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Further evidence on the effect of financial performance and governance on the Islamic banks' disclosure

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Abstract

Purpose – The purpose of this study is to investigate the effect of financial performance (FP) and governance on the accounting and auditing organization for Islamic financial institutions (AAOIFI) disclosure for the Islamic banks.

Design/methodology/approach – The authors used the generalized least squares (GLS) estimation for 47 MENASA (Middle East, North Africa and Southeast Asia) Islamic banks (IBs) between 2012 and 2019. In this regression, disclosure is the endogenous variable. The performance and governance measures are the explanatory parameters. The authors use bank's size, leverage and age for control parameters. The robustness of results is verified via generalized method of moments (GMM) estimation method.

Findings – The findings indicate that performance measurement has weak effects on AAOIFI disclosure. Only the net interest margin (NIM) measure has a significant positive impact. The return of assets (ROA) and the return on equity (ROE) have a significant negative impact. Furthermore, all Shariah Governance measures have significant effects. Finally, the findings of this study support the governance's positive contribution to the disclosure in IBs.

Practical implications – Through including the whole issues allied to AAOIFI and their impacts on the banks' value, this study provides a significant summary for IBs, policymakers, regulators, AAOIFI and connected authorities across countries. In addition, the findings linked powers between jurisdictions with recommendations on growing the present AAOIFI practices.

Originality/value – This paper offers an original contribution to the accounting professionals and stakeholders who investigate the relationship between disclosure, performance and governance. It is considered as a basis for future studies in the simultaneous relation between these variables. It is crucial for accounting professionals, researchers and stakeholders interesting in the financial disclosure (FD) in IBs.

Keywords Islamic banks (IBs), Financial disclosure (FD), Financial performance (FP), Shariah governance

Paper type Research paper

1. Introduction

Islamic banking is a major segment in the market and services that have developed rapidly since their inception in the mid-1970s (Mallin *et al.*, 2014; Ibrahim, 2015; Ben Abdallah and Bahloul, 2021). The rapid evolution of Islamic banks (IBs) urges researchers to uncover its

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secrets, especially concerning their financial performance (FP), governance and disclosure. Under the signaling theory, a better performance firm is more probable to reveal more detailed reporting to the financial services. For IBs, the positive impact of profitability on accounting and auditing organization for Islamic financial institutions (AAOIFI) disclosure can be justified by the fact that high profits one are more expected to reveal further information to increase shareholder confidence, increase compensation, and raise capital at a lesser cost (Grassa *et al.*, 2018). For agency theory, it stipulates that bank managers provide additional information about banks to justify the current performance for shareholders.

Despite the agreement of signaling and agency theories showing that high-performance companies disclose high-quality accounting information, prior theoretical research has long inquired the potential of performance on disclosure. For the earliest theory, Safieddine (2009) revealed that agency problems in conventional banks occur when managers stop maximizing the wealth of shareholders. Also, any contradiction between Islamic bank managers to support all funds, provided in Shariah-compliant investments, creates more agency conflicts. For the second theory, Haniffa and Cooke (2005) asserted that the signal theory is adopted to proceed with the managers' incentives to divulge more information in the financial reports. In fact, managers want to disclose suitable information in financial statements in order to transmit positive signals to aspiring users. This earlier theory helps to strengthen the motivation of the Islamic bank managers to enhance their Shariah and financial reporting to issue positive signals to various users. Indeed, IBs offer specific signals to the stakeholders at the levels of information disclosure and their compliance with the AAOIFI standards.

In IBs, different authors have studied the effect of performance on disclosure. However, its outcomes are different. For instance, El-Halaby and Hussainey (2016) found that performance measurement is insignificantly linked to disclosure in IBs during 2011–2013. Nevertheless, Mnif and Tahari (2020a) showed a negatively insignificant connection between the profitability and disclosure in the IBs for 2016 and during 2009–2017, respectively. The governance practice is important for the IBs' annual reports. Indeed, it is a collection of rules that supply clearness and accountability.

With reference to the earlier studies on the relationship between disclosure, FP, and the Shariah governance for MENASA (Middle East, North Africa and Southeast Asia) IBs, Ben Abdallah and Bahloul (2021) revealed a significantly positive and a negative impact, respectively, of the Shariah governance and disclosure on FP. However, this earlier study has not addressed the effect of Shariah governance and FP on disclosure. Thus, the direction of the relationship between these variables remains unclear. We explicitly address this research gap by extending Ben Abdallah and Bahloul (2021) work to explore the power of performance and governance on the disclosure for these IBs situated in this region and which are ranked among the top countries for the Islamic financial assets as stated by the Islamic Finance Country Index (IFCI) [1]. Thus, like these authors, the database covers the same period and the same countries.

