Shari'ah Governance Disclosure: A Key to Financial Success through Governance Mechanisms in Islamic Banks

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ABSTRACT

Manuscript type: Research paper
Research aims: This study aims to explore the relationship between governance mechanisms, Shari'ah governance disclosure, and performance in Islamic banks operating in Southeast Asia and the Gulf Cooperation Council.
Design/Methodology/Approach: Using a Structural Equation Model, the research establishes the Shari'ah governance disclosure index based on the standards set by the Accounting and Auditing Organization for Islamic Financial Institutions, the Islamic Financial Services Board, and prior studies.
Research findings: The results reveal a significant positive impact between governance mechanisms and performance in Islamic banks. Furthermore, Shari'ah governance disclosures partially mediate between governance mechanisms and the performance of Islamic banks.
Theoretical contribution/Originality: This study contributes to the literature by shedding light on the dynamics of Shari'ah governance disclosure, governance mechanisms, and performance in Islamic banking, thereby offering valuable insights for both academia and practitioners.
Practitioner/Policy implication: The findings suggest that enhancing governance mechanisms is crucial for Islamic banks to improve their performance. Regulators can leverage these insights to strengthen Corporate Governance and the effectiveness of Shari'ah Supervisory Boards, which can lead to increased financial stability and stakeholder trust.

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Research limitation: One limitation of this study is its focus on Islamic banks in Southeast Asia and the Gulf Cooperation Council, which may restrict the generalisability of the findings.

Keywords: Islamic banking, governance mechanisms, Shari'ah governance disclosure, performance, Structural Equation Model
JEL Classification: G21, G28, M14

1. Introduction

The development of Islamic banking is driven by a commitment to fundamental adherence to Shari'ah principles and the establishment of strong governance mechanisms to ensure their proper implementation (Alkaraan et al., 2022). Though the relationship between a firm's Corporate Governance (CG) and its performance is a topic of hot debate, practising good CG provides a reliable and dependable framework for a company's board of directors so that they may respond in a timely fashion to different situations that affect the firm's value. Islamic banking differs from conventional banking, as Islamic banking is also subject to Shari'ah governance (SG). Islamic banking differences include the philosophical dimensions, the bank's goals, the contracts involved, the critical players in Islamic banking activities, and the relationships between the players (Khatib et al., 2022). SG constitutes an essential governance component within Islamic banks, ensuring the bank operations align with Shari'ah rules and principles. The elements of SG include Shari'ah Supervisory Board (SSB), internal and external Shari'ah auditors, Shari'ah reviewers, Shari'ah risk management, and Shari'ah analysis. SG must be in place to cater to the additional Shari'ah risk attached to Islamic banks' operations. Shari'ah risk, for instance, the non-compliant Shari'ah risk exposes Islamic banks to losing stakeholders' confidence and trust (Md Zain & Shafii, 2018).

Islamic banks must maintain and reflect ethical values in their annual report disclosures. By providing relevant and reliable information in their annual reports, these banks can demonstrate their accountability to Allah SWT and commitment to serving the Muslim community's and society's needs (Haniffa & Hudaib, 2004). Establishing an SSB or committee is common practice to ensure compliance with Shari'ah principles and teachings. The disclosure of SG in annual reports is also essential to ensure this compliance (Ben Abdallah & Bahloul, 2021; Jan et al., 2021; Salina Rasli et al., 2020).

Additionally, depositors who share in the profits and losses may face conflicts with shareholders when investing in Islamic banks. In Islam, CG focuses on protecting the interests of all stakeholders while following Sharia principles (Hasan, 2011). CG in Islam emphasises responsibility and trustworthiness, making it essential to establish effective governance mechanisms that protect stakeholders' interests and maintain their trust. Given the diverse stakeholders involved in these banks, it is crucial to disclose and distribute information about these governance mechanisms in corporate reports (Darmadi, 2013). However, multiple studies have found that Islamic financial institutions (IFIs) are not meeting expectations of transparency (Al-Malkawi & Pillai, 2018; Alkhamees, 2013; Grais & Pellegrini, 2006; Hasan, 2008; Maali et al., 2006).

A literature review shows a significant lack of studies on SG disclosure. Most studies on CG in Islamic banks provided empirical evidence of the CG mechanisms' relationship with Islamic banks' performance (Ben Abdallah & Bahloul, 2021; Mohd Zain et al., 2021, 2023; Mollah et al., 2017). Interestingly, a few studies have also shown the link between SG and CG mechanisms and performance (Ben Abdallah & Bahloul, 2021; Mohd Zain et al., 2023; Nomran et al., 2018; Nomran & Haron, 2020b). However, there is limited evidence in the literature regarding the effect of CG on SG disclosure (Azid & Alnodel, 2019; Mukhibad et al., 2020) as well as the result of SG on SG disclosure (Ben Abdallah & Bahloul, 2021; Mohd Zain et al., 2021, 2023; Mollah et al., 2017). A review of studies looking at the role of SG disclosure in the relationship between governance mechanisms and financial performance has shown that SSB moderated the performance-disclosure relationship (Abdul Rahim et al., 2023; Ajili & Bouri, 2018b). Observing the results of past studies on the link between CG and SG disclosure and SG performance, it is likely that SG could act as a mediator in the relationship between CG strength, SSB strength and Islamic banks' performance. Before this study, no research had examined the mediating role of SG disclosure in strengthening the relationship between governance mechanisms and performance. Previous studies on Islamic banking have limitations as they are often conducted in a single country or region and lack data richness. To fill the gap in empirical evidence, it is crucial to investigate corporate and SG practices across regions that have not been extensively studied.

This research selected 79 Islamic banks operating in the Southeast Asian (SEA) and Gulf Cooperation Council (GCC) regions as the sample group. The study revealed three crucial discoveries. Firstly, it was evident that a positive correlation exists between CG and performance. Secondly, SG was found to impact performance significantly and positively. Lastly, the most notable finding of this study is that SG disclosure acts as a mediator in the relationship between CG strength, SG strength and the performance of Islamic banks. The results of this study carry significant weight when it comes to shaping policy in the SEA and GCC areas, with a particular emphasis on the role of SG Disclosure and governance mechanisms in driving the success of Islamic banks (Abdul Rahim et al., 2023). It underscores the importance of consistently improving SG practices and implementing sound governance mechanisms to promote enduring growth and resilience. The results of this study highlight the importance of Islamic banks strengthening their CG practices, including SG, to increase transparency and avoid moral hazards. Islamic banks can build public trust and improve financial performance by promoting transparency among takaful operators. In summary, this study contributes to the limited understanding of accounting and reporting practices within Islamic banks. It enables stakeholders to assess the effectiveness of CG and SSB roles in promoting transparency and enhancing performance.

