# THE DETERMINANTS OF FINANCIAL, SOCIAL AND SHARIA DISCLOSURE ACCOUNTABILITY FOR ISLAMIC BANKS

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## Abstract

This study seeks to examine disclosure levels in the annual report and websites related to Islamic accountability pillars which are Sharia, social and financial. The study also aims to measure the association between disclosure levels and firm-specific characteristics. The manual content analysis is employed. Our sample consists of 117 Islamic banks (IBs) based on data of 2016 across 23 countries. The authors adopted 3 indices for Corporate Social Responsibility Report (CSRR); Sharia Supervisory Board Report (SSBR) and financial statements (FS) based on holistic benchmark. Descriptive analysis shows relatively high disclosure level for financial and Sharia disclosure (62% and 52% respectively) and relatively low for social disclosure (28%). Concerned with holistic disclosure level that measuring accountability' pillars for all sections in the annual report, disclosure levels about Sharia, social and financial are 40%; 28% and 81% respectively. The regression analysis shows partial positive significant association of disclosure levels with existing Sharia auditing department; size of bank and probability in additional to Sharia auditing department. This study is the first one that investigates a holistic framework about Islamic accountabilities for IBs around the world (117 across 23 countries). It is also the first one that measuring the accountability concept in all sections in the annual report for IBs as well as their websites.

**Keywords:** Islamic Banks, Determinants, Sharia, Social and Financial Disclosure and AAOIFI

## 1. INTRODUCTION

Contrasting with conventional banks, Islamic banks (IBs) have to adhere to Islamic law in their contacts. Among the rules that Sharia prescribes are the prohibition of paying and charging of interest and prohibition of speculation (Hidayat, 2010). As a result, there are differences in the method of presentation; disclosure between Islamic and conventional banks and differences in the accountability for each bank. In the context of accountability, one of the main objectives of accounting is to provide a fair information flow between the accountant and the account (Anuar et al., 2009). Concerned with this concept, accounting plays a significant role in providing information to all stakeholders as well the society, and to fill any religious duty as indicated by Adnan and Gaffikin (1997): "the orientation of accounting towards fulfilling the accountability of human being to God implies that the accounting information enables individuals to account for their zakat" (p. 33). Therefore, firms are accountable for publishing their reports (Gray et al., 1995) for the benefit of users as well as satisfy their needs of stakeholders about bank' accountabilities compliance.

The main objectives of this paper explore the extent to which the disclosure level for IBs reflects the main three pillars of Islamic accountabilities which contain Sharia, social and financial. It critically evaluates the degree of disclosure practices of IBs about its accountabilities through the annual reports and websites for all stakeholders. Furthermore, the paper seeks to explore the association between disclosure levels about accountabilities pillars and bank-specific characteristics as accounting standards; profitability; leverage and size. The analysis contains also control variables to investigate the differences between the selected banks in different countries. Despite these concerns, there are very few academic studies that investigate the disclosure levels for all accountability pillars reporting and for a large sample of IBs. Further, as we know there is no study that examines the association between disclosure levels of IBs' accountability pillars and firm-specific characteristics for most of IBs around the world. Based on our knowledge; there are no any previous studies explore the comprehensive pillars of accountabilities (Sharia, social and financial) for IBs in one study. Considering these gaps in the literature, we first develop and apply three indices to measure the disclosures about the accountability of IBs related to CSR; SSBR and financial statements. Also, we explore the disclosure levels about Sharia, social and financial in whole segments in the annual report as vision; mission; strategy report and CEO statement.

Haniffa and Hudaib (2007) examined the disclosure of information deemed crucial to Islamic ethics in business. They found a major gap between the communicated and ideal ethical disclosure in the annual reports of a sample of seven IBs. Consequently, this study aims to explore all accountabilities for IBs in a different culture to see to what extent it can effect on the disclosure levels about accountability. The number of sample banks used in the literature was limited as acknowledged by Maali et al (2006), Haniffa and Hudaib (2007). Our sample is relatively large (117) compared to the largest study so far (90 in Mallinb et al., 2014). It also more comprehensive based on exploring all accountabilities for IBs. A number of studies referred to AAOIFI standards (Hassan & Harahap, 2010), none of them add AAOIFI standards items in the indices that tested as standard No.7 for CSR; standards No.1 for presentations and disclosure in the annual report and standards No.1; 2; 5 for SSB report in one study.

Our paper is motivated to bridge a perceived gap between the three broad components of social; Sharia and financial disclosure levels. Secondly, calls for greater accountability from corporations are regularly voiced these days, both in the academic literature and in public discussions more generally (Messner, 2009). In accounting research concern to more accountability has been shared by those who have criticized extant financial and management accounting practices for contributing to what they see as a very limited understanding of accountability (e.g. Gray, 2001; McKernan & MacLullich, 2004; Young, 2006). There has been extensive research measure the corporate disclosure for banks (e.g., Al Baluchi, 2006; Ibrahim et al., 2011) without segregate between the three accountabilities disclosure. Also, the accountability issue for IBs has been unexplored (Hasan & Siti-Nabiha, 2010). However, there are very limited studies that focus on disclosure analysis related to Sharia, social; financial disclosure levels. During recent years there has been a growing interest in Corporate Social Responsibility (CSR) across a range of disciplines as one of the accountabilities for IBs. Researchers strongly believe that corporations should not be judged just on their economic success (Jamali et al., 2008, Shahin & Zairi, 2007). Even though CSR is becoming increasingly significant, research still shows that CSR performance and CSR reporting (CSRR) by companies all over the world is limited. Moreover, our research is motivated to answer the question about the difference between the required information that should be published in the corporate annual reports based on the Islamic perspective as well Islamic standards as AAOIFI and what is presently being practised by these banks around the world (e.g., Baydoun & Willet, 2000; Lewis, 2001; Haniffa & Hudaib, 2007; Maali et al., 2006). Most of the literature that tests disclosure for IBs focuses mainly on measuring the disclosure levels with a study that explores the determents of corporate disclosure (Ousama & Fatima, 2010; Sarea & Hanefah, 2013). Also, there is a lack of literature on disclosure in IFIs context, particularly on IBs, as prior studies have not considered different categories of disclosure for this sector. This gap in the literature needs to be explored and filled.

Our paper differs from the previous studies that explore the disclosure level for Islamic banks in many ways. Our paper differs from Khan et al., 2013 and Farook et al., 2011 who measure one dimension of disclosure, which is CSRD, whereas our research measures the three dimensions. Gisbert and Navallas (2013), Samaha et al. (2012) examine the disclosure level for banks that located in one country (Spain and Egypt respectively), whereas; our paper examines disclosure level for banks across 23 countries. Our paper differs from El-Halaby and Hussainey (2016) who measure the three pillars of disclosure but for just 43 banks and based on AAOIFI standards and annual report only, whereas our study uses data for 117 banks and measures disclosure level more than compliance level with AAOIFI and extend scope of disclosure to include additional sections as vision and mission as well as strategy report and corporate governance report. They choose IBs that adopt AAOIFI in the MENA area, whereas we choose all available IBs around the world.

Our findings show high variations in disclosure reporting practices about Islamic accountabilities' pillars across the sample and countries with a clear tendency to focus on financial disclosure accountability more than other accountabilities. The average disclosure scores are relatively low (28%) for social throughout the whole banks examined and relatively high (more than 50%) for Sharia and financial disclosure. These scores indicate that the banks disclose less information about social and fail to follow the Islamic standards as AAOIFI guidelines as the best practices, particularly for social disclosure. Furthermore, the high scores indicate that although the banks disclose information about financial accountability related to financial statements, they fail to disclose the financial statements that concerned with Islamic identification as Zakat and Qard Hassan statement. Our empirical results show that the disclosure levels are significantly affected by standards, the size of the firm, SAD. The empirical results also show different correlation based on a different model or different disclosure kind.

Based on these findings, this paper makes several incremental contributions to the literature on Islamic accountability and IBs. First, we apply an objective; a holistic and context-specific measure of the accountabilities reporting for any IFI based on Islamic approaches (AAOIFI and related literature). As highlighted by Leuz and Wysocki (2008), there is a lack of a measure which combines all of the desirable properties for disclosure. The approach we follow which focuses on survey of all the sections in the annual report for IBs could be beneficial for future studies dealing with disclosures. Second, we add empirical evidence regarding the significant impact of the firm characteristics (accounting standards; SAD; size) on the quality of the disclosures about IBs' accountability pillars. These results should be interested to IBs and regulators as they indicate that the requirement for banks to disclose annual reports contains value relevant information for IBs' stakeholders in additional to satisfy Allah by sufficient disclosure. There have been a few empirical studies investigating the link between Islamic accountability pillars and different in the banking sector, to the best of our knowledge, this is the first empirical study that investigates this relationship in IBs using a more comprehensive accountability disclosure indices which distinguish between Sharia, social and financial disclosures and applied on the most of IBs around the world. The paper's themes are developed as follows: Section 2 elaborates the accountability framework from an Islamic approach. Section 3 has a review of the three accountabilities of IBs. The relevant literature and developed hypotheses are presented in Section 4. Section 5 discusses the research design. Section 6 presents the empirical analysis and discusses the results. Section 7 outlines the conclusion and limitations with a suggestion for further research.

## 2. ACCOUNTABILITIES OF ISLAMIC BANKS

Hasan and Siti-Nabiha (2010) argue that issues regarding accountability in IBs need further research. Consequently, there is a need for good accountability practices in IBs as they are viewed as public trusts, existing for the benefit of society. A central Muslim belief is that Allah will account for everything on Judgment Day and every individual will be held accountable for what he did and whether their actions were in keeping with Sharia or not. Allah has mentioned that everybody will be asked about her/his actions. Also, the word Hesab (account) is mentioned more than 8 times in the Holy Quran (Askary & Clarke, 1997). Allah has mentioned in the Quran, every person will be asked to account for their actions on the Day of Judgment: "And stop them; indeed, they are to be questioned."(Quran, 37:24) and said "So by your Lord, We will surely question them all, about what they used to do" (Quran, 15:92-93). As a result, every individual will be held accountable for their actions by Allah (Lewis, 2001). Accountability, then, is the core basis for the Muslims as well for Islamic system and all relationships within any Islamic society must consider this concept (Aljirari, 1996).

Emdadul (2010) confirms the concept of accountability in Islam in the following statement: "Accountability to Allah for all activities is vital to a Muslim's faith. Sharia specifies how business should be conducted, organized and governed. Under Islam, the paramount rule in business is honesty, just measurement and fair dealing with the customers; such obligations impose a responsibility on the business community to adhere to moral accountability under Islam" (p.26). Samuel and Stewart (2009) point to the consequence of forming sustainable accountability. They add that most of the thinkers consider that there is no sustainable accountability; they are far from the reality because they were looking for enforced accountability and they ignore accountability that comes from deep belief as moral and ethics. Lewis (2006) argues that "accountability to God and the community for all activities is paramount to a Muslim's faith" (p.2). Al-Humaidhi (1999) states the mainstream of accountability in Islam is addressed on two levels. The first level is where every person is accountable for his actions. The second level comprises the accountability for individual and objects under their charge. Therefore, accountability of IBs is located under the second level through accountability towards all stakeholders. This accountability can achieve and is delivered by the disclosure in annual reports and website. The concept of disclosure is therefore connected with the concept of accountability: In an Islamic context, the Umma (nation) has the right to know how corporations that are part of the Umma affect its well-being (Maali et al., 2006). The accountability to disclose the truth is a very significant issue in the Islamic context, and this accountability applies to businesses (IBs) as much as to individuals. Importance of disclosure is highlighted in the Qur'an as Askary and Clarke (1997) argue that 'Six verses of the Qur'an refer to relevance; one meaning of the relevance referred to is disclosure of all facts'.