The objective of this paper is different but it complements the results of Ben Abdallah and Bahloul (2021) paper. This permits us to conclude if the disclosure and governance indicators affect IBs' performance or the direction of the relation is contrary. A major contribution of this study is the examination of the relationship between certain governance and performance indicators and the level of disclosure for MENASA IBs. Despite the previous work on this issue, this research reveals that FP and governance help banks to highly assume their duties. Also, it states that all bank activities comply with financial disclosure. Consequently, our investigation could be important and our conclusions could be very helpful to the AAOIFI enhancing information on IBs. Finally, the more IBs enhance and raise information disclosure, the more they contribute to develop the transparency level of financial information and to create greater confidence within banks and between the customers' of IBs.

We order the rest of the article as shown. Section 2 supplies the literature review and the research hypothesis. Section 3 describes the database and the methodology. Section 4, for instance, shows an investigation of the results. Section 5 studies the robustness. However, Section 6 discusses and finishes the paper.

2. Review of literature and hypotheses formulation

2.1 Conformity to AAOIFI standards

AAOIFI standards publish governance, auditing, accounting, ethics and Shariah for Islamic Financial Institutions (IFIs). Referring to Ullah *et al.* (2018), the AAOIFI is developed by more than 200 members from 45 countries and included central and IBs. El-Halaby *et al.* (2021) used 46 papers issued between 2000 and 2020 from 23 journals mainly in Scopus to systematically analyze the current investigation for AAOIFI standards that comprise different tracks of study. The goal of AAOIFI is to satisfy the financial practices. But, there are not several earlier studies that focused on the coherence with AAOIFI. The latter standards, despite being not exhaustive, are considered the appropriate standards to control the insufficiency of bank disclosure. In addition, AAOIFI standards have succeeded to convince regulatory authorities to assume their standards on a mandatory or voluntary basis in some regions either fully, practically or as guidance (Sarea and Haneefa, 2013). Furthermore, AAOIFI standards maintain their clients' confidence, increase and bring harmonization to the Shariah governance practices. Governance standards from number 1 to 5 connect specifically to the basic guidelines of corporate governance. Standard number 6 deals with aggregate governance criteria for IFIs. However, standard number 7 contains obligatory and non-mandatory criteria for the execution of corporate social responsibility (CSR) and the guidance disclosure of the social responsibility information for the stakeholders of IFIs.

2.2 The impact of the different performance measures on disclosure

From the signaling theory, managers disclose detailed information when profitability is high to increase the security of their positions and to validate their compensation. Thus, probably, banks with larger profits respond more to the mandatory disclosure than banks with smaller profits because the mandatory disclosure requirements may give additional information to investors (Mnif and Tahari, 2020a). The linkage between performance and disclosure has been inspected by various investigations.

2.2.1 The ROA and disclosure. Mnif and Tahari (2020a) explored the governance impact on AAOIFI disclosure from 2009 to 2017 and revealed a negatively insignificant effect of return of assets (ROA) on disclosure. This finding does not support the signaling theory which arguments that profitability has incentives to distinguish itself from less profitable ones to raise capital on the best available terms. Hussain *et al.* (2021) explored the determinants of Islamic social reporting (ISR) in 20 IBs in Pakistan from 2012 to 2018. These authors applied the fixed and random effects estimations and the generalized methods of moments (GMM). Their results show that the impact of ROA on the ISR is significant for the random effect, which is in agreement with Khan *et al.* (2020). However, there is not any important impact for the fixed effects and the GMM estimations. Thus, we suggest the first null hypothesis:

H1. In which the ROA is not connected to the disclosure in IBs.

2.2.2 The ROE and disclosure. Mallin *et al.* (2014) showed a positive correlation between CSR and ROE by studying 90 IBs in 13 countries from 2010 to 2011. This finding is consistent with signaling and agency theories and stated that IBs, having higher FP, would report more information than IBs with lower performance. In contrast, previous studies as El-Halaby and

Hussainey (2016) illustrated no significant power between ROE and disclosure. Thus, we suggest the following second null hypothesis:

H2. The ROE is not connected to the disclosure in IBs.