This paper aims to achieve three objectives. Firstly, it thoroughly evaluates the literature on SG disclosure and Islamic bank performance. Secondly, the primary focus of this research is to determine whether the governance mechanisms of Islamic banks correlate with their performance. Thirdly, this study investigates whether SG disclosure is a mediating factor in the link between CG and SG strength and performance. As such, this research presents a valuable opportunity to enhance our comprehension of the impact of governance mechanisms and governance disclosure on performance.

The following sections of the paper will cover a thorough review of studies on SG reporting of Islamic banks in sub-section 2.1, followed by a critical analysis of the studies on the performance of Islamic banks in Section 2.2. Sub-sections 2.3, 2.4 and 2.5 will develop the research questions and hypotheses, while Section 3 will outline the research method, including sample, variable measurement and model specification. The results will be discussed in Section 4, and Section 5 will contain some concluding comments.

2 Literature Review

2.1 Shari'ah governance reporting in Islamic financial institutions

Transparency, accountability, and disclosure levels of Islamic finance institutions (IFIs) in compliance with Shari'ah principles require significant attention from regulators. This is essential to instil public confidence in the sanctity and etiquette of IFI business operations in the country. According to Noordin and Kassim (2019), the size and diversity of Shari'ah Committees are crucial factors in determining the level of Shari'ah governance (SG) disclosure provided by Islamic banks. They discovered that Malaysian Islamic banks with larger and more diverse committees, including board directorship, scholars in Shari'ah, and professional expertise, tend to offer better disclosure regarding their Shari'ah-related matters. Mukhibad et al. (2020) found that education in finance/accounting for the board of directors (BOD) and Shari'ah Supervisory Boards (SSBs) can improve social and Shari'ah disclosure. However, in contrast to Noordin and Kassim (2019), Mukhibad et al. (2020) argued that the number of SSBs can reduce disclosure. They explained that a large BOD is often associated with a decrease in the quality of supervision because it experiences communication and coordination problems among the board, as stated by Nomran et al. (2018). The results of this study confirm that having a large board creates communication and coordination problems between members, which will further reduce their effectiveness in carrying out tasks and not encourage them to improve their performance. Nevertheless, they agreed that BOD and SSB are more significant than others in increasing Shari'ah disclosure. Azid and Nodel (2019) confirmed Mukhibad et al. (2020) findings that fewer boards of directors disclose more Shari'ah compliance information. In their study, Ajili and Bouri (2018b) investigated the impact of disclosure and found that the level of Supervisory Board (SB) quality strongly influenced the connection between financial performance and disclosure quality. This suggests that SB quality could be considered a moderator variable.

Meanwhile, Nomran and Haron's (2020a) study critically scrutinises the relationship between SG mechanisms and firm performance in Islamic banking. Through a comprehensive literature review, the authors aim to illuminate the intricate interplay between governance structures rooted in Islamic principles and the overall financial performance of Islamic banks. Their study significantly contributes to understanding how adherence to Shari'ah principles, governed by robust mechanisms, shapes the success and stability of Islamic financial institutions. Similarly, Minaryanti and Mihajat (2023) work further explores the role of SG in enhancing financial performance within the context of Shari'ah banking. Conducting a systematic review, the authors delve into existing knowledge to elucidate the mechanisms through which effective SG positively influences the financial outcomes of Shari'ah-compliant banks. These studies make substantial contributions to the evolving discourse on the symbiotic relationship between SG and firm performance in Islamic banking, providing valuable insights for researchers, practitioners, and policymakers in the field. Our study advances this discourse by examining how SG disclosure mediates the relationship between Corporate Governance (CG) and financial performance.

2.2 Performance of Islamic banks

Recent studies conclude that Islamic banks performed better than their conventional counterparts during the 2007-2008 global financial crisis (Hakimi et al., 2018). According to Sahyouni and Wang (2019), Islamic banks have higher liquidity creation than conventional banks. Parashar and Venkatesh (2010) found that the profitability of Islamic banks decreased during the crisis. However, it is still higher compared to conventional banks. Ajili and Bouri (2018a) measured Islamic banks' performance in GCC countries in light of CG quality. Their findings demonstrated that Islamic banks do not orient their compliance and adherence to CG practices toward maximising shareholders' performance. On the contrary, Kusuma and Ayumardani (2016) found that a well-governed CG structure is more efficient and serves as a distinctive feature that distinguishes performing and non-performing banks.

2.3 Theoretical underpinning

The theoretical framework guiding this study encompasses two fundamental theories: agency theory and stakeholder theory. These theories provide valuable insights into the mechanisms of CG, SSB, and SG disclosure within Islamic banking institutions.

2.3.1 Agency theory

Agency Theory offers a comprehensive perspective on the relationship between principals (shareholders) and agents (management), emphasising the alignment of interests and the mitigation of conflicts of interest. Within the Islamic banking context, Agency Theory provides a robust framework for evaluating CG mechanisms aimed at ensuring that management acts in the best interests of shareholders (Dey, 2008). This includes examining governance mechanisms such as board composition, independence, and oversight, which are crucial for maintaining accountability and transparency within Islamic banks.

2.3.2 Stakeholder theory

Stakeholder Theory extends the focus beyond shareholders to encompass various stakeholders, including customers, employees, regulators, and the broader community. It posits that organisations should consider the interests of all stakeholders in their decision-making processes. In the context of Islamic banking, Stakeholder Theory supports the examination of the roles and responsibilities of the SSB. As representatives of diverse stakeholders, the SSB ensures adherence to Shari'ah principles and ethical standards, thereby safeguarding the interests of stakeholders beyond shareholders (Al-Nasser Mohammed & Muhammed, 2017; Ali et al., 2023). Moreover, Stakeholder Theory underscores the importance of SG disclosure in meeting the informational needs of stakeholders and fostering trust and transparency within Islamic banking institutions.

By integrating insights from Agency Theory and Stakeholder Theory, this study aims to elucidate the interplay between CG mechanisms, SSB governance, and SG disclosure in Islamic banking institutions. This theoretical underpinning provides a solid foundation for understanding governance dynamics and stakeholder relationships in the unique context of Islamic finance.

3. Hypotheses Development

3.1 Corporate governance strength and performance

Every transactional relationship between a customer and an Islamic bank often has the potential for agency conflict, as supported by agency theory (Jensen & Meckling, 1976). Using CG as a mechanism, structure, and set of rules diminishes agency conflict and oversees agents' conduct. By applying agency theory, this study reveals that solid governance mechanisms, such as the effectiveness of CG, can potentially bridge the gap between the interests of shareholders and managers. This alignment, in turn, enhances performance outcomes by reducing information asymmetry and agency conflicts. In the context of stakeholder theory, this study acknowledges the multifaceted influence of stakeholders on Islamic banks' operations. Specifically, this study scrutinises the role of the SSB as a critical stakeholder group. This study postulates that a well-structured and empowered SSB fosters stakeholder trust (Ali et al., 2023), enhances ethical conduct, and aligns the bank's operations with Shari'ah principles. This alignment enhances both financial and ethical performance, contributing to the overall stability of Islamic banks and the financial system (Al-Nasser Mohammed & Muhammed, 2017). By leveraging these underpinning theories and their implications, this research advances an understanding of the intricate relationships between governance mechanisms, SG disclosure, and performance within the unique context of Islamic banks.