Disclosure is a crucial aspect of the accountability function of IBs to its stakeholders. Therefore, it is required that IBs disclose as much information in a succinct, truthful and comprehensible method to its stakeholders. From an Islamic perspective, the key purpose of corporate reporting that overrides other objectives is to allow Islamic enterprises to show their compliance with Sharia and serving the society (Baydoun & Willett 2000). The consequence of this objective is that IBs have a responsibility to disclose all information essential to its stakeholders about their operations (Maali et al., 2006). Full disclosure about all accountabilities for IBs is derived from the divine duty of accountability that each Muslim bears. However, this is not to say that Allah needs to know through disclosure the activities of the IBs. Indeed, Allah knows and hears everything and is Omniscient: 'I know what you reveal and I know what you hide' (Quran, 4:33) and also: 'He knows what is manifest and He knows what is hidden' (Quran, 96:7). IBs have a duty to disclose their compliance with the Sharia to stakeholders. Maali et al. (2006) explain, 'the requirement for Muslims to uncover the truth is intended to help the community to know the effect of a person or a business on its wellbeing' (p. 273).

Maali et al. (2006) categorize three broad objectives that are used as the basis for accountability disclosures by IBs in order to show compliance with Sharia, to show how the operations of the business have affected the well-being of the Islamic community and to help Muslims to perform their religious duties. Based on the Islamic values, profit maximization should not be the only target of

IFIs (Ali et al., 2013). According to Hameed and Yahya (2003), IBs as an Islamic business institution is required not only to report its economic performance but also its Sharia compliance, social concern and environment concern to its stakeholders. Stakeholders are expected to have wider objectives covering Sharia, social value; ethical conduct as well as financial, which are a necessary part of their value proposition (Warde, 2013). The perception of disclosure from an Islamic approach is based on two general requirements: the concept of social accountability which contains Sharia and social disclosure and the full disclosure concept which focus on financial disclosure as well Sharia and social (Baydoun & Willett, 2000; Haniffa, 2002; Haniffa & Hudaib, 2002). Haniffa and Hudaib (2002) claimed that the full disclosure of applicable and reliable information should support external users in making both economic and religious decisions, in addition to assisting management in achieving their accountability to God; society and all other stakeholders. Based on Maali' debating and based on our survey Quran and Sunna, IBs has 3 accountability (Sharia, social and financial) which can be achieved through disclosure. Disclose these accountabilities is guided to satisfy Allah first and all stakeholders. In the following section, we explore the 3 kinds of accountabilities as follows:

### 2.1. Sharia accountability

In the context of Islam, the origin and the key aim of IFIs' reporting is to show that their activities are in compliance with Sharia principles (Baydoun and Willet, 2000; Haniffa, 2002). Hameed (2001) claimed that the disclosure of Sharia compliance is one of the essential Islamic accounting purposes. Therefore, this information should be disclosed, even though it may not be required mandatory. The information about Sharia compliance is similar to that in the SSB report. The need for Sharia compliance becomes progressively significant to bridge the gap between models and practice (Sarea & Hanefah, 2013). To make sure that the religious prospects of those who deal with IBs have been met, IBs appoint Sharia Supervisory Boards (SSB) (Daoud, 1996). They issue a report to the users confirming that the bank has adhered to Sharia (Karim, 1995). The accountabilities of SSB comprise ex-ante and ex-post auditing of transactions, the calculation and payment of Zakat and counselling the bank on its accounting policies (Karim, 1995). This board provides the essential assurance for those who deal with IBs that their religious expectations have been met. SSB report is the main source for all stakeholders about achieving Sharia accountability for IBs. Disclosure by the SSB may be seen as a crucial aspect of accountability by the IBs to its stakeholders (Mallinb et al., 2014).

### 2.2. Social accountability

Corporations are expected to communicate their actions towards CSR to their broad range of stakeholders (Golob & Bartlett, 2007). CSR Reporting is mainly considered as one of the main approaches firms use to make the public aware of their CSR activities (Said et al., 2009). Several studies have used CSR disclosure as a proxy for corporate social performance (Gray et al., 2001, Milne & Adler, 1999, Haniffa & Cooke, 2002). CSR reporting in this sense "... extends the accountability of organisations, beyond the traditional role of providing a financial account to owners of capital, in particular, shareholders" (Gray et al., 1996, p.3). IFIs promote a social and ethical identity and the promotion of social welfare and justice are significant to IBs as part of their CSR (Haniffa & Hudaib, 2007). As trustees, man is accountable for God's other creations and will be accountable for his actions in the hereafter (Baydoun & Willett, 2000; Maali et al., 2006). Therefore, in Islam, a man's accountability comprises accountability to the community and the environment. Thus, the companies are accountable to the society (Baydoun & Willett, 2000) hence they should disclose information, which can help discharge this accountability. From the Islamic perspective, CSR revolves around the concept of ultimate accountability to God where human beings are regarded as 'khalifah' (vicegerent) and are predictable to relate with other humans in order to take care of the natural environment entrusted to them (e.g., Maali et al., 2006; Haniffa & Hudaib, 2007; Farook et al., 2011; Abbasi et al., 2012). Siwar and Hossain (2009) specified that Islam is not just a religion but as a complete way of life. Therefore, the philosophy of Islamic CSR is diverse from conventional CSR where CSR in Islam motivated not only on the economic perception but also incorporates the spiritual values as derived from the Quran and Sunna. So, we expect that IBs should disclose information about their roles towards society. CSR report is the ideal segment in the annual report to assist firms to satisfy their social accountability.

### 2.3. Financial accountability

Assessing the decision makers in stakeholders making of economic decisions is a secondary goal from the Islamic viewpoint, whereas in the Western model, achieving the financial accountability and maximizing the profit is considered the primary objective (Maali et al., 2006; Muwazir et al., 2006). IBs, similar to another financial firm, is expected to respond to their crucial stakeholders through good financial and governance performance (Belal et al., 2014). The main objective of financial reporting is to provide information about the financial strength, performance and fluctuations in the financial position of an enterprise that is valuable to a wide range of users in making economic decisions. Therefore, corporations are responsible for publishing their financial reports for the benefit of stakeholders (Gray et al., 1991). Financial disclosure is very significant to whole stakeholders; it provides them with the essential information to diminish uncertainty and support them to make appropriate economic and financial decisions. The annual financial reports published by corporations are considered one of the most significant sources of information to outsiders (Betosan, 1997). But, as the uniqueness of IBs which required more financial disclosure about their operations, we expected that the financial statements for these banks will contain additional statements related to Zakat and Qard Hassan.

The integration between Sharia, social and financial accountabilities and disclosure stems from looking at the Islamic Bank from three related perspectives. First; as a financial institution that seeks for profitability and increases the wealth of its owners and second is also seen as an institution aiming to play the social role and support his community and finally, it is a financial institution aiming to apply Sharia in financial transactions. All the three perspectives can be achieved through full disclosure about these accountabilities. Any failure to disclose any of the three aspects could affect the credibility of the Islamic Bank and its image in front of its clients and thus its financial position and its competitiveness with traditional banks. So, the disclosure is the applicable tool for Islamic banks to approve for all stakeholders to what extent they achieve their accountabilities.

Therefore, in this research, the accountability concept means the responsibilities towards Allah, society, stockholders and other stakeholders. In our research, we explore these accountabilities for IBs by measuring how IBs discloses information that concerned with these accountabilities by annual reports and websites. The disclosure about IBs' accountabilities contains Sharia, accountability and financial accountability. The Sharia disclosure accountability means the level of disclosure about compliance with Sharia through SSBR as well as Sharia compliance indicators in the whole annual report sections. The social disclosure is reflected by extent to which the banks serve the society as well as pay Zakat and Qard Hassan based on CSR and social statements in the whole annual report sections. Finally; financial disclosure accountability means the extent to which the financial statements and financial performance reflect all financial information for the whole stakeholders

## 3. HYPOTHESES DEVELOPMENT

### 3.1. Profitability

Wallace and Naser (1995), Chavent et al. (2006) theorized that companies with higher profitability provide comparatively more information. A positive relationship between corporate profitability and level of corporate disclosures is hypothesised in different prior research (e.g., Gray et al., 2001; Hossain et al., 2006; Othman et al., 2009). Signaling theory justifies this positive correlation by the fact that corporate boards of highly profitable firms are more likely to disclose more information to increase stockholders' confidence and accordingly to raise their compensation and to raise capital at the lowest cost (Marston & Polei, 2004). Agency theory also argues that corporate managers of profitable corporations have a motivation to disclose more information to increase their compensation (Abd El Salam, 1999). For IBs; Haniffa and Cooke (2002) support the previous debating. They find a positive relationship between the firm's profitability and the extent of disclosure in IBs. However, from an Islamic perspective, where full disclosure represented an accountability towards Allah before stakeholders, Haniffa (2002) argues that a corporation should provide full disclosure in any situation whether it is making a profit or otherwise. Thus, we formulate our first hypothesis as follows:

*$H_1$: There is no association between profitability and levels of corporate accountability disclosure.*

### 3.2. Size

A number of studies have found a positive association between firm size and levels of disclosures (e.g., Ahmed and Courtis, 1999; Hassan et al., 2009; Alsaeed, 2006). Related to social accountability disclosure research, size was found to be a significant factor influencing the level of CSR disclosure (Patten, 1991; Roberts, 1992). However, based on Sharia principles, larger IBs should tend to contribute more to the activities of the community, in addition, to comply with Sharia in all activities as well disclose information about their financial performance. Therefore, it may provide additional information in the annual reports to discharge their accountability to all groups of stakeholders, particularly to Allah and for Muslim investors. We formulate our second hypothesis as follows:

*$H_2$: There is a positive association between firm size and levels of corporate accountability disclosure.*

### 3.3. Leverage

Based on the agency theory, Xiao et al. (2004) argue that increased disclosure can reduce debt holders' inclinations to price-protect against transfers from themselves to stockholders. Debreceny and Rahman (2005) find that increases in the debt-equity ratio create agency costs. Therefore, corporate managers report more voluntary information to assist creditors to monitor continually the affairs of the corporation and help them evaluate the ability of the firm to pay its obligations on time. Managers tend to provide more information in order to send a good signal to debt holders regarding the corporate ability to meet its obligations. Empirical evidence on the association between leverage and disclosure is mixed. While, Elshandidy (2011), Marshall and Weetman (2007), Taylor et al. (2010), Barako et al. (2006), Hossain et al. (1994_ found a positive relationship, Abraham and Cox (2007), Linsley and Shrives (2006), Rajab and Schachler (2009) found insignificant association. Our third hypothesis:

*$H_3$. Highly gearing IBs are more likely to disclose more information about corporate accountability Disclosure compared with low Leverage IBs.*

### 3.4. Auditor size

Auditors are a control element whose responsibility is to assure the reliability and the validity of financial statements (Porter et al., 2008). A number of studies supported the theoretical proposition of agency theory and signaling theory, that large audit firms have a greater quantity of information disclosed by their clients than small ones (e.g., Naser et al., 1999; Archambault & Archambault, 2003; Haniffa & Cooke, 2002; Eng & Mak, 2002; Han et al., 2012). Ahmed and Nicholls (1994) drew attention to the fact that the size of the audit firm can significantly affect the amount of information disclosed in the financial statements. The largest auditing firms motivate their corporations to disclose more and comprehensive information than required to preserve their reputations (Firth, 1979). Hence, the fourth hypothesis of the study:

*$H_4$: The extent of levels of corporate accountability disclosure in IBs is larger for Banks that audited by one of the Big 4 audit firms.*

### 3.5. Accounting standards (AAOIFI)

Accounting standards are used to produce comparable and reliable accounting information to support investors, creditors and all stakeholders to make investment decisions. The adoption of IFRS improves transparency, disclosure and comparability (Biddle & Saudagaran, 1989). The higher disclosure requirements and financial reporting quality that stem from IFRS implies that the adoption of IFRS gives a positive indicator to investors as information asymmetry and agency costs tend to diminish (Tarca, 2004). However, Hameed (2001) argues that IFRS is inappropriate for IFI because of the uniqueness transactions of IBs. Also, IFRSs are not compatible with IBs (Maali & Napier, 2010). Therefore, we suppose enhancing disclosure level about bank' accountability in case of adopting Islamic standards as AAOIFI. Ariss and Sarieddine (2007) argued that the adoption of AAOIFI standards by IBs will help to enhance their credibility as well as disclosure levels. Besar et al. (2009) claim that one of the main tools to enhance the Islamic banking industry is adopting Islamic standards which can effect on the disclosure and transparency levels for IFI. Therefore, the fourth hypothesis of the study:

