In fact, this specific type of disclosure is an aspect of the banks compliance with Islamic principles. Islamic investors are expected to be interested in the P&S that IBs offers rather than share ownership of these banks. Farook et al. (2011) find a positive relationship between IAH and CSR disclosure. Rahman and Saimi (2015) find that the IAH affects positively and significantly the ethical identity disclosure level in the Islamic banking industry in Malaysia and Bahrain. Hence, we set our third hypothesis as follows:

H3. There is a positive relationship between IAH and levels of P&S disclosure.

2.2 Board characteristics

2.2.1 Board size

Board size is an important indicator of a bank's need to link itself with the external environment. According to resource dependency theory, larger number of directors who have diverse skills and expertise could help to enhance the level of corporate disclosure (Parsa et al., 2007). Consequently, when boards of IBs are large, there is expertise diversity and it is more likely that they include directors who tend to favour the increase of P&S disclosure in the annual reports.

Many previous studies on voluntary disclosure suggest that firms, with large board size, are more likely to disclose voluntarily in their annual reports when compared to firms with small boards (Htay, 2012). Grassa and Chakroun (2016) find a positive relationship between board size and the level of corporate governance disclosure in GCC banks. Chen and Jaggi (2000) argue that larger size of board may decrease the possibility on information asymmetry. Rahman and Saimi (2015) find that the board size influences positively and significantly the ethical identity disclosure level in IBs in Malaysia and Bahrain.

Based on the resource dependency theory and to the arguments of previous work, we expect that larger board may encourage the disclosure of the IBs' P&S and we set our fourth hypothesis as follows:

H4. There is a positive relationship between board size and levels of P&S disclosure.

2.2.2 *Shariah board size*

IBs have to respect Shariah in all their activities. Therefore, they must have a Shariah board (SB). SB discloses Shariah report which shows the compliance of the transactions of IB with Islamic laws and principles. This board is a specific corporate governance body in Islamic finance that plays an essential role in the governance of IBs (Garas and Pierce, 2010). Furthermore, this board is the guarantor of the respect of Shariah principles and has to report on compliance of the bank with Shariah. Garas and Pierce (2010) argue that the SB is found to control the IFIs advisors more than the other types of Sharia supervision such as Shariah consulting firms or Shariah advisors.

Consistent with previous studies, large SB might influence positively the quality of disclosure of IBs. Farag et al. (2014) argue that SB has social influence and authority in monitoring the IBs compliance with Shariah principals such as "full disclosure". This finding implies the essential role of SB to support IB's ethical activities. Rahman and Saimi (2015) find that the size of SB influences positively the ethical identity disclosure level in IBs. Rahman and Bukair (2013) find that the combination of SB attributes has a positive influence on CSR disclosure.

The SB size is likely to ensure that IBs operations are in compliance with Shariah rules and principals (accountability, full disclosure…). Consequently larger SB would provide more effective monitoring and more consistency with Shariah. More members in SB tend to increase the collective knowledge and experience of it that could be a factor to the increase of P&S disclosure. Otherwise, stakeholders of IBs request a high level of P&S information and a high number of directors in this board should ensure the stakeholders about the Shariah compliance of the bank transactions. Based on the stakeholder-agency theory and to the arguments of previous works, especially the expertise diversity of large SB, we expect that larger SB leads to more compliance with Shariah principles, which leads to higher disclosure level of P&S. Hence, we set our fourth hypothesis as follows:

H5. There is a positive relationship between Shariah board size and levels of P&S disclosure.

2.2.3 Board independence

According to the stakeholders-agency theory, board independence leads to a better control of management and, therefore, to a high quality of disclosure. Independent directors tend to reduce interest conflicts between directors and stakeholders thanks to their independence and objectivity. Previous studies argue a positive association between board independence and the level of voluntary disclosure. Grassa and Chakroun (2016) find, for GCC banks, a positive relationship between board independence and the level of corporate governance disclosure. Khan (2010) shows that non-executive directors have a positive impact on CSR reporting in Bangladesh. Moreover, Htay et al. (2012) reports that higher percentage of independent directors in Malaysian listed banks have higher social and environmental information disclosure.

On the basis of the arguments of the stakeholders-agency theory and of the previous work, we set our sixth hypothesis as follows:

H6. There is a positive relationship between board independence and levels of P&S disclosure.