3.1.1 Board size and performance

One of the essential elements of internal control of CG is board size. Prior studies have argued that banks with larger boards tend to perform well. Many studies, such as Mohd Zain et al. (2023), Adams and Mehran (2003), Abdul Gafoor et al. (2018), and Rashid (2018), argued that a larger board size brings more knowledge, visions, opinions and investment proposals that would eventually benefit shareholders. Similarly, Hambrick, Werder, and Zajac (2008) stated that smaller boards are less likely to make strategic changes due to their inefficiency in considering various firm growth alternatives. Besides, large boards help improve and enhance decisions by sharing ideas and contributions, providing management with new views and opinions that might help reduce the agency's problems, leading to better performance.

3.1.2 Board independence and performance

The presence of outside directors significantly reduces opinion biases among the board members, thus increasing the reliability and trustworthiness of financial information. While Al Manaseer et al. (2012), Liu et al. (2015), Shaukat et al. (2016), and Fuzi et al. (2016) found that independent boards have a positive influence on performance. Independent board members can work without interfering with the major shareholders, management or other entities. Independent members are more likely to oversee management and mitigate the occurrence of fraud as they are related economically or psychologically to management (Al-Matari, 2019).

3.1.3 Board diligence and performance

The frequency of board meetings is an important way of improving board effectiveness (Alsartawi & Abdalmuttaleb, 2018; Aryani et al., 2017; Lin et al., 2014). Similarly, Liang et al. (2013), Lin et al. (2014), Andres and Vallelado (2008), and Aryani et al. (2017) find that board meetings have a significant positive influence on performance. The previous study claimed that board meetings and their participation are seen as important channels through which managers access firm-specific knowledge and fulfil their monitoring functions. A study conducted by Lin et al. (2014) indicated that a company with insufficient board performance at meetings greatly worsens enforcement compared to companies in board meetings that have good attendance during the financial crisis.

3.1.4 Audit committee size and performance

Some argue that a larger board size contributes to better performance because it encompasses a diversity of skills and knowledge that is only found within larger boards (DeZoort et al., 2003b, 2003a). Several studies found a positive association between the size of the Audit Committee (AC) and firms' performance (Khanchel, 2007; Premuroso and Bhattacharya, 2007; Reddy et al., 2010; Darko et al., 2016). The ACs have many responsibilities, such as overseeing the audit process and managing the company's internal audit process (Buallay & Al-Ajmi, 2020). The AC supports the role of the BODs in controlling the integrity of the companies' financial reporting structures as a sub-committee of the BODs (Bonazzi & Islam, 2007; Brennan & Kirwan, 2015; Dey, 2008). The larger AC could lead to higher transparency, thus providing more robust monitoring and affecting performance (Ben Barka & Legendre, 2016; Detthamrong et al., 2017).

3.1.5 Audit committee independence and performance

There are various empirical results on the association between AC independence and the firm's performance. Several studies (Chan and Li, 2008; Wang and Huynh, 2013; Aanu et al., 2014; Abdullah et al., 2014; Al-Mamun et al., 2014) found that AC independence positively influences the firm performance of the company. An independent AC might ensure a reliable financial reporting process by checking managers' manipulative, self-centred activities. Barua et al. (2010) indicate that AC independence promotes greater effectiveness in monitoring the companies' internal controls and financial reporting.

3.1.6 Audit committee financial expertise and performance

Salloum et al. (2014) define financial literacy as expertise and skills in accounting, finance, and audit, encompassing appropriate years of experience in these domains. This expertise on the AC would help the board of directors improve the internal control and monitoring role and enhance the audit committee's effectiveness in performing their functions (Rodriguez-Fernandez, 2016). Their expertise and experience are crucial in assessing different issues, the quality of the company's operations and finances, and engaging in the scheduling and preparing audit tasks that will allow them to promote and validate external auditors' concerns at board meetings (Kallamu et al., 2015). Their technical knowledge enables them to evaluate and reduce unacceptable risks that may jeopardise banks' stability (Fajembola et al., 2018).

3.1.7 Audit committee diligence and performance

Previous studies have typically relied on the total number of AC meetings as a metric for AC diligence because other diligence measures are not publicly observable (DeZoort et al., 2002; Xie et al., 2003). In general, previous studies find that more frequent AC meetings decrease the probability of financial reporting problems (Abbott et al., 2000; Beasley et al., 2000; DeZoort et al., 2002; Sharma et al., 2009; Soliman & Ragab, 2014). Many researchers declared that these two variables are positively related (Kang & Kim, 2011; Khanchel, 2007; Wilbanks et al., 2017). This evidence shows that the meeting frequency of an AC and a firm's performance are related (Ben Abdallah & Bahloul, 2021). We calculate the overall CG score for the Islamic banking sector, which we will later refer to as CG strength. So, it is hypothesised that:

> *H_1: There is a significant and positive relationship between CG strength and Islamic bank performance.*

3.2 Shari'ah supervisory board (SSB) strength and performance

3.2.1 SSB size and performance

Hamdi and Zarai (2014) found that larger Islamic banks are more likely to employ larger-sized Shari'ah Supervisory Boards (SSBs) as large Islamic banks' enormous numbers of transactions require more monitoring and certifying works from SSB members. The increasing number of SSB members in the Islamic banks that operate under centralised SG makes them more stringent in supervisory and disciplinary power to control Islamic banks' loan risk-taking behaviour than those under the decentralised SG approach (Alman, 2012). According to Mollah and Zaman (2015), large SSB size positively influences Islamic banks' performance when the SSB has a supervisory role. A larger SSB is more efficient in dealing with different monitoring and advisory roles than a small SSB. It instigates better management behaviour and lowers organisational risk (Almutairi & Quttainah, 2017).

3.2.2 SSB cross-membership and performance

A cross-membership SSB allows them to establish interaction and broader connections with other Islamic banks and create more efficient resource allocation that, in turn, would enhance Islamic banks' performance (Almutairi & Quttainah, 2017). Almutairi and Quttainah (2017), Nomran et al. (2017), and Rahman and Haron (2019) found that SSB cross-membership has a positive and significant impact on Islamic banks' performance. SSBs have opportunities to increase their experience and knowledge and strengthen their reputation through cross-memberships. This exposure to more discussions about the application of Islamic Law in banking eventually enhances their understanding (Alman, 2012; Rahman & Bukair, 2013). The need to monitor numerous banks jeopardises the performance of the SSB. Top-ranked Shari'ah scholars with multiple SSB memberships tend to focus on large Islamic banks' disciplinary efforts due to their complexity and higher reputations (Alman, 2012).