*$H_5$: There is a positive association between levels of corporate accountability disclosure and adopting of AAOIFI.*

### 3.6. Sharia auditing department (SAD)

The literature (e.g., Epstein & Pava, 1993; Hodge, 2001) specifies that stockholders commonly find audited information to be more reliable than unaudited information. Mercer (2004) argues that the internal auditing department (IAD) 'serves as the first line of defence against disclosure errors". Consequently, IAD is a critical and unique governance mechanism that maintains credibility and enhancing the disclosure level[1]. Hence, the seventh hypothesis of the study is:

*$H_6$: the extent of levels of corporate accountability disclosure is positively associated with existing SAD inside the IBs.*

### 3.7. Control variables

To address the issues related to the omitted correlated variables, our models have a comprehensive list of control variables. First, we control for age of the bank. Majority of studies found an association between firm age and disclosure (e.g., Akhtaruddin, 2005; Haniffa & Cooke, 2002; Rahman et al., 2011). Second, we control for ownership. Eng and Mak (2002), Schadewitz and Blevins (1998) argue that private companies' disclosure is less transparent because they face less market demand for it. Third, we control for the riskiness. Managers may publish more information in order to diminish information asymmetry between insiders and outsiders (Elshandidy et al., 2013). Company with high-risk levels will try to increase disclosure to reduce uncertainties among stockholders implying a better evaluation of risk by market (Hassan, 2009). Fourth, our models have a list of variables to control differences between countries as our research explores accountabilities of IBs across 23 countries. The national culture is an institutional factor that influences companies' choices regarding financial reporting and disclosure level (Hope, 2003). Hofstede (2001) recommends 4 dimensions that have been widely used in prior accounting research to examine the impact of culture on accounting practices and disclosure (e.g., Doupnik & Tsakumis, 2004). These dimensions are defined in Table 1. Regarding disclosure practices, Zarzeski (1996) hypothesises and finds that all of Hofstede's dimensions have a significant impact on disclosure. Gray (1988) hypothesized that financial disclosures in different countries would be influenced negatively by cultural. Wong (2012) suggests that uncertainty avoidance is the most influential cultural dimensions that may affect disclosure. Ahmed and Courtis (1999) argue that differences in disclosure levels could be due to differences in socio-economic and political environments between countries. Hence, we use the legal system as one of the control variables. Dobler et al. (2011) suggest that the legal system may affect disclosure quality and its determinants in common and civil law systems or other law (Sharia law). Dong and Stettler (2011) find significant impacts of both the legal system and cultural values on aggregated disclosure. We also control GDP Growth (Andres & Vallelado, 2008). We also added other variables to our model which are full adoption of AAOIFI from central banks as Sudan and Bahrain that make AAOIFI mandatory for all Islamic banks; Role of central Bank for Sharia supervision as Malaysia which has central SSB that control Sharia compliance for all Islamic banks; Islamization system; Corruption Index and Literacy rate.

## 4. RESEARCH DESIGN

This study examines reporting by 117 IBs across 23 countries based on data from 2016. We explore for what extent disclosure of IBs is reflecting the holistic accountabilities based on Sharia and AAOIFI standard as a benchmark for any IFIs. We explore Sharia, social and financial accountabilities in all sections that reported in the annual reports as well as websites. Thus, our research divided into two stages. The first stage of measuring the accountability disclosure related to Sharia, social and financial in a specific section that reflects these accountabilities which are SSBR; CSR and financial statement. The second stage is measuring the three disclosure accountabilities in all sections in the annual report. In this stage, we explore Sharia, social and financial disclosure vision and mission; CEO statement and strategy report.

[1] IAD plays a critical role in corporate governance by helping ensure financial reporting reliability (Bailey et al., 2003; Gramling et al., 2004; Carcello et al., 2005). The extant research literature provides evidence that IAD has positive effects on financial reporting and reliability. For example, Schneider & Wilner (1990) found that the presence of IAD deters fraudulent financial reporting. Archambeault et al. (2008) highlight the need for an IAD report to improve governance transparency. Information-seeking theory (Wilson, 1997) provides a basis for predicting that existing IAD will increase investor perceptions of oversight effectiveness and confidence in financial reporting reliability.

**Table 1.** Hofstede model dimensions and scores for our selected countries

| *Country* | *Culture Hofstede dimensions* | | | |
|---|---|---|---|---|
| | *Power distance* | *Individualism* | *Masculinity* | *Uncertainty avoidance* |
| 1. UK | 35 | 89 | 66 | 35 |
| 2. UAE | 90 | 25 | 50 | 80 |
| 3. Pakistan | 55 | 14 | 50 | 70 |
| 4. Yemen | 85 | 35 | 65 | 66 |
| 5. Egypt | 70 | 25 | 45 | 80 |
| 6. Bahrain | 87 | 30 | 55 | 75 |
| 7. Qatar | 85 | 45 | 60 | 80 |
| 8. Sudan | 80 | 38 | 53 | 68 |
| 9. Kuwait | 90 | 25 | 40 | 80 |
| 10. Srilanka | 80 | 35 | 10 | 45 |
| 11. Jordan | 70 | 30 | 45 | 65 |
| 12. Malaysia | 100 | 26 | 50 | 36 |
| 13. KSA | 95 | 25 | 60 | 80 |
| 14. Thailand | 64 | 20 | 34 | 64 |
| 15. Bangladesh | 80 | 20 | 55 | 60 |
| 16. Syria | 80 | 35 | 52 | 60 |
| 17. Brunei | 80 | 39 | 52 | 64 |
| 18. Lebanon | 75 | 40 | 65 | 50 |
| 19. Palestine | 85 | 35 | 65 | 66 |
| 20. Kenya | 70 | 25 | 60 | 50 |
| 21. Oman | 85 | 35 | 56 | 66 |
| 22. Iraq | 95 | 30 | 45 | 85 |
| 23. Philippine | 94 | 32 | 64 | 44 |

*Notes: Power distance, which is the extent to which power is distributed equally within a society and the degree to which society accepts this distribution, from relatively equal to extremely unequal. Individualism, which is the degree to which individuals base their actions on self-interest versus the interests of group. Masculinity, which is a measure of a society's goal orientation: a masculine culture emphasises status derived from wages and position; a feminine culture emphasises human relations and quality of life. Uncertainty avoidance, which is the degree to which individuals in a country prefer structured over unstructured situations, from relatively flexible to extremely rigid, to cope with risk and innovation; a low uncertainty culture emphasises a higher level of standardisation.*
*Source: Geert Hofstede. (2005). Dimension data matrix. Retrieved from the World Wide Web: https://geerthofstede.com/research-and-vsm/dimension-data-matrix/*

Consequently, the study tests 8 models which are related to disclosure about SSBR; CSR; financial; aggregate; total Sharia; total social; total financial and holistic disclosure. For this purpose, the study uses content analysis[1] to explore if certain themes related to Sharia, social and financial accountability are present or absent from annual reports and websites. Haniffa and Hudaib (2004) state that disclosure in annual reports and other media such as the websites are key venues for banks to demonstrate that their activities are in line with Sharia. We conduct a pilot study on a sample of 30 IBs for 2011-2013. Based on t-test; the finding shows insignificant differences between the three years (sig 0.392 which is < 0.05 for Sharia); (sig 0.367 which is < 0.05 for social) and (sig 0.263 which is < 0.05 for financial

### 4.1. Sample selection and data collection

We use Bankers databases for the sample selection in addition to central banks for most of the countries that provide Islamic banking services at 23 countries. The chosen banks are selected based on banks with 100% compliance with Sharia. Our selected banks are chosen also based on the availability of the least three annual reports and it should be published in Arabic or English. Thus, we excluded IBs in Iran (17) and in Turkey (4) as they do not have the SSB which represent one of our main pillars for our accountability framework. We excluded subsidiaries from our sample (19) and we exclude 13 banks that their annual reports not available or it is published in different languages. Therefore, we collect data for 117 IBs from 23 countries namely Bahrain, Bangladesh, Indonesia, Jordan, Kuwait, Malaysia, Pakistan, Qatar, Saudi Arabia, Sudan, Syria, UAE, Egypt; Yemen; Brunei; Lebanon; Iraq; Philippines; Kenya; Palestine; Thailand; Srilanka and UK. The variables concerned with countries as GDP and legal system are collected from the World Bank database and UN database. The dimensions related to culture are collected from Hofstede Green centre and variables related to firm-specific characteristics are collected from the annual report and banker database.

### 4.2. Construction disclosure indexes with assessing the validity and reliability

Our benchmark for accountability is pragmatic and takes into account the different secular effects facing IBs. However, this does not prevent them from disclosing our suggested items on a voluntary basis, even if they are not required by regulation. Our benchmark is contracted based on manly AAOIFI standards that are related to accounting; governance issues and previous studies that explore Sharia, social and financial accountability for IBs. As AAOIFI is construct based on Sharia. Therefore, the compliance level reflects compliance with Sharia basics more than compliance with AAOIFI requirements. Related to validity and reliability issues, we examined the items of the indices and decided what that specific item was intended to measure (Beattie et al., 2004). We developed the dimensions of our SSBR; CSR and financial indices

[1] The use of content analysis techniques in research into corporate disclosure used based on manual scoring (e.g. Santema et al., 2005; Cheng and Courtenay, 2006). The disclosure index is unweighted and assumes that each item of disclosure is equally important (Gray et al., 1995). The preference for using the un-weighted approach is to avoid the subjectivity involved in assigning the weights of importance to items by different user groups (Cooke, 1991; Raffournier, 1995).

based on standards for IFIs issued by AAOIFI (mainly) and the previous literature (secondary) as illustrated in Table 2. For testing reliability; the preceding studies argues that content analysis is not considered reliable if it is conducted only once or only by one specific person (Neuendorf, 2002). Hence the following procedures were undertaken to construct our three indices as well sure about validity and reliability issues as follows: First: We adopt the disclosure requirements of AAOIFI governance standards No. 1; 2 &5 that reflect the Sharia accountability based on SSB report and SSB members. It also adopts the disclosure requirements of AAOIFI financial standards No.1 that focus on the presentation and disclosure of financial statements that reflect the financial accountability of IBs. Finally, we adopt AAOIFI governance standard No.7 that guide IFI for social accountability based on CSR report. The researcher reviews the least available edition for AAOIFI, which is 2010 and 2014. Second, we made some modifications to the disclosure indices based on literature review that measure Sharia, social and financial for Islamic banks (see for instance Hassan & Harahap, 2010; Farag et al., 2014; Aribi & Gao, 2012; Maali et al., 2006; Haniffa & Hudaib, 2007; Mohammed, 2007; Ullah & Jamali, 2010; Williams & Zinkin, 2010; Rashid et al., 2013; Besar et al., 2009; Kamla & Rammal, 2013). We also survey the Quran and Sunna to observe the main themes for compliance with Sharia accountability towards Allah and also for social activities. Based on this survey, we get some items that the annual report for IFIs should contain and disclose as Zakat and Qard Hasan. Third, we review our three indices with 3 academics and 3 professionals to enhance the validity of the study's results (This technique is supported through Marston and Shrives (1991).