2.3 CEO characteristics

2.3.1 CEO duality

In accordance to the assumption of the convergence of interests of the dominant personality with those of the other shareholders, duality in position could lead to increase the level of voluntary disclosure in the bank (Morck et al., 1988). Also, the stakeholder-agency theory is in favour of the fact that the leadership position enables the CEO to be more aware of the informational interests of all stakeholders (Hill and Jones, 1992). In this sense, the IBs' CEO tends to increase the level of ethical disclosure about Islamic P&S in the annual reports. In fact this type of voluntary disclosure is considered as of major interest for stakeholders. The studies of Barako (2007) and Grassa and Chakroun (2016), conducted in emergent markets, argue that the CEO duality leads to improve the level of voluntary disclosure. Then, we could expect that the existence of CEO dualitywithin the IBs tends to reduce the information asymmetry and helps the level of P&S disclosure to rise.

On the basis of the stakeholder-agency theory and on the assumption of the convergence of interests and on the arguments of previous work, we set our seventh hypothesis as follows:

H7. There is a positive association between CEO duality and levels of P&S disclosure.

2.3.2 CEO tenure

A long CEO tenure may reduce uncertainty and lack of useful information for the director. The increasing period of directors sitting on the board, helped to increase their knowledge about the IB activity which, in turn, could improve the quality of disclosed information in the annual reports. In this case, the level of P&S disclosure is likely to increase with the increasing of the period of CEO tenure.

Conversely, a long CEO tenure may cause the entrenchment effects. Thereafter long CEO tenure discourages the IBs to disclose CSR information related to their P&S. Therefore, IBs with long CEO tenure have to disclose a low level of P&S information in their annual reports. In addition, CEOs sitting in the IBs for a long period tend to decrease the level of Islamic P&S information disclosed in the annual reports in order to withhold information to the stakeholders of the banks. We could suggest that in IBs, there is a negative association between CEO tenure and voluntary P&S disclosure. Consistent with previous studies, CEO tenure might influence negatively the P&S disclosure of IBs. Hence, we set our eighth hypothesis as follows:

H8. There is a negative association between CEO tenure and levels of P&S disclosure.

3. Research Methodology

3.1 The Sample

We use the central banks around the world to identify the Islamic banks with 100% Shariah compliant assets for the period 2004-2012. We collect data from different sources as shows in Table I. We find 160 IBs that match our initial sample selection criteria. For the sake of consistency in our sample, we excluded IBs in both Iran (18 IBs) and Turkey (4 IBs) as they do not have the SB. We also excluded IBs which provide only financial statements (37 banks). In addition, we excluded subsidiaries from our sample (11 IBs). Therefore, we collect data for 78 IBs from 11 countries namely: Bahrain, Brunei, Indonesia, Jordan, Kuwait, Malaysia, Pakistan, Qatar, Saudi Arabia, Syria and UAE.

We create a list of keywords related to the Islamic P&S that IBs offer to their clients to examine the level of P&S disclosure. We read relevant literature and a sample of annual reports of Islamic banks to create this list (appendix AI). Following Hussainey et al, (2003) we use a computer software package (*NUDIST version 6*) to measure the number of sentences that include at least one of the P&S keywords. Using a software package helped us to automatically score a large numbers of annual report narratives at very low marginal costs. We use the number of P&S related sentences as our measure for the disclosure of Islamic banks. Following Hussainey et al, (2003) we read a sample of Islamic Banks' annual report and count the number of R&S sentences. We then test the correlation between these manual scores and the score we calculated using *NUDIST* version 6. We find that the correlation between the manual score and the computerised score are 90%. This indicates that our measure of disclosure is reliable. Our independent and control variables are shows in Table I.