3.2.3 SSB Financial Expertise and Performance

Regarding SSB members in Islamic banks, scholars with more experience in financial knowledge are more efficient in their performance as SSB members than scholars with no such skills (Abdul Rahman & Bukair, 2013). Indeed, many SSB representatives in Islamic banks are Islamic scholars, with only a few possessing experience in accounting, banking, economic and financial matters (Wan Abdullah et al., 2015). For this reason, most SSB scholars lack banking services, which affects their ability to execute well-informed decisions on financial products and activities (Ginena & Hamid, 2015). SSB scholars with skills in finance and accounting could have a positive and highly significant impact on the performance of Islamic banks as expertise in Shari'ah law, apart from the market, accounting and finance experience, will help them improve the quality of performance of Islamic banks (Grassa, 2016; Matoussi & Grassa, 2012). We test the following hypothesis:

> *H_2: There is a significant and positive relationship between SSB strength and Islamic bank performance.*

3.3 The mediation effect of Shari'ah governance disclosure

Several academics have deduced that proper disclosure and transparency on SG leads to better management and better allocation of a company's resources (Khamar Tazilah et al., 2017;

Muhammad et al., 2021; Srairi, 2015; Yadiat et al., 2017). In recent years, the relationship between SG disclosure and the performance of Islamic financial institutions has garnered significant attention from researchers and practitioners alike. SG disclosure refers to the transparency and openness of Islamic financial institutions in adhering to Shari'ah principles and disclosing relevant information to stakeholders (Abdul Rahim et al., 2023). The top scholars (Abdul Rahim et al., 2023; Ben Abdallah & Bahloul, 2021; BenSaid, 2023; Md Zain & Shafii, 2018; Ramli et al., 2014) underscore SG as a structured framework allocating responsibilities to entities such as the Shari'ah advisory council, SSB, and Shari'ah committee, ensuring compliance with Shari'ah law (Wan Abdullah et al., 2013). This framework plays a pivotal role in overseeing Islamic financial institutions (IFIs) to guarantee adherence to Shari'ah principles (Ahmed & Khatun, 2013; Grassa, 2016; Hasan, 2011; Itam et al., 2016; Nadwi, 2013; Noordin & Kassim, 2019; Ramli et al., 2014). Regulatory mandates require IFIs to disclose their SG practices, aligning with their obligation to uphold Islamic principles and regulations (Abdul Rahim et al., 2023; Alam et al., 2023; Mejri et al., 2023; Mohd Zain et al., 2023).

Transparency and disclosure are integral for fostering accountability, with comprehensive disclosure being crucial for enhancing transparency and accountability in Islamic banking (Grassa, 2015). Islamic CG, encompassing economic, legal, and social dimensions, must comply with Shari'ah regulations (Abu-Tapanjeh, 2009; Noordin & Kassim, 2019). Effective disclosure mandates timely, accurate, and accessible information, including financial data (Srairi, 2015). Islamic banks are urged to adopt robust governance models such as the Exposure Draft of the Joint IFSB-AAOIFI's (2022) ED-RSGF and BNM's SGF 2010 and SGDP 2019 to bolster transparency and accountability, safeguarding stakeholder interests. The subsequent sections delineate five SG disclosure mechanisms, including Shari'ah committee, Shari'ah review, Shari'ah audit, Shari'ah risk, and transparency and disclosure. This study will apply an econometric model and examine SG disclosure as a mediating variable between the strength of CG and the performance of Islamic banks. This argument leads to the following hypothesis:

H_3: SG disclosures mediate the relationship between CG and SSB strength on Islamic banks' performance.

3.4 Control Variables

Control variables are factors that researchers include in their work to rule out alternative explanations for their findings (Anderson, 2004) or reduce error terms and increase statistical power (Becker, 2005; Carlson & Wu, 2012). These studies used six control variables that included micro and macro measurements that different measurements of country and regions based on the previous research by Mollah and Zaman (2015), Wan Abdullah et al. (2015), Ajili and Bouri (2018b), and Mohd Zain et al. (2023).

4. Research Method

4.1 Sample and data collection

This study investigated the efficiency of Corporate Governance (CG) and the Shari'ah Supervisory Boards (SSB) and their relationship to Islamic banks' performance. Islamic banking has experienced rapid growth since its inception in the mid-1970s, emerging as a significant segment of the Islamic financial market (Mallin et al., 2014). The sampling criteria for this study involved selecting 79 Islamic banks operating across 12 countries. The decision to include these banks was based on previous research conducted by Mohd Zain et al. (2023) and Wan Abdullah et al. (2015), which provided a framework for selecting representative institutions in the SEA and GCC regions. However, it is noted that a more diverse set of countries could enhance the study's generalisability, and this consideration will be taken into account in future research endeavours.

Data collection for this study concluded in the fiscal year 2021, as it was the latest available data at the onset of our research. The decision to stop data collection in 2021 was made to ensure consistency and reliability in our dataset, as the COVID-19 pandemic may have introduced disruptions and inconsistencies in the banking sector. Moreover, the potential impact of the COVID-19 pandemic on the banking sector and data availability will be explicitly addressed within the methodology section.

Secondary data was gathered from various archival sources, including annual reports and financial databases. Financial metrics such as Return on Average Assets (ROAA), Return on Average Equity (ROAE), and Tobin's Q were extracted from these sources. Additionally, data on SG was extracted from each bank's annual and CG reports. The methodology employed in this study ensured a systematic approach to data collection and analysis while considering the potential impact of external factors such as the COVID-19 pandemic. Moving forward, efforts will be made to enhance the study's generalisability by considering a more diverse set of countries and accounting for the evolving landscape of the banking sector.

4.2 Variable measurement

These studies examine the CG and SSB mechanisms in the context of Islamic banks across the Southeast Asia (SEA) and Gulf Cooperation Council (GCC) regions. Consistent with previous literature, these studies utilise both accounting and market-based metrics, including Return on Average Assets (ROAA), Return on Average Equity (ROAE), and Tobin's Q (Mollah & Zaman, 2015; Platonova et al., 2018). The strength of CG and SSB is assessed using measures established by Al-Malkawi et al. (2014), Wan Abdullah et al. (2015), and Ajili and Bouri (2018b). Appendix A provides details on the measurement of variables.