**Table 2.** Holistic disclosure checklist. Benchmark for Islamic accountability of Islamic banks (Part I)

| | ***Main Dimensions*** | | ***Sources*** |
|---|---|---|---|
| | *Sharia Index* | | |
| *Sharia disclosure index* | Names of Sharia board members | *Total Items 20* | Haniffa and Hudaib, 2007; Hassan and Harahap, 2010; Rashid et al., 2013; AAOIFI, 2014; Vinnicombe, 2010 |
| | Brief about each members in the Sharia board (Background and qualifications) | | Haniffa and Hudaib, 2007; Ghayad, 2008; Hassan and Harahap, 2010; Aribi and Gao, 2012; AAOIFI, 2014; Vinnicombe, 2010 |
| | Numbers of board members | | Maali et al., 2006 |
| | Pictures of the board members | | Haniffa and Hudaib, 2007; Rashid et al., 2013 |
| | The administration position for the Sharia board in the organization structure | | Haniffa and Hudaib, 2007 |
| | The role and responsibilities of the board | | IFSB, 2006, Ghayad, 2008; AAOIFI, 2014; Vinnicombe, 2010 |
| | The authorities of the board | | AAOIFI, 2014; Ghayad, 2008; Vinnicombe, 2010 |
| | The Sharia auditing department in the bank | | AAOIFI, 2014; IFSB, 2006; Shafiia et al., 2014; Besar et al., 2009 |
| | The account of board's meeting | | Haniffa and Hudaib, 2007; Hassan and Harahap, 2010; Rashid et al., 2013 |
| | Is the website or annual report disclose the Fatwas for the Sharia board related to Islamic services | | Aribi and Gao, 2012; AAOIFI, 2014 |
| | Is the website disclose the board's role for spreading the awareness about the Islamic banking thoughts | | Haniffa and Hudaib, 2007; Hassan and Harahap, 2010 |
| | SSB report assigned from the board members | | Maali et al., 2006; Haniffa and Hudaib, 2007; AAOIFI, 2014; Rashid et al., 2013; Vinnicombe, 2010; Kasim et al., 2013 |
| | Information about the bank's responsibilities of Zakat | | Maali et al., 2006; AAOIFI, 2014; Hassan and Harahap, 2010; Farook et al., 2011; Vinnicombe, 2010; Kasim et al., 2013 |
| | Information about the bank's responsibilities of activities not comply with Sharia and how the bank deal with it | | Haniffa and Hudaib, 2007; Maali et al., 2006; AAOIFI, 2014; Maali et al., 2003; Sofyan, 2003; Hassan and Harahap, 2010; Vinnicombe, 2010; Kasim et al., 2013 |
| | Information about how profit distribution process in the bank comply with Islamic Sharia | | Haniffa and Hudaib, 2007; AAOIFI, 2014; Sofyan, 2003; Hassan and Harahap, 2010; Vinnicombe, 2010; Kasim et al., 2013 |
| | Information about the independency of the Sharia board with charter shows the objectivity of the board | | AAOIFI, 2014; Haniffa and Hudaib, 2007; Vinnicombe, 2010 |
| | Information about opinion for the board about completely compliance of the bank with the rules of Islamic Sharia | | Maali et al., 2006; AAOIFI, 2014; Haniffa and Hudaib, 2007; Maali et al., 2003; Aribi and Gao, 2012; Vinnicombe, 2010; Kasim et al., 2013 |
| | The board discloses its opinion after reviewing all documents and all financial statements for the bank | | AAOIFI, 2014; Rashid et al., 2013; Haniffa and Hudaib, 2007; Aribi and Gao, 2012 |
| | Is the report shows that the bank comply with the AAOIFI's standards | | AAOIFI, 2014 |
| | Information about the date of report and name of bank | | AAOIFI, 2014; Vinnicombe, 2010; Kasim et al., 2013 |
| | *Social Index* | | |
| *Social disclosure index* | Employee welfare | *Total Items 95* | Haniffa and Hudaib, 2007; AAOIFI, 2014; Maali et al., 2003; Hassan and Harahap, 2010; Farook et al., 2011; Farook, 2007; Rashid et al., 2013; Aribi and Gao, 2012 |
| | Internal environment preservation policy | | Haniffa and Hudaib, 2007) Maali et al., 2006; AAOIFI, 2014; Kamla and Rammal, 2013; Maali et al., 2003; Hassan and Harahap, 2010; Farook et al., 2011; Farook, 2007 |
| | Earning and expenditure prohibited by Sharia | | AAOIFI, 2014; Farook, 2007; Rashid et al., 2013 |
| | Par Excellence customers services | | AAOIFI, 2014; Farook, 2007; Aribi and Gao, 2012 |
| | Late repayments and insolvent clients and avoiding onerous terms | | Maali et al., 2006; AAOIFI, 2014; Haniffa and Hudaib, 2007; Maali et al., 2003; Farook et al., 2011; Rashid et al., 2013 |
| | Qard Hassan | | Haniffa and Hudaib, 2007; AAOIFI, 2014; Kamla and Rammal, 2013; Hassan and Harahap, 2010; Farook, 2007; Aribi and Gao, 2012 |
| | Micro and small business and social saving and investments and Development | | AAOIFI, 2014; Kamla and Rammal, 2013; Farook, 2007 |
| | Screening and informing clients for compliance with Islamic principles | | AAOIFI, 2014; Kamla and Rammal, 2013; Farook, 2007; Aribi and Gao, 2012 |

**Table 2.** Holistic disclosure checklist. Benchmark for Islamic accountability of Islamic banks (Part II)

| | ***Main Dimensions*** | | ***Sources*** |
|---|---|---|---|
| *Sharia Index* | | | |
| *Social disclosure index* | Zakat | *Total Items 95* | Haniffa and Hudaib, 2007; Maali et al., 2006; AAOIFI, 2014; Kamla and Rammal, 2013; Maali et al., 2003; Farook et al., 2011; Farook, 2007; Rashid et al., 2013; Aribi and Gao, 2012; Vinnicombe, 2010 |
| | Charitable activates | | Belal, 2001; Maali, et al., 2006; Haniffa and Hudaib, 2007; AAOIFI, 2014; Kamla and Rammal, 2013; Hassan and Harahap, 2010; Farook et al., 2011; Aribi and Gao, 2012 |
| | Waqf management | | AAOIFI, 2014; Farook, 2007 |
| | Social responsibility | | OECD, 2011; AAOIFI, 2014; Kamla and Rammal, 2013; Maali et al., 2003; Hassan and Harahap, 2010; Farook, 2007; Aribi and Gao, 2012 |
| *Financial Index* | | | |
| *Financial disclosure index* | Comparative financial statements | *Total Items 114* | IFRS, 2014; AAOIFI, 2014 |
| | Basic information about the bank | | IFRS, 2014; AAOIFI, 2014; Sofyan, 2003 |
| | Disclosure of the currency used for accounting measurement | | IFRS, 2014; AAOIFI, 2014 |
| | Disclosure of significant accounting policies | | IFRS, 2014; AAOIFI, 2014 |
| | Disclosure of earning or expenditure prohibited by Sharia | | AAOIFI, 2014; Maali et al., 2003; Sofyan, 2003; Farook et al., 2011 |
| | Disclosure about assets and liabilities' risk | | IFRS, 2014; AAOIFI, 2014 |
| | Disclosure of contingences | | IFRS, 2014; AAOIFI, 2014 |
| | Disclosure of accounting policy changes | | IFRS, 2014; AAOIFI, 2014 |
| | Presentation and disclosure in the Financial Position | | IFRS, 2014; AAOIFI, 2014 |
| | Presentation and disclosure in the Income Statement | | IFRS, 2014; AAOIFI, 2014 |
| | Disclosure in the statement of Cash Flows | | IFRS, 2014; AAOIFI, 2014 |
| | Statement of Changes in the Owner's Equity | | IFRS, 2014; AAOIFI, 2014 |
| | Statement of Changes in Restricted Investments | | AAOIFI, 2014; Sofyan, 2003 |
| | Disclosure in the Statement of Sources and Uses of funds of Zakat and Sadakat | | Maali et al., 2006; AAOIFI, 2014; Maali et al., 2003; Sofyan, 2003; Aribi and Gao, 2012; Vinnicombe, 2010 |
| | Disclosure in the statemen of sources and uses of funds, Loan Fund (Qard Hassan Fund) | | Haniffa and Hudaib, 2007; AAOIFI, 2014; Maali et al., 2003; Sofyan, 2003; Aribi and Gao, 2012 |

### 4.3. Research models

To empirically investigate the relationship between accountability pillars (Sharia, social; financial and aggregate) and firm-specific characteristics, we use the following OLS regressions:

*Panel A:* The dependent variable in the following model is focused on the specific indices, which are SSB; CSR; Financial statements and aggregate disclosure as follows:

*Model 1:*

$$DISCLOSURE_{it} = \alpha + \beta_1 STA_{it} + \beta_2 AUD_{it} + \beta_3 SIZE_{it} + \beta_4 ROA_{it} + \beta_5 LEV_{it} + \beta_6 SDEP_{it} + \beta_7 RISK_{it} + \beta_8 AGE_{it} + \beta_9 OWN_{it} + \beta_{10} POW_{it} + \beta_{11} IND_{it} + +\beta_{12} MAS_{it} + \beta_{13} UNC_{it} + \beta_{14} GDP_{it} + \beta_{15} CORP_{it} + \beta_{16} LEG_{it} + \beta_{17} CENT_{it} + \beta_{18} ADOPT_{it} + \beta_{19} SYS_{it} + \beta_{20} LIT_{it} + e \quad (1)$$

*Panel B:* The dependent variable focuses on the all sections in the annual report and Websites. Consequently, it contains Sharia, social financial and holistic in all sections which are vision; mission; CEO statement; Management report; strategy report and governance report in additional to CSR; SSBR and financial statements.

*Model 2:*

$$Total\ DISCLOSURE_{it} = \alpha + \beta_1 STA_{it} + \beta_2 AUD_{it} + \beta_3 SIZE_{it} + \beta_4 ROA_{it} + \beta_5 LEV_{it} + \beta_6 SDEP_{it} + \beta_7 RISK_{it} + \beta_8 AGE_{it} + \beta_9 OWN_{it} + \beta_{10} POW_{it} + \beta_{11} IND_{it} + +\beta_{12} MAS_{it} + \beta_{13} UNC_{it} + \beta_{14} GDP_{it} + \beta_{15} CORP_{it} + \beta_{16} LEG_{it} + \beta_{17} CENT_{it} + \beta_{18} ADOPT_{it} + \beta_{19} SYS_{it} + \beta_{20} LIT_{it} + e \quad (2)$$

Where $DISCLOSE_{it}$ is the disclosure provided by Disclosure Indices, which measures the level of disclosure of SSBR (1); CSR (2); financial statements (3); aggregate (4). Where *Total* $DISCLOSES_{it}$ is the disclosure provided by Disclosure Indices, which measures total Sharia disclosure (5); Total social disclosure (6); Total financial disclosure (7) and Holistic aggregate (8) in Islamic bank *i* at year *t* (2013). All variables are described in Table 3. The disclosure score for each accountability level is calculated as a ratio of the total items disclosed to 20 (maximum score for Sharia) for model 1, 114 (maximum score for financial) for model 2, 95 (maximum score for social) for model 3 and 229 (maximum score for aggregate disclosure) for model 4,20 items plus any words or sentences related to Sharia for model 5, 95 items plus any words or sentences related to social for model 6, 114 items plus any words or sentences related to financial for model 7, 229 items plus any words or sentences related to Sharia, social and financial for model 8.

## 5. DISCLOSURE LEVELS WITH ACCOUNTABILITY' PILLARS INDICES

Table 4 shows the average disclosure level for SSBR. It shows that average disclosure level 5 is 53%, which deviates from our expectations that assume that IBs should disclose information about compliance with Sharia. The table indicates that the disclosure about names of SSBM is higher than any other item (74%). The table also shows the lowest item is the information about the independence of SSB (10%).

The report also states that 58% of selected banks disclose information about SSBR. The table also shows that only 25% of selected banks disclose information about fatwas (Sharia opinions) which issued by SSB as a signal for all stakeholders that the whole bank activities consistent with Sharia. The table shows that only 31% have internal Sharia auditing department. Our result (53%) is consistent with Hassan and Harahap (2010) who found that the average disclosure for banks related to SSB was 53%. But 53% is not consistent with other studies that conclude high disclosure about Sharia as Vinnicombe (2010) who finds a high level of disclosure (90 %) with SSB requirements. Aribi and Gao (2012) concluded that SSB disclosure is more than 90% for 21 IFIs. We notice that the average index scores indicate that Syria has the highest score of 78% followed by Palestine and Jordan 70% and 68% respectively.