Table I: Model specification and variable measurement

Abbreviated name	Full name	Variable description	Data source
PSD	P&S disclosure	Score of P&S disclosure	Annual report
BLOCK	Number of blockholders	The number of blockholders– shareholders whose ownership ≥5 % of total number of shares issued	Zawya data base- bank website-annual report
INSTIT	Institutional ownership	Percent of shares owned by institutional shareholders	Zawya data base- bank website-annual report
DUAL	Duality in position	Dummy variable: 1 if IB's CEO serves as a board chairman, 0 otherwise	Annual report
TENURE	CEO tenure	The number of years occupying the position of CEO	Annual report
BDSIZE	Board size	The number of board members	Annual report
BDIND	Board independence	Ratio of the number of non-executive directors to the total number of the directors	Annual report
SBSIZE	Shariah board size	The number of Shariah board members	Annual report
IAH	Investment account holders	Total Profit-Sharing Investment Account / total assets	Annual report
Control variables			
FP	Financial performance	The average annual change in ROA over 2004–2012	Annual report: Financial statements
LEVERAGE	Leverage	Long-term debt / total assets	Annual report: Financial statements
BANKSIZE	Bank size	Natural logarithm of total assets	Annual report: Financial statements
BKAGE	Bank age	IB age	Bank website
IFS	Islamic finance share	The share of Islamic banking assets to total banking assets in the concerned country	Grassa and Gazdar (2014)
LIST	Listed bank	Dummy variable: 1 if the IBs is listed in the stock exchange, 0 otherwise	Stock exchange
COUTRANSDEX	Business extent of disclosure index	The index ranges from 0 to 10, with higher values indicating more disclosure	World Bank
AAOIFI	AAOIFI	Dummy variable: 1 if the IBs use AAOIFI standards, 0 otherwise	Annual report: Financial statements

3.2 The model

To empirically investigate the effect of corporate governance on P&S disclosure, we use the following regression as in Eq. (1):

$$PSD_{it} = \alpha i + \beta_1 \, BLOCK_{it} + \beta_2 \, INSTIT_{it} + \beta_3 \, SBSIZE_{it} + \beta_4 \, DUAL_{it} + \beta_5 \, TENURE_{it} + \beta_6 \, BDSIZE_{it} + \beta_7 \, BDIND_{it} + \beta_8 \, IAH_{it} + \beta_9 \, FP_{it} + \beta_{10} \, LEVERAGE_{it} + \beta_{11} \, BANKSIZE_{it} + \beta_{12} \, BKAGE_{it} + \beta_{13} \, IFS_{it} + \beta_{14} \, COUTRANSDEX_{it} + \beta_{15} \, AAOIFI_{it} + \sum_{c=1}^{n} \beta_{16} D_i + + \beta_{17} \, LIST_{it} + \varepsilon_i$$

$\Sigma DinC=1$: are country dummy variables take the value of 1 for the respective country and zero otherwise. εi: is the white noise error term. All other variables are defined in Table I.

To explore the interrelationship between product and service disclosure (PSD) and financial performance (FP), we formulate the following system of simultaneous equations that address the potential endogeneity issues in the estimation.

$$PSD = f_1 \, (FP, Z_1, \varepsilon_1) \qquad (2a)$$

$$FP = f_1 \, (PSD, Z_2, \varepsilon_2) \qquad (2b)$$

where Z_i are the vector of control variables and instruments influencing the dependent variables; and ε_i are the white noise error terms associated with the unobservable effects resulting from firm heterogeneity i.e. unobservable features of managerial behaviour that explain heterogeneity in PSD and FP.

We redefine bank visibility as a instrumental variable. It is a dummy variable that takes the value of 1 if the bank is listed in the stock market of the respective country and 0 otherwise. We assume that IBs listed in stock markets are more visible to investors and media and are likely to adopt consistent policies with stakeholders such as engaging in P&S disclosure. Hence, we expect that our instrumental variable is likely to be correlated with P&S disclosure and not with financial performance. We believe also that the selected instrumental variable satisfies the necessary conditions for valid instruments assuming that the disturbance is not auto-correlated[2] (Kennedy, 2003).

[2] We test for the serial correlation in residuals using both the Breusch–Godfrey–Lagrange Multiplier and Durbin–Watson tests. The results of the two tests show that the residuals are not serially correlated.

4. The empirical analysis

4.1 Descriptive statistics

Tables II and III show that the average PSD increases from 47.32 in 2004 to 102.85 in 2012 with an average of 79.72 during 2004-2012. Thus, there is significant annual variation in PSD scores between 2004 and 2012; however, the index scores show that the extent of P&S disclosure varies considerably across countries. Indonesia has the highest PSD index score of 162 followed by Pakistan at 152.7 and Jordan at 128.9 during (2004-2012). The lowest scores are achieved by Syria and the Kuwait, 35.3 and 46.9 respectively during the observed period.