Factor analysis has been employed to gauge the strengths of CG and SSB mechanisms. The Kaiser-Meyer-Olkin (KMO) results indicate a KMO value of 0.711 for CG mechanisms (comprising board size, board independence, board diligence, audit committee (AC) size, AC independence, AC financial expertise, and AC diligence), with a Bartlett test of sphericity yielding a p-value of 0.000. Meanwhile, the KMO for SSB strength (including SSB size, SSB cross-membership, and SSB financial expertise) is 0.63, with a corresponding Bartlett test of sphericity returning a p-value of 0.000. The Cronbach's alpha coefficients for CG strength and SSB strength are 0.903 and 0.905, respectively, indicating high reliability and internal consistency of the developed indices.

4.3 Robustness checks or sensitivity analyses

The robustness checks or sensitivity analyses conducted to ensure the reliability and validity of the statistical findings encompassed several key procedures. Firstly, alternative specifications of the statistical models were tested to assess the consistency of results across different specifications (Abdul Rahim et al., 2023). This involved varying the inclusion/exclusion of control variables, altering the functional form of the model, and testing for potential multicollinearity issues (Eldaia et al., 2023).

Secondly, bootstrapping techniques were employed to assess the robustness of the estimated coefficients and standard errors. Bootstrapping involves repeatedly resampling the dataset with replacement to generate multiple samples, from which confidence intervals and p-values can be calculated. This method provides a more accurate estimation of standard errors, particularly in cases where the data may not meet the assumptions of traditional statistical tests (Mohamad Ariff et al., 2023).

Thirdly, sensitivity analyses were conducted to assess the impact of outliers or influential data points on the results. This involved systematically excluding extreme observations from the dataset and re-estimating the models to determine if the conclusions remained robust (BenSaid, 2023). Lastly, additional diagnostic tests, such as heteroscedasticity tests and specification tests, were performed to assess the overall goodness-of-fit of the models and identify potential sources of bias or misspecification (Narotama et al., 2023).

Overall, these robustness checks and sensitivity analyses were instrumental in verifying the stability and reliability of the statistical findings, thereby enhancing the credibility of the study's conclusions.

4.4 Model specification and estimation method

This study attempts to investigate the interactions between CG strength, SSB strength, CG disclosure, SG disclosure, and CSR disclosure on the performance of Islamic banks. These studies have been covered by the SEA and GCC region for ten years, from 2012 to 2021. We develop the related empirical models in the following sub-sections. The general model to examine the direct effect of CG and SSB strength on performance in these studies shows as follows:

Model 1:

$$Performanceit = \alpha + \beta_1 CGStrength_{it} + \beta_2 SSBStrength_{it} + \beta_3 Size_{it} + \beta_4 Lev_{it} + \beta_5 GDP_{it} + \beta_6 PRCL_{it} + \beta_7 Legal_{it} + \beta_7 MuslimPop_{it} + \varepsilon_{it}$$

Where:

Performance = performance (ROAA, ROAE or Tobin's Q)
CGStrength = Corporate Governance strength
SSBStrength = Shari'ah Supervisory Board strength
Size = size of the Islamic banks
Lev = leverage of Islamic banks
GDP = gross domestic product
PRCL = political right and civil liberties
Legal = legal system
MuslimPop = Muslim population
i = bank
t = time
α = intercept
$\beta_1 \dots \beta_n$ = regression coefficient
ε = error term

4.4.1 Test of mediation

We conducted a mediation analysis to identify the type of mediation present in the study's model. These studies used SEM on STATA 14 software to analyse a broad array of linear regression models, measurement models, and simultaneous equations. Appendix B shows the guidelines for scoring SG disclosure using AAOIFI governance standards. This study applied Preacher and Hayes's (2008) method of bootstrapping of indirect effect to determine the presence of mediation effect. Bootstrapping is a nonparametric resampling procedure that is an additional approach advocated for testing mediation that does not impose the assumption of normality of the sampling distribution. Bootstrapping is a computationally intensive method that involves repeatedly sampling from the data set and estimating the indirect effect in each resampled data set. Preacher and Hayes (2008) suggested that mediation occurs when the lower bound (LB) and upper bound (UB) values of indirect effect do not straddle a zero in between. To identify the type of mediation present in the study's model, we conducted a mediation analysis:

Model 2:

$$Performance_{it} = \begin{array}{l} \alpha + \beta_1 CGStrength_{it} + \beta_2 SSBStrength_{it} + \beta_4 SGDisclosure_{it} + \beta_6 Size_{it} \\ + \beta_7 Lev_{it} + \beta_8 GDP_{it} + \beta_9 PRCL_{it} + \beta_{10} Legal_{it} + \beta_{11} MuslimPop_{it} + \varepsilon_{it} \end{array}$$

Where:

Performance = performance (ROAA, ROAE or Tobin's Q)
CGStrength = Corporate Governance strength
SSBStrength = Shari'ah Supervisory Board strength
SGDisclosure = SG disclosure
Size = size of the Islamic banks
Lev = leverage of Islamic banks
GDP = gross domestic product
PRCL = political right and civil liberties
Legal = legal system
MuslimPop = Muslim population
i = bank
t = time
α = intercept
$\beta_1 \dots \beta_n$ = regression coefficient
ε = error term

Equation (model 2) captures the effects of CG and SSB strength on the mediation of SG disclosure on the performance of Islamic banks.

5. Results and Discussion

5.1 Descriptive statistics

Table 1 reports the descriptive statistics on all the main variables used in the sample in columns two to five. There are three measurements of performance: ROAA, ROAE, and Tobin's Q. The result for the two samples t-test shows a significant difference between Islamic banks in the SEA and GCC regions in terms of performance (ROAA and Tobin's Q). In contrast, ROAA and Tobin's Q are significant at a 1 per cent significance level, and there is no significant level on the ROAE. The result shows that Islamic banks in GCC countries are more profitable regarding ROAA and Tobin's Q than those in the SEA region (Grassa & Matoussi, 2014; Muhamad, 2021). Meanwhile, the two-sample t-test results show that CG and SSB strength differs in the SEA and GCC regions at a 1 per cent significance level. The two-sample t-test shows that all the variables in the control variable are different in the SEA and GCC samples at 1 per cent significance except for the Muslim population at a 5 per cent significance level. Only the size of the Islamic banks in the SEA and GCC regions is insignificant. Another essential point, Table 1, shows the result of the skewness and kurtosis for the main variable in this study. Skewness refers to the symmetry of the distribution, and kurtosis indicates the distribution's peak (Tabachnick & Fidell, 2014).