**Table 3.** Models specification and variables measurements

| ***Abbreviated name*** | ***Full name*** | ***Variable description*** | ***Predicted sign*** | ***Data source*** |
|---|---|---|---|---|
| *Dependent variable* | | | | |
| $DISCLOSE_{it}$ | Disclosure level | Sharia disclosure accountability level based on SSB report | | Annual reports and Website based on indices related to AAOIFI standards requirements |
| | | Social disclosure accountability level based on CSR report | | |
| | | Financial disclosure accountability level based on FS and footnotes | | |
| | | Total disclosure accountability level based on SSB; CSR and FS | | |
| | | Sharia disclosure accountability based on all annual report's sections | | |
| | | Social disclosure accountability based on all annual report's sections | | |
| | | Financial disclosure accountability based on all annual report's sections | | |
| | | Total disclosure accountability based on all annual report's sections | | |
| The annual report sections contain 5 sections which are: Vision; Mission; Values and Objectives; Chairman' Statement and CEO' Statement; Directors' Report; Strategy Report and Corporate Governance Report | | | | |
| *Firm-level independent variables* | | | | |
| $STA_{it}$ | Standards | 1=Bank that use AAOIFI; 0=Bank that use IFRS or Local standards | + | Annual report |
| $AUD_{it}$ | Auditor | 1=Bank's financial statements were audited by Big 4 auditor; 0=Bank's financial statements were not audited by Big 4 auditor | + | Annual report |
| $SIZE_{it}$ | Size | The natural log of total assets | + | Annual report |
| $ROA_{it}$ | Profitability | Return on assets (ROA)[3] | + | Banker data base-bank annual report |
| $LEV_{it}$ | Leverage | Total liabilities (Debts)/Total assets | + | Banker data base-bank annual report |
| $SAD_{it}$ | Sharia Auditing department | 1=Bank that has Sharia auditing department; 0=Bank that has not Sharia auditing department | + | Annual report |
| $OWN_{it}$ | Ownership | 1= Publicly-held Islamic bank; 0= Privately-owned Islamic bank | + | Annual report |
| *Control variables related to country* | | | | |
| $RISK_{it}$ | Risk Adequacy | Tier 1 capital | | Banker data base-bank annual report |
| $OWN_{it}$ | Ownership | 1= public Islamic banks; otherwise=0 | | Annual report |
| $AGE_{it}$ | Age | Age of bank from the foundation date | | Annual report |
| $POW_{it}$<br>$IND_{it}$<br>$MAS_{it}$<br>$UNC_{it}$ | Hofstede Culture dimensions | Power distance<br>Individualism<br>Masculinity<br>Uncertainty avoidance | | Hofstede green centre database |
| $LEG_{it}$ | Country legal System | 1 = Sharia Law; 0 = Other non-Sharia Law (e.g. Civil Law, Common Law, or Hybrid Law) | | World Bank Database |
| $ADOPT_{it}$ | Full adoption for AAOIFI | 1 = Full adoption of AAOIFI; 0 = Not full adoption of AAOIFI | | Central banks |
| $CENT_{it}$ | Role of central Bank for SSB | 1 = Countries where the central bank has Central SSB; 0 = Countries where the central bank doesn't have Central SSB | | Central banks |
| $SYS_{it}$ | Islamization system | 1 = Complete Islamic banking system; 0 = Non-complete Islamic banking system | | World Bank Database |
| $GDP_{it}$ | GDP | GDP growth rate | | World Bank Database |
| $CORR_{it}$ | Corruption Index | % of Corruption level for each county | | World Bank Database |

*Notes: [3]Consistent with prior studies, this study uses return on asset (ROA) to proxy for the profitability of IFIs as it better reflects performance (Debreceny & Rahman, 2005).*

Table 5 shows that the average disclosure level of CSR index is 28%. We find that the social responsibility in screening its investments dimension generally scores highly across all banks whilst the social responsibility in its relationship with customers and clients generally scores the lowest. The highest disclosure score related to whole CSR index is Charitable activates which is 44%. The lowest disclosure scores are Waqf management and late repayments in additional to Qard Hassan (1%; 1% and 8% respectively). Overall, Table 5 shows low disclosure level related to CSR (28%). This finding is consistent with studies that found low disclosure level about CSR (e.g., Hasan, 2008 (23%); Farook et al., 2011 (17%); Abdul Rahman et al., 2010 (8%); Maali et al., 2006 (13%). Also our result (28%) is low compared to other studies that find CSR disclosure is high in IBs (e.g., Abdul Rahman and Bukair, 2013 (83%); Hassan et al., 2012 (49%); Farag et al., 2014 (44%)). The average index scores indicate that Jordan has the highest score of 47%, followed by Bangladesh and Kuwait 43% and 38% respectively. Iraq and Philippine (15% and 16% respectively) are the countries with the lowest scores.

**Table 4.** Compliance level based on SSBR index

| | *Items related to SSB members* | *% ** |
|---|---|---|
| 1 | Names of Sharia board members | 74% |
| 2 | Brief about each members in the board | 35% |
| 3 | Numbers of board members | 47% |
| 4 | Pictures of the board members | 25% |
| 5 | The administration position for the board in the organization structure | 37% |
| 6 | The role and responsibilities of the board | 53% |
| 7 | The authorities of the board | 63% |
| 8 | The Sharia auditing department in the bank | 39% |
| 9 | The account of board’s meeting | 17% |
| 10 | Is the website for the bank contain the Fatwas for the Sharia board related to Islamic services | 25% |
| 11 | Is the website disclose the board’s role for spreading the awareness about the Islamic banking thoughts | 40% |
| | *Items related to SSB report* | *%** |
| 1 | The SSB report assigned from the board members | 58% |
| 2 | Information about the bank’s responsibilities of Zakat | 49% |
| 3 | Information about the bank’s responsibilities of activities not comply with Sharia and how the bank deal with it | 42% |
| 4 | Information about how profit distribution process in the bank comply with Islamic Sharia | 48% |
| 5 | Information about the independency of the Sharia board with charter shows the objectivity of the board | 10% |
| 6 | Information about opinion for the board about completely compliance of the bank with the rules of Islamic Sharia | 62% |
| 7 | The board discloses its opinion after reviewing all documents and all financial statements for the bank | 60% |
| 8 | Is the report shows that the bank comply with the AAOIFI’s Sharia standards | 13% |
| 9 | Information about the date of report (Period covered) and name of bank | 58% |
| Average disclosure for SSBR | | 53% |

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

**Table 5.** The compliance level based on CSR index

| *Dimensions of Holistic Islamic CSR* | *Disclosure %* |
|---|---|
| A. Social responsibility within the organization | 28% |
| A1. Employee welfare | 33% |
| A2. Internal environment preservation policy | 26% |
| A3. Earning and expenditure prohibited by Sharia | 26% |
| B. Social responsibility in its relationship with customers and clients | 16% |
| B4.Par Excellence customers services | 40% |
| B5.Late repayments and insolvent clients and avoiding onerous terms | 1% |
| B6. Qard Hassan | 8% |
| C. Social responsibility in screening its investments | 43% |
| C7. Micro and small business and social saving and investments and Development | 40% |
| C8. Screening and informing clients for compliance with Islamic principles | 34% |
| D. Social responsibility in its relationship with greater society | 27% |
| D9. Zakat | 26% |
| D10. Charitable activates | 44% |
| D11. Waqf management | 1% |
| D12. Social responsibility | 35% |
| *Average over all disclosure level* | *28%* |

Table 6 shows full disclosure about Financial Position statement and Income Statement (100%) and very high levels of disclosure about Statement of Cash Flows 98% and 88% related to Statement of Changes in the Owner's Equity. However, the table shows low disclosure level about other statements, which are related to Islamic identification that includes a statement of Zakat; Qard Hassan and changes in Restricted Investments (11%; 8% and 4% respectively). We notice that Yemen has the highest score of 83% followed by Syria and UAE at 70% and 69% respectively. The average score indicates that Lebanon and Philippine (49% for both) are the countries with the lowest score.

Table 7 illustrates the descriptive statistics of accountability indices scores across 23 counties in addition to the aggregate disclosure that contains all sections in the annual report. Figure 1 shows the top 10 countries based on the disclosure levels.

**Table 6.** Compliance level based on financial index

| ***Footnotes*** | ***%*** |
|---|---|
| Comparative financial statements | 100% |
| Basic information about the bank | 100% |
| Disclosure of the currency used for accounting measurement | 100% |
| Disclosure of significant accounting policies | 80% |
| Disclosure of earning or expenditure prohibited by sharia | 14% |
| Disclosure about assets and liabilities' risk | 65% |
| Disclosure of contingences | 30% |
| Disclosure of accounting policy changes | 50% |
| ***Financial statements*** | ***%*** |
| Presentation and disclosure in the Financial Position | 100% |
| Presentation and disclosure in the profit and loss account | 100% |
| Disclosure in the statement of Cash Flows | 98% |
| Statement of Changes in the Owner's Equity | 88% |
| Statement of Changes in Restricted Investments | 11% |
| Disclosure in the Statement of Sources and Uses of funds of Zakat and Sadakat | 8% |
| Disclosure in the statement of sources and uses of funds, Loan Fund (Qard Hassan Fund) | 4% |
| *Average over all disclosure level* | *62%* |

**Table 7.** Final disclosure levels for countries related to accountability pillars

| ***Country*** | ***No of banks*** | ***Group A: Disclosure for SSB; CSR and Financial*** | | | | ***Group B: Holistic Disclosure (Aggregate)*** | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | ***SSBR Index*** | ***CSR Index*** | ***Financial Index*** | ***Average*** | ***Sharia*** | ***Social*** | ***Financial*** | ***Holistic Average*** |
| UK | 4 | 47% | 19% | 57% | 41% | 39% | 20% | 79% | 46% |
| UAE | 8 | 52% | 21% | 69% | 47% | 39% | 28% | 85% | 50% |
| Pakistan | 9 | 65% | 31% | 66% | 54% | 53% | 34% | 83% | 56% |
| Yemen | 3 | 55% | 20% | 83% | 53% | 35% | 17% | 92% | 48% |
| Egypt | 2 | 45% | 29% | 60% | 45% | 38% | 24% | 80% | 48% |
| Bahrain | 15 | 62% | 22% | 63% | 49% | 48% | 22% | 82% | 51% |
| Qatar | 6 | 52% | 20% | 66% | 46% | 37% | 20% | 83% | 47% |
| Sudan | 11 | 45% | 21% | 66% | 44% | 25% | 23% | 83% | 44% |
| Kuwait | 5 | 54% | 38% | 63% | 52% | 37% | 27% | 82% | 49% |
| Srilanka | 1 | 65% | 43% | 49% | 52% | 53% | 52% | 75% | 60% |
| Jordan | 4 | 68% | 47% | 68% | 61% | 54% | 39% | 84% | 59% |
| Malaysia | 16 | 51 % | 33% | 62% | 49% | 38 % | 24 % | 81% | 47 % |
| KSA | 5 | 43% | 31% | 66% | 47% | 49% | 33% | 83% | 55% |
| Thailand | 1 | 40% | 45% | 52% | 46% | 60% | 53% | 76% | 63% |
| Bangladesh | 9 | 59% | 43% | 66% | 56% | 50% | 48% | 83% | 60% |
| Syria | 2 | 78% | 22% | 70% | 57% | 59% | 16% | 85% | 54% |
| Brunei | 1 | 60% | 38% | 63% | 54% | 30% | 19% | 82% | 44% |
| Lebanon | 2 | 38% | 21% | 49% | 36% | 29% | 10% | 75% | 38% |
| Palestine | 2 | 70% | 42% | 69% | 59% | 55% | 46% | 85% | 62% |
| Kenya | 2 | 43% | 20% | 54% | 39% | 32% | 15% | 78% | 42% |
| Oman | 3 | 60% | 20% | 57% | 46% | 43% | 33% | 79% | 52% |
| Iraq | 5 | 19% | 15% | 53% | 29% | 24% | 22% | 77% | 41% |
| Philippine | 1 | 10% | 16% | 49% | 25% | 15% | 28% | 75% | 39% |
| *Average* | *117* | *53%* | *28%* | *62%* | *48%* | *41%* | *28%* | *81%* | *50%* |