Table II: Descriptive statistics for PSD score per year

	2004	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2004-2012**
Average PSD **score**	47.32	45.85	51.10	62.47	73.97	83.32	97.45	102.32	102.85	79.72
PSD = P&S disclosure index										

Table III: Descriptive statistics for PSD score per country

	Mean	**Median**	**Std.dev**	**Min**	**Max**	**Number of IBs**
Bahrain	83.6	74	50.06	0	312	23
Qatar	70.6	59	39.19	0	134	5
Kuwait	46.9	34	31.83	0	77	5
UAE	65.5	59	49.85	0	186	8
Saudi Arabia	57.2	58	21.55	26	134	6
Syria	35.3	34	28.6	0	106	2
Jordan	128.9	142	66.71	0	171	2
Malaysia	62.8	60.5	36.74	0	177	19
Indonesia	162	106	137.42	21	438	2
Brunei	58.5	58.5	36.06	33	84	1
Pakistan	152.7	92	133.36	0	490	5
Average PSD score	79.72	65	65.06	0	490	78

Table IV shows that the PSD score ranges from 0 to 490 with an average of 79.72. The average FP ranges from −44.35 per cent to 36.02 per cent with an average of 1.4%. The average number of blockholders is 2.4 and the mean of institutional ownership is 69.49 %. Only 2.06 per cent of company's CEOs serve as a board chairman and the CEO tenure range from 1 to 16 years with an average of 4 years. Investment account holders ranges between 3.79 per cent and 91.15 per cent with average value of 37.6 per cent. Table IV also reports that shariah board size ranges from 3 to 7 members with a mean value of 4.44, whereas the average board size is 8.42 members with standard deviation 1.92, in addition the proportion of independent directors in the board is 63 per cent on average. The average age of IBs included in our sample ranges from 1 to 57 years with an average age of 14 years. The average Islamic finance share ratio is 16.39 per cent. Finally, 40.48 per cent of IBs use AAOIFI standards to elaborate bank annual report and financial statements whereas the average country transparency index is 7.49.

Table IV: Descriptive statistics for independent variables

Variables:	Mean	Median	Std.dev	Max	Min
PSD	79.72	65.00	65.06	490.00	0.00
BLOCK	2.40	2.00	1.66	7.00	1.00
INSTIT	0.69	1.00	0.36	1.00	0.00
SBSIZE	4.44	4.00	1.14	3.00	7.00
DUAL	0.02	3.00	3.10	16.00	1.00
TENURE	4.18	3.00	3.09	16.00	1.00
BDSIZE	8.42	9.00	1.92	14.00	3.00
BDIND	0.63	0.57	0.28	1.00	0.11
IAH	0.38	0.44	0.27	0.92	0.04
FP	0.01	0.01	0.06	0.36	-0.44
LEVERAGE	0.57	0.60	0.30	1.00	0.05
BANKSIZE	21.52	21.69	1.71	25.69	15.10
BKAGE	14.01	8.00	12.44	57.00	1.00
IFS	0.16	0.14	0.11	0.54	0.02
COUTRANSDEX	7.48	8.00	2.15	10.00	4.00
AAOIFI	0.40	0.00	0.49	1.00	0.00
LIST	0.53	1.00	0.50	1.00	0.00

4.2. Regression analyses

Table V shows a number of observations. We find that the number of blockholders has a positive effect on (PSD). Our finding is consistent with Tsamenyi et al. (2007); Marston and Polei, (2004); Hossain et al., (1994) and Haniffa and Cooke (2002). Thus, we accept H1. This indicates that the incentive for IBs to disclose information related to Islamic P&S is stronger when blockholders are present.

We also find that institutional ownership has a negative impact on PSD. We therefore reject H2. This result could be interpreted by the fact that institutional ownership tends to drive IBs to disclose less P&S information. Our result is consistent with Htay *et al.* (2012). Generally, in banking sectors, institutional investors are considered to be one of the most important owners. Thus, IBs might prefer to provide P&S information directly to their institutional shareholders rather to disclose this information in their annual reports and these shareholders do not care about the protection of the minority investors' rights through the improving of the level of P&S disclosure. Consequently, IBs having institutions as the controlling shareholders have less incentive for P&S disclosure.

We also find that IAHs have a positive impact on PSD. Consequently, we accept H3. This suggests that IBs as an equity-based capital structure dominated by shareholders equity and Profit Sharing Investment Account (PSIA) holders are strongly exposed to massive withdrawal risk which threatens the position of the IB. Therefore, increasing disclosures might maintain the (IAH). Our finding is in line with Magalhaes and Al-Saad (2013).