5.2 Panel data analysis

The statistical analysis in Table 2 shows that CG and SSB strength have a positive and significant relationship with performance, supporting hypotheses 1 and 2 of these studies. The result also indicates that the preferred model for ROAA and ROAE is a robust fixed effect after the Hausman test is accepted and the Wald statistics are modified. We prefer the Random Effects model for Tobin's Q after rejecting the results of the Hausman tests in the analysis. The result is consistent with the studies on board size (Adams & Mehran, 2003; Chen, 2015; Coles et al., 2008; Mak & Li, 2001), board independent (Al Manaseer et al., 2012; Liu et al., 2015; Qiu et al., 2016; Syed Fuzi et al., 2016), and board diligence (Alsartawi & Abdalmuttaleb, 2018; Aryani et al., 2017; Liang et al., 2013; Lin et al., 2014). These results indicate that companies need a more magnificent

Table 1: Descriptive Statistics

Item	Full Sample							SEA Sample Mean	GCC Sample Mean	Two Sample T-Test
	Obs	Mean	Std. Dev.	Min	Max	Skewness	Kurtosis			
ROAA	474	0.978	1.795	-3.92	8.92	0.595	0.311	0.582	1.262	4.136***
ROAE	474	5.495	5.840	-6.92	18.62	-0.167	-0.226	5.398	5.564	0.303
Tobin's Q	474	0.457	0.262	0.057	1.281	0.633	-0.092	0.391	0.505	4.770***
SG Disc	474	0.757	0.103	0.556	0.889	-0.045	-1.603	0.703	0.796	10.881***
CG Strength	474	3.966	2.793	0	7	-0.132	-1.768	3.035	4.634	6.401***
SSB Strength	474	1.736	1.225	0	3	-0.206	-1.59	1.313	2.040	6.654***
Size	474	7.981	1.514	4.576	10.941	-0.342	-0.502	7.911	8.031	0.848
PRCL	474	9.960	1.946	5	14	-0.248	-0.443	10.258	9.746	-2.842***
Lev	474	0.669	0.470	0.017	2.08	0.547	-0.752	0.561	0.746	4.317***
GDP	474	4.072	1.723	-0.93	7.24	-1.168	1.044	5.015	3.396	-11.384***
Muslim Pop	474	0.778	0.132	0.43	0.952	-0.306	-1.134	0.794	0.766	-2.253**

ROAA= Return on average assets; **ROAE**= Return on average equity; **Tobin's Q**= Tobin's Q; **SG Disc**= SG disclosure; **CG Strength**= Index of CG mechanisms (BOD size, BOD independence, BOD diligence, AC size, AC independence, AC financial expert and AC diligence); **SSB Strength**= Index of SSB mechanisms (SSB size, SSB Cross-memberships and SSB financial expertise); **SIZE**= Log total asset; **PRCL**= Political right and civil liberties; **Lev**= Leverage of Islamic bank, **GDP**= Gross domestic product; Muslim Pop= Muslim population

Note: *** Significant at 1%-level; ** Significant at 5%-level; and * Significant at 10%-level pool of knowledge and skills, which leads to appointing more board directors. Similar to Mak and Li (2001), Adams and Mehran (2003), Coles et al. (2008), and Chen (2015), this study suggests that a large board could provide more experience, expertise, specialised skills, communication opportunities, which eventually leads to better performance of Islamic banks. Liang, Xu and Jiraporn (2013), Lin, Yeh and Yang (2014), Andres and Vallelado (2008), and Aryani et al. (2017) have argued that board meetings and active participation in these meetings are crucial channels through which directors acquire firm-specific information and can effectively fulfil their monitoring responsibilities. In the same way, the result is consistent with the study on the AC size (Darko et al., 2016; Khanchel, 2007; Premuroso & Bhattacharya, 2007; Reddy et al., 2010), AC independence (Aanu et al., 2014; Abdullah et al., 2014; Al-Mamun et al., 2014; Chan & Li, 2008; Wang & Huynh, 2013), AC expertise (E. M. Al-Matari et al., 2014; Y. A. Al-Matari et al., 2012; Chan & Li, 2008; DeZoort et al., 2003a, 2003b; DeZoort & Salterio, 2001), and AC diligence (DeZoort et al., 2002; Kang & Kim, 2011; Khanchel, 2007). This study uses the same argument as the studies mentioned above when the company has more representatives on AC, the committee employs more diverse skills and knowledge to improve supervision and eventually positively affect performance.

In this research, SSB strength is also found to have a significant relationship with performance, supported by hypothesis 2. The SSB system had three leading roles: advising, monitoring, and maintaining the Shari'ah rule of Islamic banks (AAOIFI, 2015). The AAOIFI standards recommend at least three SSB members in each IFI; one of their members should have expert knowledge in understanding Islamic economic problems (AAOIFI, 2015; Abdul Rahim et al., 2023). By having a larger SSB size, the SSBs' functions and responsibilities could be divided among the members, allowing some members to focus on corporate reporting during their Shari'ah review procedure (Ullah & Khanam, 2018). Besides that, Mohd Zain et al. (2023) reported that scholars have better informed Islam's current implications for IFIs with a doctorate in accounting, business, and economics. Hence, this study combined the three SSB characteristics (SSB size, Cross-membership of SSB, and SSB financial expertise) into strength to measure its effectiveness. A higher SSB score indicates that SSB is more intellectually honest, knowledgeable, and efficient (Abdul Rahim et al., 2023; Ajili & Bouri, 2018a; Mohd Zain et al., 2023; Ullah & Khanam, 2018).

The legal system results show that Islamic banks in common law countries tend to provide more disclosures and better performance than those in code law countries. The result shows that the legal system has a statistically significant and negative relationship with Islamic banks' performance. La Porta et al. (1998) stated that variations in accounting standards and practices across nations significantly influence empirical research. These studies illustrate that countries with English common law systems tend to have better economic development, healthier capital markets, higher accounting standards, and better enforcement than countries with code law systems.

Table 2: Result of Regression Analyses on CG and SSB Strength on Performance

Variable	ROAA	ROAE	Tobin's Q
	Fixed Effect Robust	Fixed Effect Robust	Random Effect
Constants	-0.047	0.014	-0.041
CG Strength	0.313***	0.346***	0.322***
	(0.000)	(0.000)	(0.000)
SSB Strength	0.387***	0.328***	0.396***
	(0.000)	(0.000)	(0.000)
Size	-0.194	0.025	0.080**
	(0.285)	(0.881)	(0.043)
PRCL	0.117	-0.086	-0.049
	(0.377)	(0.428)	(0.320)
Legal	-0.364***	-0.271***	-0.194***
	(0.000)	(0.014)	(0.002)
Lev	0.053	0.001	0.020
	(0.190)	(0.980)	(0.581)
GDP	0.026	-0.011	0.013
	(0.596)	(0.815)	(0.771)
Muslim Pop	0.002	-0.105	0.083*
	(0.981)	(0.132)	(0.059)
Observation (N)	474	474	474
R-squared	0.454	0.488	0.508
Adjusted R-squared	Na	Na	Na
F-Stat / Wald chi2	14.78***	21.29***	415.18***