**Figure 1**. Islamic accountability disclosure pillars across top 10 countries

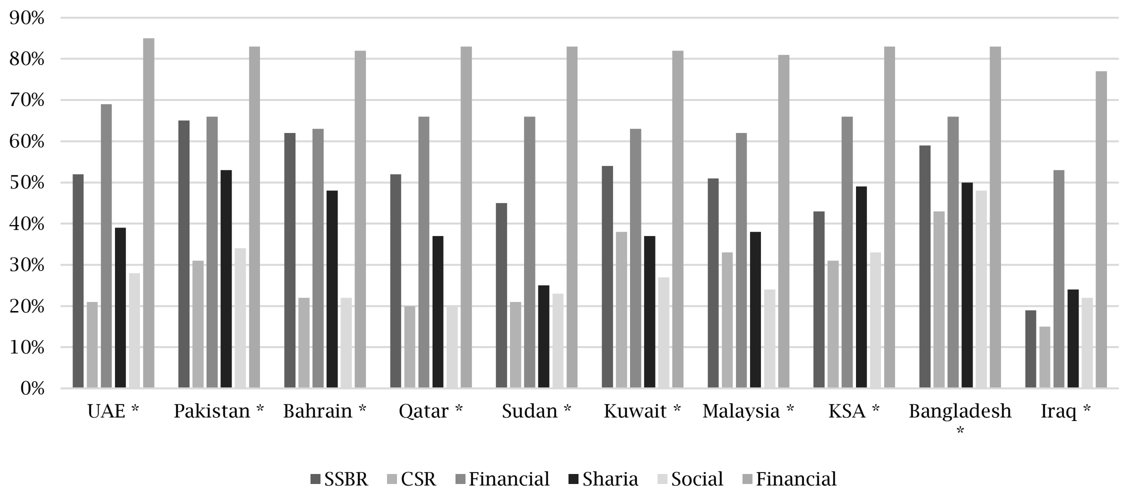

Table 8 summarizes the disclosure level for the main five sections in the annual report that measure the extent to which the three Islamic accountability pillars are reflected. These sections comprise vision, mission and objectives; CEO statement; directs' report; strategy report and finally, CG report. Regarding vision, mission and objectives, 75% of our selected banks disclose information about Sharia accountability in their vision and mission; 45% about social accountability. Finally, it shows 100% missions and objectives are related to financial issues as high return and enhancing services. The other sections in the annual report as CEO statement and CG report indicate high disclosure levels about financial accountability and low levels related to Sharia and social accountabilities. The table also shows that vision and mission is the highest section in the disclosure level (73%) than CG report and followed by CEO statement (62% and 56% respectively).

Hence, we present two groups from selected IBs to show extent to which vision and mission reflect Sharia, social and financial accountability. The first group shows high reflectance of Sharia, social and financial accountability in their vision and mission. First National bank Modaraba in Pakistan stated in the mission that "The fundamental Mission is to seek the pleasure of Allah" and also mentioned, "Our main aim is attaining the rights of Allah". Al-Arafah Islamic bank in Bangladesh stated that "Achieving the satisfaction of Almighty Allah both here & hereafter is one of the main objectives". Social Islamic bank in Bangladesh stated two objectives, which ensure best CSR practices and ensure Green Banking. The second group indicates a sample from IBs' vision and mission that does not reflect Sharia and social accountabilities. All banks reflect financial accountability as Alliance Islamic Bank at Malaysia, which focus on customer services as the main vision and build sustainable financial performance as the main mission. Islamic bank of Britain mentioned that "Our Vision is to be the UK's first choice Islamic bank". Abu Dhabi Islamic bank states that "To become a top-tier regional bank". This Vision does not contain any guide for bank's Sharia and social accountability. Bahrain Islamic Bank shows the extent to which Islamic bank ignore the state of its accountability in their vision and mission, defined as follows "To leverage our core competencies of customer intimacy, service, leadership and product innovation, in order to exceed the expectations of our stakeholders". Table 9-1 shows examples for IBs that reflects low orientation towards the three accountabilities in their vision and mission. Table 9-2 presents examples of banks that have highly refection about Sharia social and financial accountability in the vision and mission.

**Table 8.** Disclosure levels for all sections in the annual report

| | *Sharia accountability* | *Social accountability* | *Financial accountability* | *Average* |
|---|---|---|---|---|
| Vision; Mission; Values and Objectives | 75% | 45% | 100% | 73% |
| Chairman' Statement and CEO' Statement | 30% | 38% | 100% | 56% |
| Directors' Report | 25 % | 22% | 100% | 49% |
| Strategy Report | 20 % | 35% | 100% | 52% |
| Corporate Governance Report | 45% | 40% | 100% | 62% |
| *Average* | *31%* | *28%* | *100%* | *53%* |

**Table 9-1.** Examples for IBs that reflect low disclosure about Islamic accountability

| *Bank* | *Vision* | *Mission* |
|---|---|---|
| Alliance Islamic Bank, Malaysia[4] | The best customer services bank | To Build: Sustainable and Consistent Financial Performance; To Deliver: Superior Customer Experience and To deliver: Engaged Employees With The Right Values |
| Abu Dhabi Islamic Bank, UAE[5] | To become a top tier regional bank | Islamic financial solutions for everyone |
| Bahrain Islamic Bank, Bahrain[6] | To be the best Sharia-compliant financial solutions provider | To leverage our core competencies of customer intimacy, service, leadership and product innovation, in order to exceed the expectations of our stakeholders |
| Bank Alkhair, Bahrain[7] | To be a leading global provider of Sharia-compliant financial services | - |

*Notes:* [4] *http://www.allianceislamicbank.com.my/VisionMissionValues*
[5] *http://www.adib.ae/mission-objectives*
[6] *http://bisb.com/en/who-we-are/corporate-profile.html*
[7] *http://www.bankalkhair.com/*

**Table 9-2.** Examples for IBs that reflect high disclosure about Islamic accountability (Part I)

| *Bank* | *Vision* | *Mission* |
|---|---|---|
| First National Bank Modaraba, Pakistan[8] | Preserve to replace Riba driven instruments with Islamic modes of financing in a manner to achieve optimum customer satisfaction by developing relationship. To be an institution of excellence, which will create and maintain an environment of state-of-art management system and a high standard of integrity efficiency professionalism and innovation. Attain the status of most professionally and profitability. Run Modaraba among its competitors. It shall place a special emphasis on human resources development, dignity, and security, welfare of people who operate and work for the Modaraba. | The fundamental Mission is to seek the pleasure of Allah through making humble contribution in the transformation of our mercantile and financial system and business in accordance with the principles enshrined in the sharia commitments to provide Riba free investment and financing opportunities to the investors, the business community and industry in all business dealings of Modaraba, the rights of Allah, the rights of all certificate holders and all other rights shall be sincerely safeguarded. |

**Table 9-2.** Examples for IBs that reflect high disclosure about Islamic accountability (Part II)

| *Bank* | *Vision* | *Mission* |
|---|---|---|
| Al-Arafah Islamic bank, Bangladesh[9] | To be a pioneer in Islamic Banking in Bangladesh and contribute significantly to the growth of the national economy. | – Achieving the satisfaction of Almighty Allah both here and hereafter.<br>– Proliferation of Sharia Based Banking Practices.<br>– Fast and efficient customer service; Maintaining high standard of business ethics.<br>– Steady and competitive return on shareholders' equity; Innovative banking at a competitive price.<br>– Firm commitment to the growth of national economy; Involving more in Micro and SME. |
| Social Islamic bank limited, Bangladesh[10] | Working together for a caring society. | – Fast, accurate and satisfactory customer service; Optimum return on shareholders' equity.<br>– Introducing innovative Islamic Banking Products; Attract and retain high quality human resources.<br>– Empowering real poor families and creating local income opportunities.<br>– Providing support for social benefits organizations by way of social services. |
| CIHAN Bank for Islamic Investment and Finance, Iraq[11] | To be a leading financial institution that provides fully-fledged banking services compliant with Sharia to contribute in the development of the society. | To translate Islamic financial principles into practical solutions that serve the human community. |
| Arab Islamic Bank, Palestine[12] | The Bank works to establish the principle of dealing with the Islamic banking system as a first option for dealing bank. It takes an active role in the advancement of the Islamic economic system to achieve the principle of solidarity and Social objectives. The Islamic Bank is committed to providing solutions and modern Islamic banking services with High quality and continuing to market and deepen the principles of Islamic economics locally and internationally. | |
| Qatar Islamic Bank, Qatar[13] | A leading, innovative and global Islamic bank adhering to the highest Sharia and ethical principles; meeting international banking standards; partnering the development of the global economy and participating in the advancement of the society. | – To provide innovative Sharia-compliant financial solutions and quality services to our customers.<br>– To maximize returns for our shareholders and partners.<br>– To nurture an internal environment of qualified professionals and cutting-edge technology. |

*Notes: [8] http://www.nbmodaraba.com/pg/?pid=2*
*[9] http://www.al-arafahbank.com/profile.php*
*[10] http://www.siblbd.com/home/vision*
*[11] http://www.cihanbank.com/lang/en/Vision_and_mission.aspx*
*[12] http://www.aibnk.com/post/en/238/overview/22*
*[13] http://www.qib.com.qa/en/footer/about-us/mission-vision-values.aspx*

## 6. RESULTS AND DISCUSSION

### 6.1. Descriptive statistics of continuous variables

Table 10 presents the descriptive statistics of 8 models scores. It shows that the average disclosure level for SSBR is 53% and 42% related to Sharia disclosure level in all sections in the annual report. This result is out of our expectations regarding corporations raise the flag of Islam and compliance with Sharia as the main basis for its activities (e.g., El-Gamal, 2006; Kuran, 2004; Visser, 2009). Related to CSRD, the disclosure level is 28% and for social disclosure in the annual report is 28% which is relatively low. Concerned with financial disclosure, the compliance level about financial accountability in the financial statements is 63% and disclosure for financial in all sections in the annual report is 82% which is relativity high. 37% of our selected banks adopted AAOIFI and 61% audited by the big 4 auditors. The average age for our banks is 19 years. Table 10 also reports that the average leverage ratio is 72% whereas the risk adequacy is 29%. The % of public banks is 78.6%. 60% has SAD and 37% of our selected banks adopting AAOIFI more than IFRS. 60% from selected banks auditing from 4 big firms and 79% of our selected banks are public.