In terms of the board characteristics, Table V shows a positive association between board size and PSD. Therefore, we accept H4. This is in line with the resource dependency theory (Pfeffer, 1973 and Pfeffer and Salancik, 1978) and prior research (i.e. Grassa and Chakroun), suggesting that larger boards may form a greater number of committees (e.g., governance and CSR committees) which may help to improve banks disclosure. It also shows a positive association between the Shariah board size and P&S disclosure. Therefore, we accept H5. Our finding is in line with stakeholder-agency theory and prior research (Farag et al., 2014; Farook et al., 2011). This suggests that larger Shariah board size may lead to higher levels disclosure as the capacity of the monitoring role of the Shariah board increases. Indeed, Shariah board has social influence and authority in monitoring the IB’s compliance with Shariah principles, and provides the confidence to stakeholders about the legitimacy of the business transactions. Hence, the Shariah board in its role as an additional governance body would pressure the management to disclose more IB activities in order to assure its investors that it is following Shariah laws and principles.

The table shows that board independence does not affect P&S disclosure. Consequently, we reject H6. This suggests that the role of independent directors seems to be ambiguous regarding P&S disclosure. This finding is not in line with the resource dependence theory and the stakeholder-agency theory. Prior research, however, shows similar results (i.e. Haniffa and Cooke, 2002; Ho and Wong, 2001; Bukair and Rahman, 2015). The table also shows that duality in position has a positive effect on PSD. We, therefore, accept H7. Our finding is consistent with stakeholder-agency theory and and prior research (e.g. Haniffa and Cooke, 2002 and Grassa and Chakroun, 2016). It also shows that CEO tenure has a positive effect on PSD. Thus, we reject H8. This suggests that CEO power in this case is aligned with the interest of bank shareholders to be well informed about P&S.

With regard to the control variables, we find that bank age, financial profitability, listing status and the business extent of disclosure index has a positive impact of PSD. We find, however, that leverage, Islamic finance share and the use of AAOIFI standards have a negative impact on the level of PSD. Finally we find that bank size does not affect PSD.

Table V: Determinants of PSD

	Coef	**t-student**	**P-value**
BLOCK	8.75	2.09	0.03**
INSTIT	-36.91	-2.10	0.03**
SBSIZE	15.74	2.37	0.02**
DUAL	72.93	2.09	0.04**
TENURE	13.84	7.93	0.00***
BDSIZE	4.17	1.63	0.10*
BDIND	-11.04	-0.54	0.59
IAH	15.43	16.31	0.00***

FP	18.02	2.03	0.04**
LEVERAGE	-33.19	-1.77	0.07*
BANKSIZE	0.41	0.18	0.856
BKAGE	2.01	4.64	0.00***
IFS	-37.26	-5.71	0.00***
COUTRANSDEX	16.44	3.65	0.00***
AAOIFI	-48.35	-2.85	0.01***
LIST	39.73	3.09	0.00***
R^2		0.7818	
F-stat		39.94	
P-value		0***	

*, **,*** significant at the 10%, 5%, 1% level respectively.

4.3 The bi-directional relationship between P&S disclosure and IBs' financial performance

The question on which dimension(s) of the PSD score derive and impact the PSD-FP link remains unanswered.

We estimate Eqs. (2a) and (2b) jointly using three-stage least squares regression to deal with any potential endogeneity between (PSD) and (FP). The 3SLS estimation results for the simultaneous system are summarized in Table VI. Panel A presents the results of the impact of (FP) on (PSD) as in Eq. (2a) whilst Panel B presents the impact of (PSD) on the (FP) as in Eq. (2b). The sign of (FP) coefficient in the PSD equation changes and become negative and significant at the 1% level. Moreover, the coefficient on (PSD) in the FP equation is positive and statistically significant. This result is consistent with the "social impact hypothesis" of Cornell and Shapiro (1987) suggesting that satisfying different needs of stakeholders will improve the reputation of the company and lead to better financial performance. Our finding suggests that the causality between the two endogenous variables runs from (FP) to (PSD) and from (PSD) to (FP). The performance equation also shows that there is a positive and significant relationship between (SBSIZE), (TENURE), (DUAL), (BLOCK), (INSTIT), (IAH) and the control variables and (FP).