Variable	ROAA	ROAE	Tobin's Q
	Fixed Effect Robust	Fixed Effect Robust	Random Effect
Breush Pagan Test	177.31***	167.50***	4.50
	(0.000)	(0.000)	(0.017) **
Hausman Test	32.35***	17.14**	14.27*
	(0.000)	(0.029)	(0.075)
Multicollinearity (VIF)	1.72	1.72	-
Heteroskedasticity	31366.94***	3411.35***	-
	(0.000)	(0.000)	
Serial Correlation	0.400	2.028	-
	(0.529)	(0.158)	

ROAA= Return on average assets; **ROAE**= Return on average equity; **Tobin's Q**= Tobin's Q; **CG Strength**= Index of CG mechanisms (BOD size, BOD independence, BOD diligence, AC size, AC independence, AC financial expert and AC diligence); **SSB Strength**= Index of SSB mechanisms (SSB size, SSB cross-membership, and SSB financial expertise); **SIZE**= Log total asset; **PRCL**= Political right and civil liberties; **Legal**= legal systems of countries; **Lev**= Leverage of Islamic bank, **GDP**= Gross domestic product; **Muslim Pop**= Muslim population

Notes:
1. *** Significant at 1%-level; ** Significant at 5%-level; and * Significant at 10%-level
2. The sample of Islamic banks panel data runs for 2012-2021 (Strongly balanced)

5.3 Result of mediating analysis

The result of the bootstrapping in Table 3 for SG disclosure on the relationship between CG strength and ROAA revealed that the indirect is β = 0.292 was significant with a p-value of 0.000, 95 per cent Boot Confidence Interval (CI): [LB = 0.185, UB = 0.398] did not straddle a zero in between indicating mediation had occurred. Meanwhile, the result for the SG disclosure on the relationship between SSB strength and ROAA revealed that the indirect effect β = 0.258 was significant with a p-value of 0.000, 95 per cent Boot Confidence Interval (CI): [LB = 0.141, UB = 0.374] did not straddle a zero in between indicating there is a mediation effect. Moreover, for the ROAE, the indirect is β = 0.369 was significant with a p-value of 0.000, 95 per cent Boot Confidence Interval (CI): [LB = 0.246, UB = 0.491] did not straddle a zero in between, indicating mediation had occurred. Meanwhile, the result for the SG disclosure on the relationship between SSB strength and ROAE revealed that the indirect effect β = 0.292 was significant with a p-value of 0.000, 95 per cent Boot Confidence Interval (CI): [LB = 0.154, UB = 0.431] did not straddle a zero in between indicating there is a mediation effect. In addition, the performance of Tobin's Q suggests that the indirect is β = 0.265 was significant with a p-value of 0.000, 95 per cent Boot Confidence Interval (CI): [LB = 0.143, UB = 0.389] did not straddle a zero in between indicating mediation had occurred. Meanwhile, the result for the SG disclosure on the relationship between SSB strength and Tobin's Q revealed that the indirect effect β = 0.290 was significant with a p-value of 0.000, 95 per cent Boot Confidence Interval (CI): [LB = 0.142, UB = 0.439] did not straddle a zero in between indicating there is a mediation effect. Based on the findings shown in Table 5, SG disclosure has partially mediated the relationship between CG strength, SSB strength, and performance since the direct effect is significant.

Table 3 shows that SG disclosure mediates the relationship between CG strength, SSB strength, and Islamic banks' performance using accounting and market-based measurement. The results support Hypothesis 3 of the study. This study is in line with the previous study by Yadiat et al. (2017), Srairi (2015) and Noordin and Kassim (2019). Yadiat et al. (2017) reveal that Islamic CG significantly affects financial performance (ROA and ROE) in QISMUT countries. Abdul Rahim et al. (2023) also find that the SG index is significant and positively related to bank performance (ROA and ROE). This study shows that robust CG mechanisms in Islamic banks heighten awareness regarding the need to disclose important SG mechanisms, ultimately leading to an increase in the financial performance of Islamic banks. Hence, SG disclosure could increase the trust of Islamic banks' customers and bring stability to Islamic banks' businesses. This circumstance would improve the performance of Islamic banks. SSB members must ensure that all interested parties of Islamic banks (shareholders, managers, employees, suppliers, depositors, and communities) have complete confidence when reading the Islamic bank's report on SG activities (Grassa, 2016; Itam et al., 2016; Mansour Nomran & Haron, 2020; Minaryanti & Mihajat, 2023; Nadwi, 2013; Noordin & Kassim, 2019; Ramli et al., 2014).

Table 3: The Mediation Effect of Shari'ah Governance Disclosure on the Relationship between CG and SSB Strength on Performance

Variable		Total Effect	Direct Effect	Indirect P-value (Bootstrap)	Effect Percentile Bootstrap 95 per cent Confidence Interval		Mediation Effect
Performance	Independents				Lower	Upper	
ROAA	CG Strength	0.371*** (0.000)	0.292*** (0.000)	0.292*** (0.000)	0.185	0.398	Partial Mediation
	SSB Strength	0.361*** (0.000)	0.258*** (0.000)	0.258*** (0.000)	0.141	0.374	Partial Mediation
ROAE	CG Strength	0.412*** (0.000)	0.369*** (0.000)	0.369*** (0.000)	0.246	0.491	Partial Mediation
	SSB Strength	0.349*** (0.000)	0.292*** (0.000)	0.292*** (0.000)	0.154	0.431	Partial Mediation
Tobin's Q	CG Strength	0.345*** (0.000)	0.265*** (0.000)	0.265*** (0.000)	0.143	0.389	Partial Mediation
	SSB Strength	0.393*** (0.000)	0.290*** (0.000)	0.290*** (0.000)	0.142	0.439	Partial Mediation

Note: *** Significant at 1%-level; ** Significant at 5%-level; and * Significant at 10%-level

6. Conclusion

This study conducted a comprehensive analysis of the influence of SG disclosure on the relationship between governance mechanisms and performance in Islamic banking within the SEA and GCC regions. The findings shed light on the importance of transparent and robust SG disclosure arrangements in Islamic banks and the significance of effective governance mechanisms in enhancing their performance (Laili et al., 2023; Minaryanti & Mihajat, 2023; Nomran & Haron, 2020a). Minaryanti and Mihajat (2023), Nomran and Haron (2020a) and Abdul Rahim et al. (2023) suggest that the effect of SSB on IBs' performance still requires more empirical analyses using alternative analytical methods, alternative measures, and different periods (during crisis and non-crisis) and the variable of internal Shari'ah compliance, Shari'ah risk and internal Shari'ah audit on one of the indications of SG newly researched variable which will later be used as a new paradigm, to measure the implementation of Islamic Shari'ah principles in Shari'ah banking.