**Table 10.** Descriptive statistics of continuous variables (Part I)

| | *N* | *Minimum* | *Maximum* | *Mean* | *Std. Deviation* | *Skewness* | *Kurtosis* |
|---|---|---|---|---|---|---|---|
| SSBR | 117 | 0.00 | 0.90 | 0.5316 | 0.215 | -0.601 | -3.001 |
| CSRD | 117 | 0.08 | 0.60 | 0.2761 | 0.128 | 0.615 | -2.844 |
| FIN | 117 | 0.46 | 0.86 | 0.6256 | 0.078 | 0.038 | -2.044 |
| TOTAL | 117 | 0.22 | 0.70 | 0.4775 | 0.108 | -0.145 | -2.276 |
| SHARIA .T | 117 | 0.00 | 0.93 | 0.4168 | 0.184 | 0.303 | 2.392 |
| SOCAIL.T | 117 | 0.04 | 0.68 | 0.2762 | 0.159 | 0.794 | -2.236 |
| FIN.T | 117 | 0.73 | 0.93 | 0.8162 | 0.039 | 0.023 | -2.152 |
| TOTAL.T | 117 | 0.30 | 0.81 | 0.5021 | 0.100 | 0.719 | 2.845 |
| Standards | 117 | 0.00 | 1 | 0.37 | 0.484 | 0.557 | -3.720 |
| Auditor | 117 | 0.00 | 1 | 0.61 | 0.491 | -0.443 | -3.835 |
| Age | 117 | 2 | 54 | 18.80 | 12.056 | 0.712 | -2.441 |
| Size | 117 | 1.18 | 4.87 | 3.0886 | 0.807 | -0.130 | -2.439 |
| Profitability | 117 | -13.39 | 21.57 | 1.0553 | 3.467 | 0.915 | 2.166 |
| Risk Adequacy | 117 | -0.38 | 1.73 | 0.2940 | 0.278 | 0.348 | 3.467 |
| Leverage | 117 | 0.02 | 0.98 | 0.7279 | 0.259 | -0.394 | 2.723 |

**Table 10.** Descriptive statistics of continuous variables (Part II)

| | *N* | *Minimum* | *Maximum* | *Mean* | *Std. Deviation* | *Skewness* | *Kurtosis* |
|---|---|---|---|---|---|---|---|
| SAD | 117 | 0.00 | 1 | 0.60 | 0.492 | -0.406 | -2.867 |
| Ownership | 117 | 0.00 | 1 | 0.79 | 0.412 | -1.415 | 2.003 |
| Power distance | 117 | 35 | 100 | 82.42 | 14.84 | -0.383 | 2.073 |
| Individualism | 117 | 14 | 89 | 30.71 | 13.320 | 0.810 | 2.577 |
| Masculinity | 117 | 34 | 66 | 52.91 | 6.567 | 0.013 | 2.157 |
| Uncertainty avoidance | 117 | 35 | 85 | 64.49 | 15.904 | -0.804 | -2.632 |
| GDP per capita | 117 | 0.00 | 1.00 | 0.0342 | 0.182 | 0.194 | 3.409 |
| Corruption | 117 | -6.00 | 7.30 | 3.6128 | 3.463 | -0.000 | 3.028 |
| Country legal System | 117 | 1 | 8 | 4.01 | 1.808 | 0.012 | -2.251 |
| Role of Central Bank | 117 | 0 | 1 | 0.68 | 0.467 | -0.801 | -2.383 |
| Full adopting AAOIFI | 117 | 0 | 1 | 0.30 | 0.460 | 0.889 | -2.231 |
| Literacy Rate | 117 | 0.00 | 1.00 | 0.3248 | 0.470 | 0.758 | -2.450 |
| Islamization system | 117 | 0 | 1 | 0.77 | 0.166 | -0.864 | -2.640 |

*Notes: Sharia Supervisor Board Report index; CSR Index: Corporate Social Responsibility Index; Financial Index: Financial Statements Index; Total Index: Total disclosure (SSBR; CSR and Financial) Index; Total Sharia Index: Total Sharia disclosure for annual report Index; Total Social Index: Total social disclosure for annual report Index; Total Financial Index: Total financial disclosure for annual report Index; Holistic Index: Holistic disclosure (Sharia, social and financial) Index; Standard: Financial standard (AAOIFI or IFRS) (1 if the bank is adopted AAOIFI and 0 otherwise); Size Auditor: Size of auditor (Big-4 firms) (1 if the bank is audited by one of the big-4 firms and 0 otherwise); Age: bank age since foundation; B. Size: Bank size (natural logarithm of bank's total assets in US$ as a proxy for bank size); ROA: Return of Asset (Profitability); Riskiness: Risk adequacy (Tier 1 Capital); Leverage: Gearing (TD/TA); Sharia Department: Existing Sharia department ((1 if the bank has Sharia auditing department inside the bank and 0 otherwise)); Ownership: Public or Private Ownership (1 if the bank is Public and 0 otherwise); Hofstede Model for culture (Power distance; Individualism; Masculinity and Uncertainty avoidance); GDP: GDP growth (natural logarithm of the gross domestic product of country i as a proxy for country macroeconomic factors); Corruption: Corruption perception index; Legal: Country legal system (1 if the bank in country that adopted Sharia law and 0 otherwise as common and code); Central Bank: Role of central bank for SSB and Social (1 if the bank on country that central bank has SSB and 0 otherwise); Full adoption: Full adoption of country for AAOIFI (1 if the bank in country adopt AAOIFI for all banks and 0 otherwise); Literacy: Literacy rate for country; System: Complete Islamization banking country system (1 if the bank in a full Islamization banking system country and 0 otherwise).*

## 6.2. Pearson correlations matrix

Tables 11 and 12 report the outputs of the correlation matrix. Table 11 shows that the accounting standard is positive significant with financial models (3 & 7), whereas the size of the bank is a significant association with all models except model 1 related to SSBR. The Table also shows that SAD is positive significant for 7 models except model 6 related to total social. Related to culture, Table 12 shows that individualism is the most associated demission from Hofstede model by negative association and legal system has a positive association related to models 1; 2; 3; 4 and 7.

**Table 11.** Correlation matrix for firm-specific characteristics

| *Model* | $STA_i$ | $AUD_i$ | $AGE_i$ | $SIZE_i$ | $ROA_i$ | $RISK_i$ | $LEV_i$ | $SDEP_i$ | $OWN_i$ |
|---|---|---|---|---|---|---|---|---|---|
| Model 1 | 0.169 | 0.187* | 0.028 | 0.131 | 0.037 | 0.068 | -0.027 | 0.558** | 0.193* |
| Model 2 | -0.220* | 0.100 | 0.219* | 0.418** | -0.121 | -0.175 | 0.394** | 0.199* | 0.185* |
| Model 3 | 0.306** | 0.095 | 0.221* | 0.363** | 0.003 | -0.200* | 0.189* | 0.330** | 0.045 |
| Model 4 | 0.094 | 0.185* | 0.161 | 0.346** | -0.011 | -0.069 | 0.189* | 0.532** | 0.212* |
| Model 5 | 0.029 | 0.164 | 0.045 | 0.215* | -0.023 | 0.062 | 0.044 | 0.497** | 0.127 |
| Model 6 | -0.162 | -0.085 | 0.220* | 0.186* | -0.090 | -0.184* | 0.259** | 0.093 | 0.145 |
| Model 7 | 0.280** | 0.070 | 0.245** | 0.323** | 0.035 | -0.198* | 0.145 | 0.356** | -0.018 |
| Model 8 | -0.034 | 0.070 | 0.177 | 0.276** | -0.062 | -0.088 | 0.192* | 0.402** | 0.161 |

**Table 12.** Correlation matrix for country-specific characteristics

| *Model* | $POW_i$ | $IND_i$ | $MAS_i$ | $UNC_i$ | $GDP_i$ | $CORR_i$ | $LEG_i$ | $CENT_i$ | $ADOPT_i$ | $LIT_i$ | $SYS_i$ |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Model 1 | -0.127 | -0.110 | -0.001 | -0.001 | 0.132 | 0.082 | 0.278** | 0.152 | 0.134 | -0.048 | 0.030 |
| Model 2 | 0.007 | -0.310** | -0.286** | -0.174 | 0.187* | -0.102 | 0.216* | 0.024 | -0.190* | -0.089 | -0.086 |
| Model 3 | 0.053 | -0.114 | 0.090 | 0.160 | -0.110 | -0.074 | 0.288** | 0.214* | 0.174 | -0.248** | 0.136 |
| Model 4 | -0.069 | -0.223* | -0.097 | -0.038 | 0.131 | -0.007 | 0.341** | 0.161 | 0.053 | -0.127 | 0.020 |
| Model 5 | -0.126 | -0.167 | -0.059 | 0.067 | 0.294** | 0.100 | 0.145 | 0.009 | 0.007 | -0.002 | -0.096 |
| Model 6 | -0.068 | -0.245** | -0.167 | 0.054 | 0.163 | -0.122 | 0.097 | -0.051 | -0.166 | -0.222* | 0.002 |
| Model 7 | 0.007 | -0.142 | 0.083 | 0.165 | -0.088 | -0.091 | 0.299** | 0.223* | 0.150 | -0.280** | 0.188* |
| Model 8 | -0.123 | -0.235* | -0.110 | 0.078 | 0.249** | -0.010 | 0.180 | 0.005 | -0.068 | -0.150 | -0.032 |

*Notes: Model 1: Sharia Supervisor Board Report index; Model 2: Corporate Social Responsibility Index; Model 3: Financial Statements Index; Model 4: Total disclosure (SSBR; CSR and Financial) Index; Model5: Total Sharia disclosure for annual report Index; Model 6: Total social disclosure for annual report Index; Model: Total financial disclosure for annual report Index; Model8: Holistic disclosure (Sharia, social and financial) Index;* $STA_i$*: Financial standard (AAOIFI or IFRS);* $AUD_i$*: Size of auditor (Big-4 firms);* $AGE_i$*:bank age since foundation;* $SIZE_i$*: Bank size (natural logarithm of bank's total assets in US$ as a proxy for bank size);* $ROA_i$*: Return of Asset (Profitability);* $RISK_i$*: Risk adequacy (Tier 1 Capital);* $LEV_i$*: Gearing (TD/TA);* $SDEP_i$*: Existing Sharia department;* $OWN_i$*: Public or Private Ownership; Hofstede Model for culture (Power distance:* $POW_i$ *; Individualism:* $IND_i$*; Masculinity:* $MAS_i$ *and Uncertainty avoidance:* $UNC_i$*);* $GDP_i$*: GDP growth (natural logarithm of the gross domestic product of country i as a proxy for country macroeconomic factors);* $CORR_i$*: Corruption perception index;* $LEG_i$*: Country legal system (Sharia law and other as common and code);* $CENT_i$*: Role of central bank for SSB and Social;* $ADOPT_i$*: Full adoption of country for AAOIFI;* $LIT_i$*: Literacy rate for country;* $SYS_i$*: Complete Islamization banking country system ; *p<0.01; **p<0.05; ***p<0.001.*

### 6.3. Regression analysis

Table 13 presents the outputs of regression analysis. Related to model 1 (SSBR); the table shows, as expected, significant and positive coefficients of SAD with disclosure about Sharia (β = 0.581 at the 1% level). Model 2 (CSRR) reports significant and positive effects of size of bank (β = 0.347, at the 1% level); SAD (β 0.169, at the 10% level). The Table also shows significant and negative affects culture based on uncertainty avoidance (β = -0.372, at the 5% level). The Table also shows significant and negative affects for Corruption Index (β = -0.455, at the 5% level). According to model 3 (FS); the Table presents significant and positive affects accounting standards (β = 0.811, at the 1% level); size and profitability (β = 0.390, at the 1% level and β = 0.024, at the 5% level respectively).

It also shows significant and negative effects of ownership (β = -0.192, at the 5 level) and significant and negative affects for literacy rate (β = -0.500, at the 1% level). According to Model 4 (aggregate disclosure); there is a significant and positive effects of accounting standards (β = 0.458, at the 5% level); size of bank (β 0.246, at the 5% level) and SAD (β = 0.486, at the 1% level). Table also shows significant and negative effects of power distance (β = -0.251, at the 10% level); Masculinity (β = -0.218, at the 10% level) and uncertainty avoidance (β =-0.291, at the 5% level).

Model 5 (Holistic Sharia disclosure) reports significant and positive effects of SAD (β = 0.226, at the 1%) and GDP growth (β = 0.432, at the 5% level). Table also shows negative effects of power distance (β = -0.301, at the 10% level). Model 6 (Holistic social disclosure) shows positive affects GDP growth (β = 0.469, at the 10% level) and negative association with role of central bank (β = 0.381, at the 10% level). Model 7 (Holistic financial disclosure); shows significant and positive affects standards adopted by banks (β = 0.778, at the 1% level); size of bank (β = 0.387, at the 1% level); SAD (β 0.159, at the 10% level); corruption level (β = 0.335, at the 5% level) and legal system (β = 0.227, at the 10% level). Table also shows negative affects riskiness (β = -0.220, at the 5% level); ownership (β = -0.266, at the 1% level); full adoption of AAOIFI and literacy rate (β = -0.361, at the 10% level and β = -0.420, at the 5% level respectively). Model 8 (Holistic aggregate disclosure) reports significant and positive affects SAD (β = 0.331, at the 1% level); GDP growth (β 0.518, at the 5% level) and legal system (β = 0.261, at the 1% level).