To sum up, the 3SLS results strongly suggest that the PSD score of the IBs is determined by their corporate governance characteristics and FP and the opposite also is true.

Table VI: 3SLS estimation results for PSD and FP equations

	Panel A Coef	t-student	P-value	Panel B Coef	t-student	P-value
PSD				0.00	-3.75	0.00***
BLOCK	8.95	2.24	0.03**	0.02	2.33	0.02**
INSTIT	-39.99	-2.40	0.02**	-0.06	-1.84	0.07*
SBSIZE	-18.49	-2.84	0.00***	-0.04	-2.49	0.01***
DUAL	77.94	2.35	0.02**	0.13	2.01	0.05**

TENURE	14.18	8.53	0.00***	0.03	3.52	0.00***
BDSIZE	4.01	1.29	0.20	0.01	0.89	0.37
BDIND	-7.38	-0.30	0.76	-0.02	-0.40	0.69
IAH	3.52	2.19	0.04**	0.01	0.32	0.75
FP	-20.86	-5.73	0.00***			
LEVERAGE	-33.79	-1.86	0.06*	-0.05	-1.44	0.15
BANKSIZE	0.56	0.25	0.80	0.01	0.34	0.73
BKAGE	2.11	4.80	0.00***	0.01	3.01	0.00***
IFS	-37.47	-6.06	0.00***	-0.59	-3.06	0.00***
COUTRANSDEX	17.02	3.66	0.00***	0.03	2.46	0.01***
AAOIFI	-51.51	-3.15	0.00***	-0.09	-2.40	0.02**
LIST	35.58	2.86	0.00***	0.05	2.04	0.04**
R2		0.8034			0.0930	
Chi. sq		697.33***			14.74	

*, **, *** significant at the 10%, 5%, 1% level respectively

5. Conclusion

Our study aimed to examine the impact of corporate governance on PSD for Islamic banks around the words. We used a computerised content analysis software to measure levels of PSD. Our analysis showed a significant improvement of P&S disclosure over time. We also provided evidence that corporate governance mechanisms affects P&S disclosure.

Our finding has important implications. It offers useful insights for preparers and users of annual reports as well as for regulators and accounting policy makers. It might help investors, who are looking to invest in the studied countries, to have a detailed idea about P&S disclosure practices. Moreover, in order to promote this type of disclosure, our finding might encourage regulators to improve corporate governance mechanisms in the Islamic banking system through the optimization of ownership structure (concentrated ownership and reducing institutional ownership), CEO"s characteristics (longer CEO tenure) and the board's characteristics (larger board size). In addition, our finding supports theoretical arguments that banks disclose ethical information in order to mitigate information asymmetry and agency costs and to improve investor confidence in Islamic reporting. Our finding also enhances the understanding of Islamic disclosure environment in emerging markets.

In measuring PSD, our paper simply counts the number of statements related to P&S, however, we did not identify the tone of these statements (good news versus bad news). Future research could be carried out to look at the tone of disclosure and the impact of good news and bad news information on banks' performance, its cost of capital and credit ratings. Future research could also consider measuring the quality of PSD rather than the quantity of PSD as stakeholders would be more interested disclosure quality for decision making.

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Appendix AI: List of Islamic banks products and services according to Shariah

Number	Keywords	Other spelling	
1	Mudarba	Mudarabah	Mudarb'ah
2	Ijara	Ijarah	
3	Musharaka	Misharakah	
4	Murabaha		
5	Istesnaa	Istesna'ah	Istesna'a
6	Parallel Istesna'a	Istesna'ah muazi	
7	Salam	Bai Salam	Bai al Salam
8	parallel Salam	Salam Muazi	
9	Sukuk		
10	Ijarah muntehia bittamleek	Ijarah-wal-iqtina	Ijarah thumma al bai' (hire purchase)
11	Diminishing Musharaka	Diminishing Musharaka	
12	Bai bitamam al ajal		
13	musawama	musawamah	
14	Bai' muajjal		
15	Bai' al 'inah		
16	Hibah		
17	Wadia	Wadiah	
18	Wakala	Wakalah	
19	Qard hasan	Qardul Hasan	
20	restricted investment account		
21	unrestricted investment account		
22	Profit-sharing- account	profit sharing investment account	