This study highlights the importance of SG disclosure and governance mechanisms in influencing the performance of Islamic banks (Amrani & Najab, 2023). It emphasises the need for continuous enhancement of SG practices and the adoption of effective governance mechanisms to ensure sustainable growth and resilience. Despite the challenges posed by the COVID-19 pandemic, Islamic banks that effectively managed the crisis and adapted to the new normal demonstrated their resilience and ability to serve stakeholders amidst global disruptions (Amir Shaharuddin, 2020; Amrani & Najab, 2023).

6.1 Future research

Moving forward, there are promising avenues for future research in this domain. Firstly, further exploration could delve into the dynamic interplay between SG disclosure, governance mechanisms, and performance, particularly during times of crisis, such as the ongoing aftermath of the COVID-19 pandemic. Investigating how Islamic banks adapt their SG practices and governance mechanisms in response to crises and external shocks could provide valuable insights into resilience-building strategies within the industry. Moreover, future studies could explore the specific mechanisms through which SG disclosure influences stakeholder perceptions, trust-building, and financial performance, employing qualitative research methods or longitudinal analyses to capture the nuances of these relationships over time.

Additionally, conducting cross-country analyses to compare the effectiveness of SG disclosure and governance mechanisms across diverse regulatory environments and cultural contexts presents an exciting avenue for research. By examining variations in SG practices and governance structures across different regions, researchers can gain a deeper understanding of the factors driving regulatory compliance and performance outcomes within the Islamic banking sector. Furthermore, exploring how regulatory frameworks and cultural norms shape the implementation of SG disclosure and governance mechanisms could inform policy formulation and best practices for enhancing transparency and accountability in Islamic banking institutions. Overall, future research endeavours should strive to address these avenues to advance our understanding of the complex dynamics shaping governance and performance in Islamic banking.

6.2 Research limitations

While this study aimed to provide a comprehensive analysis, it is essential to acknowledge certain limitations inherent in the research design and methodology. Firstly, the study relied on secondary data sources, which may have inherent biases or limitations in terms of data availability and accuracy. Additionally, the study focused primarily on Islamic banks within the SEA and GCC regions, which may limit the generalizability of the findings to other geographical locations or banking contexts. Future research could benefit from incorporating a more diverse sample of Islamic banks from different regions to enhance the external validity of the findings.

Furthermore, the study's scope was limited to examining the influence of SG disclosure and governance mechanisms on performance, overlooking potential contextual factors or external variables that may influence the relationships under investigation. Future studies could explore additional contextual factors, such as regulatory environments or cultural norms, to provide a more nuanced understanding of the dynamics at play. Additionally, while efforts were made to control for potential confounding variables, the complex nature of banking operations may introduce unobserved heterogeneity, which could affect the study's findings. Therefore, caution should be exercised when interpreting the results, and future research could employ alternative methodological approaches to address these limitations and provide more robust insights into the relationships examined.

6.3 Practical implications

The findings of this study hold significant practical implications for management and stakeholders within Islamic banking institutions. Transparent and timely disclosure of SG practices is essential for fostering stakeholder trust and confidence, particularly during periods of uncertainty such as the COVID-19 pandemic. By enhancing SG disclosure practices, Islamic banks can demonstrate their commitment to ethical principles and Islamic values, thereby strengthening their reputation and competitive positioning in the market. Moreover, effective governance mechanisms play a crucial role in mitigating risks and ensuring the long-term sustainability of Islamic banks. Management should prioritise the implementation of robust governance structures, including independent oversight mechanisms and comprehensive risk management frameworks, to safeguard the institution's financial stability and enhance stakeholder value.

Furthermore, in light of the unprecedented challenges posed by the COVID-19 pandemic, Islamic banking institutions must remain agile and adaptive in their response strategies. This includes embracing digital transformation initiatives to enhance operational efficiency and customer experience, as well as proactively managing risks associated with economic volatility and market uncertainties. By leveraging technology and innovation, Islamic banks can not only weather the storm but also emerge stronger and more resilient in the post-pandemic landscape. Additionally, fostering collaboration and knowledge-sharing within the industry can facilitate the adoption of best practices and promote collective resilience against future crises. Overall, management within Islamic banking institutions should heed the insights from this study to strengthen SG disclosure practices, fortify governance mechanisms, and navigate the evolving challenges and opportunities in the dynamic banking landscape.

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Appendix A: Measurement of Variables

Variable	Measurement
Performance	*ROAA* = Net income divided by total average asset OR *ROAE* = Net income divided by total average equity OR *Tobin's Q* = The total market value of the firm divided by the total asset value of the firm
CGStrength	*Board size + Board independence + Board diligence + AC size + AC independence + AC financial expertise + AC diligence* *Board Size* = 1 for the number of directors on the board above the median of 8, 0 otherwise *Board Independence* = 1 for the number of independent directors on the board above the median of 0.667, 0 otherwise *Board Diligence* = 1 for the number of the meeting held above the median of 5, 0 otherwise *AC Size* = 1 for the number of members in the AC above the median of 4, 0 otherwise *AC Independence* = 1 for the number of Independence AC above the median of 0.667, 0 otherwise *AC Financial Expertise* = 1 for the number of AC financial expertise above the median of 0.750, 0 otherwise *AC Diligence* = 1 for the number of the AC meeting held above the median of 4, 0 otherwise

Variable	Measurement
SSBStrength	*SSB cross-memberships + Number of SSB members + Financial expertise of the SSB* *SSB size* = 1 for the number of SSB members above the median of 4, 0 otherwise *SSB Cross-memberships* = 1 for the average number of cross-memberships of the SSB members in institutions offering Islamic financial services above the median of 3.250, 0 otherwise *SSB Financial Expertise* = 1 for the number of SSB financial expertise above the median of 0.333, 0 otherwise
SGDisclosure	Disclosure's index incorporates items from AAOIFI Governance Standards No 6 and the IFSB-10: Guiding Principles on Shari'ah Governance Systems for Institutions offering Islamic Financial Services
SIZE	Total Asset of the Islamic banks (Natural logarithm of total assets)
PRCL	Overall23ombined index scores of political rights and civil liberties based on the work of Gastil (1990) and Freedom House (2014) for the given nation: 1 (freedom) to 14 (repression)
LEGAL	1 if Common law, 0 otherwise
Leverage	Total debt divided by total asset
GDP	The annualised growth rate of GDP per capita
MuslimPop	Percentage of the Muslim population (Number of Muslim populations divided by total number of population)

Appendix B: Guidelines for Scoring Shari'ah Governance Disclosure

No	Section	Item
1	Disclosure of commitment to *Shari'ah* Governance	2
2	Disclosure of *Shari'ah* board information	13
3	Disclosure of *Shari'ah* board remuneration	2
4	Disclosure of *Shari'ah* report	3
5	Disclosure of *Shari'ah* pronouncements	2
6	Disclosure of *Shari'ah* compliance review	1
7	Disclosure of information on products and service	4
8	Internal *Shari'ah* review	1

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