**Table 13.** Summary of hypotheses' research

| | *H1 Standards* | *H2 Auditor* | *H3 Age* | *H4 Size* | *H5 Profitability* | *H6 Risk* | *H7 Leverage* | *H8 SAD* | *H9 Ownership* |
|---|---|---|---|---|---|---|---|---|---|
| Model 1 (SSBR) | R | R | R | R | R | R | R | A+ | R |
| Model 2 (CSRR) | R | R | R | A+ | R | R | R | A+ | R |
| Model 3 (Financial) | A+ | R | R | A+ | A+ | R | R | R | A- |
| Model 4 (Aggregate) | A+ | R | R | A+ | R | R | R | A+ | R |
| Model 5 (Holistic Sharia) | R | R | R | R | R | R | R | A+ | R |
| Model 6 (Holistic social) | R | R | R | R | R | R | R | R | R |
| Model 7 (Holistic financial) | A+ | R | R | A+ | R | A- | R | A+ | A- |
| Model 8 (Holistic ) | R | R | R | R | R | R | R | A+ | R |
| Final results | Partially accepted | Totally rejected | Totally rejected | Partially accepted | Partially accepted | Partially accepted | Totally rejected | Partially accepted | Partially accepted |

*Notes: (A) is accepted hypothesis; (R) is rejected hypothesis.*

## 7. DISCUSSION AND CONCLUSION

Our analysis reports, as expected, that STAit (our proxy for accounting standards) is positive and marginally significant with Models 3 and 7. This result shows the impact of AAOIFI adoption on enhancing disclosure level related to financial accountability disclosure. This result is consistent with Ariss and Sarieddine, (2007) who argued that the adoption of accounting standards will help to enhance their level of disclosure. It also consistent with Besar et al. (2009) who argue that one of the main tools to enhance the Islamic banking industry is adopting Islamic standards. Therefore, H1 is accepted partially for model 3, 4 and 7. Related to the size of the auditor; the coefficient estimates on 2AUD is insignificant related to all accountabilities disclosure models. The results suggest that the disclosure levels about accountability pillars are not affected by the size of the larger auditor. Therefore, H2 is rejected. This result is matching with several studies that found no association between disclosure level and audit firm size (e.g., McNally et al., 1982; Ali et al., 2012; Alsaeed, 2006; Barako et al., 2006)

Table 13 regarding the size of bank reports, as expected, that SIZEit is positive significant in 2; 3; 4 and 7 models which relate to more social and aggregate disclosure. This suggests that there is a positive relationship between bank size and their CSR disclosure. This result is consistent with Mallin and Michelon (2011), Al-Tuwaijri et al. (2004), Brammer et al. (2006), McWilliams and Siegel (2001) where they argue that big banks are highly likely to monitor their activities towards wider society. However, our result does not match with other studies that found a positive association between firm size and levels of disclosures (e.g., Chavent et al., 2006; Hassan et al., 2009). Therefore, H4 is partially accepted. Table 13 also shows that ROAit (our proxy for profitability) is insignificant with all models except model 3 related to FS disclosure. The results show an impact of profitability on enhancing disclosure level related to CSR disclosure. This result is not consistent with Gray et al. (2001), Othman et al. (2009) who found a significant association between profitability and corporate disclosure. But our result is matching Haniffa (2002) who argues that a firm from an Islamic approach should provide full disclosure regardless of the financial position or profitability. Therefore, we accepted H5, which debated is no link between profitability and corporate disclosure for IBs. This result differentiates IBs as compared to conventional banks that link their disclosure level to their profitability performance.

Table 13 illustrates, unexpectedly, that leverage is insignificant with all models of the disclosure. This result is consistent with Abraham and Cox (2007), Linsley and Shrives (2006), Rajab and Schachler (2009) who found an insignificant association between the disclosure and leverage ratio. Our result does not match other studies that found a positive association between leverage and disclosure (e.g., Elshandidy, 2011; Marshall & Weetman, 2007; Taylor et al., 2010). Therefore, H7 is rejected. Regarding the association between SAD and disclosure levels; the results indicate that the coefficient estimates on SDEPit are significant for all models except models (3 & 7) related to CSRR. Therefore, H8 is accepted. This result is consistent with studies that show a significant association between disclosure and internal auditing department as Archambeault et al. (2008). Also, the literature provides evidence that internal auditing has positive effects on financial reporting oversight and reliability (Schneider & Wilner, 1990). Table 14 summarizes the status of the whole hypotheses based on our 8 regression models.

**Table 14.** Determinants of Islamic accountability pillars disclosure (regression analysis)

| Variables/ Models | Model 1 | Model 2 | Model 3 | Model 4 | Model 5 | Model 6 | Model 7 | Model 8 | VIF |
|---|---|---|---|---|---|---|---|---|---|
| | Standardized β | Standardized β | Standardized β | Standardized β | Standardized β | Standardized B | Standardized β | Standardized β | |
| Constant | | | | | | | | | |
| $STA_{it}$ | 0.353 | 0.063 | 0.811*** | 0.458** | 0.253 | 0.115 | 0.778*** | 0.323 | 7.151 |
| $AUD_{it}$ | 0.049 | 0.110 | 0.107 | 0.100 | -0.132 | -0.157 | 0.055 | -0.154 | 2.664 |
| $SIZE_{it}$ | 0.009 | 0.347*** | 0.395*** | 0.246** | 0.136 | 0.112 | 0.387*** | 0.188 | 2.599 |
| $ROA_{it}$ | -0.049 | -0.072 | 0.024** | -0.042 | -0.056 | 0.006 | 0.047 | -0.026 | 1.369 |
| $LEV_{it}$ | 0.043 | 0.097 | 0.196 | 0.116 | 0.113 | 0.176 | 0.129 | 0.189 | 2.580 |
| $SAD_{it}$ | 0.581*** | 0.169* | 0.122 | 0.486*** | 0.465*** | 0.028 | 0.159* | 0.331*** | 1.701 |
| $OWN_{it}$ | 0.099 | 0.080 | -0.192** | 0.052 | 0.038 | 0.066 | -0.266*** | 0.029 | 1.464 |
| $AGE_{it}$ | -0.006 | 0.073 | 0.028 | 0.032 | 0.007 | 0.140 | 0.082 | 0.092 | 1.339 |
| $RISK_{it}$ | -0.025 | 0.009 | -0.184 | -0.052 | -0.006 | -0.122 | -0.220** | -0.106 | 1.623 |
| $POW_{it}$ | -0.222 | -0.218 | -0.054 | -0.251* | -0.301* | -0.039 | -0.102 | -0.224 | 4.267 |
| $IND_{it}$ | -0.026 | -0.072 | 0.040 | -0.040 | 0.001 | 0.236 | 0.039 | 0.161 | 7.522 |
| $MAS_{it}$ | -0.184 | -0.191 | -0.070 | -0.218* | -0.126 | -0.191 | -0.077 | -0.200 | 2.727 |
| $UNC_{it}$ | -0.195 | -0.372** | -0.009 | -0.291** | -0.013 | -0.030 | 0.007 | -0.026 | 4.705 |
| $GDP_{it}$ | 0.198 | 0.281 | -0.048 | 0.224 | 0.432** | 0.469* | 0.003 | 0.518** | 7.819 |
| $CORR_{it}$ | -0.171 | -0.445** | 0.310 | -0.220 | -0.213 | 0.026 | 0.335** | -0.077 | 6.291 |
| $LEG_{it}$ | 0.069 | 0.097 | 0.181 | 0.124 | 0.157 | 0.243 | 0.227* | 0.261* | 3.349 |
| $CENT_{it}$ | 0.048 | -0.157 | -0.181 | -0.073 | -0.011 | -0.381* | -0.174 | -0.229 | 5.740 |
| $ADOPT_{it}$ | -0.074 | 0.223 | -0.320 | -0.043 | -0.037 | 0.122 | -0.361* | -0.014 | 8.332 |
| $LIT_{it}$ | 0.125 | -0.076 | -0.500*** | -0.067 | 0.303 | -0.325 | -0.420** | -0.038 | 7.574 |
| $SYS_{it}$ | 0.046 | -0.143 | 0.052 | -0.016 | 0.043 | 0.057 | 0.149 | 0.077 | 5.988 |
| Model Summary: | | | | | | | | | |
| R2 | 0.464 | 0.484 | 0.569 | 0.573 | 0.424 | 0.270 | 0.571 | 0.420 | |
| F | 4.154 | 4.503 | 6.337 | 6.440 | 3.536 | 1.775 | 6.384 | 3.481 | |
| P | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.035 | 0.000 | 0.000 | |

*Notes: This table presents the regression matrix for the 8 models in 2013. $STA_{it}$: Financial standard (AAOIFI or IFRS); $AUD_{it}$: Size of auditor (Big-4 firms); $AGE_{it}$:bank age since foundation; $SIZE_{it}$: Bank size (natural logarithm of bank's total assets in US$ as a proxy for bank size); $ROA_{it}$: Return of Asset (Profitability); $RISK_{it}$: Risk adequacy (Tier 1 Capital); $LEV_{it}$: Gearing (TD/TA); $SDEP_{it}$: Existing Sharia department; $OWN_{it}$: Public or Private Ownership; Hofstede Model for culture (Power distance: $POW_{it}$ ; Individualism: $IND_{it}$; Masculinity: $MAS_{it}$ and Uncertainty avoidance: $UNC_{it}$ ); $GDP_{it}$: GDP growth (natural logarithm of the gross domestic product of country i as a proxy for country macro-economic factors); $CORR_{it}$: Corruption perception index; $LEG_{it}$: Country legal system (Sharia law and other as common and code); $CENT_{it}$: Role of central bank for SSB and Social; $ADOPT_{it}$: Full adoption of country for AAOIFI; $LIT_{it}$: Literacy rate for country; $SYS_{it}$: Complete Islamization banking country system.*

****, **, * indicates significance at the 1%, 5%and 10% levels.*

This paper seeks to explore different kinds of disclosure related to IBs which contain Sharia, social and financial as well as aims at measure the association between these different categories of disclosure and firm-specific characteristics. The disclosure levels are measured through three indices for CSR; SSB and Financial statements based on AAOIFI standards and several previous studies. Furthermore, the disclosure levels contain all sections in the annual report. Based on our analysis; the descriptive analysis shows relatively high disclosure level for financial level and SSBR (62% and 52% respectively) and relatively low for CSR disclosure (28%). Concerned with holistic disclosure level that measuring accountability' pillars for all sections in the annual report, disclosure levels about Sharia, social and financial are 40%; 28% and 81% respectively.

Our results show that adopting AAOIFI standards is positive and marginally significant with financial disclosure rather than other kinds of disclosure which matching with Besar et al. (2009) and reflects the importance of adopting AAOIFI for all IBs. Our analysis shows that whatever the age of IBs, it does not impact on the disclosure level which consists of Alsaeed (2006). Furthermore, our analysis displays the importance of size as one of the determinants related to disclosure. This finding matches with Mallin and Michelon's (2011), Brammer et al. (2006). As Haniffa (2002) argues, from an Islamic perception, IBs should provide full disclosure whether it is making a profit or otherwise. Our result proves her argument by showing insignificant association between disclosure and profitability. The same result for profitability is repeated with risk level as well leverage which shows insignificant correlation with disclosure levels as Dobler et al. (2011) concluded for the risk and Rajab and Schachler (2009) argue for the leverage. One of the main important results of this study is shown for what SAD effect on disclosure level. Chik (2011) described the existing of Internal sharia auditing as the true accountability, where IBs is not only accountable to their stakeholders or authorities but most significantly to Allah as part of the religious responsibility to be the best solution to achieve good corporate governance.

As such the results of this study should be of implication to policymakers, Islamic windows, regulators and stakeholders, particularly investors. However, our study is limited by focusing on one year, which motivates further research that can consider time series which can show the extent to which the disclosure levels changes and the extent to which it impacts the financial performance. Based on the significant impacts of the culture on the disclosure levels for corporations particularly related to Islamic values, we recommend exploring the impact of Islamic culture on the disclosure levels by more core analysis. Moreover, related to financial accountability disclosure we limit our study by not measuring the earning management issues in the annual report for IBs. Therefore, we recommend exploring the extent to which the disclosure in the annual report contains any level of earning management. We focused only on IBs, which suggest further research to contain other IFIs. Finally; this study tests only the firm characterises as ROA and standards with disregard the impacts of corporate governance on this kind of disclosure which asking a further research.

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