2.2.3 The EPS and disclosure. Earnings per share (EPS) measure the net income of every share and show the operational and market efficiency of a bank. Hence, higher EPS appears to evaluate better the banks' performance. Thinh (2021) examined the EPS impacts on CSR in Vietnam banks between 2015 and 2019 and shows that these effects are insignificantly positive. This outcome is in line with Szegedi *et al.* (2020). However, it is inconsistent with Akter *et al.* (2018), who suggested that EPS has a significantly negative association with CSR in the period (2014–216). These outcomes mean that IB is the vital practitioner of disclosure of CSR in Bangladesh. In addition, their research strives a current intuitiveness on the correlation between CSR disclosures and banks' EPS in this earlier country. Hence, we suggest the following third null hypothesis:

H3. The EPS is not connected to the disclosure in IBs.

2.2.4 The net interest margin (NIM) and disclosure. NIM is one of the most important measures of profitability. The higher the NIM ratio, the higher is the management decision quality. Thinh (2021) showed that NIM has a positive and insignificantly impact on disclosure. This finding contradicts Matuszak and Różańska (2017), who found that the nexus betwixt disclosure and NIM is negative. This negative effect was interpreted as the shareholders' confidence in banks accepting lower returns. Therefore, we suggest the following null hypothesis:

H4. The NIM is not connected to the disclosure in IBs.

2.3 The effect of governance on disclosure

With reference to Hussain *et al.* (2021), Bechihi *et al.* (2021), Ben Abdallah and Bahloul (2021) and El-Halaby *et al.* (2021), we investigate three sub-index of governance namely: Boards of Directors, Audit Committee and Shariah Supervision Board.

2.3.1 Boards of Directors (BOD) and disclosure. The BOD role has concentrated on the boards' effectiveness in monitoring management (Eugene and Jensen, 1983; Jarboui *et al.,* 2020; Ben Abdallah and Bahloul, 2021). In the Islamic framework, the BOD is powerful, affecting disclosure (El-Halaby and Hussainey, 2016). It is assumed that IBs with higher board scores should have an effective BOD structure. Marsidi *et al.* (2018) explored the impact of the BOD on financial disclosure (FD) in Malaysia by analyzing 48 annual reports for 12 IBs from 2007 to 2010 and found a significant relationship. This finding signifies that the board needs to secure the carried-out stakeholders' activities. In addition, more directors in IBs undertake effectively and efficiently all the necessary responsibilities. This signification is consistent with the agency theory. However, Mnif and Tahari (2020a) stipulated that BOD is not allied with disclosure because the IBs board members may be interested in studying Shariah law. Bechihi *et al.* (2021) examined the compliance standard of the FD with AAOIFI of 40 IBs in seven MENA countries between 2010 and 2016. Using the FGLS [2] regression, the authors showed that the BOD's size has insignificantly negative connotation with financial disclosure. This result opposes the agency theory, which purposes are to improve administration scrutiny in collection with larger BOD power, to impact positively disclosure. The effect of BOD on FD is negatively significant for Grassa *et al.* (2018), but for Neifar and Jarboui (2018), this variable improves disclosure in IBs. This research aims at satisfying the gap in the literature that discusses the BOD's role in the governance mechanisms and its influence on the disclosure of IBs. In addition, managers, investors and regulators may profit from evocative insights, notably those looking to ameliorate their IBs by the redevelopment of their boards' composition. Thus, we suggest the following second null hypothesis:

H5. BOD effectiveness is not connected to the FD in IBs.

2.3.2 AC and disclosure. The audit committee (AC) was investigated extensively by previous research (El-Halaby and Hussainey, 2016; Mnif and Tahari, 2017; Ben Abdallah and Bahloul, 2021). The big AC enhances effective monitoring with more varieties of views, skills, expertise and experience. In addition, the AC is a fundamental factor to supervise corporate disclosure practices sufficiently and reduces the agency's problems (Watts and Zimmerman, 1983). Therefore, a higher AC score is considered a sign of a better control system for IBs. This will lead to mandatory disclosures. As Ben Abdallah and Bahloul (2021), our study captures three key factors of the AC (Existence of AC and Existence of the department of audit charity). Therefore, Harun (2016), Bananuka *et al.* (2018, 2019) and Tumwebaze *et al.* (2021) found a positive power of AC on the disclosure. They indicated that an enormous AC has positive effects on the FD of IBs. Bechihi *et al.* (2021), for instance, considered that the power between the AC and DCI is insignificantly positive. This outcome does not go in line with Mnif and Tahari (2017). Hence, this finding is opposed to the agency theory, which according to Forker (1992) suggests that AC improves corporate disclosure and reduces agency costs. The present research addresses a gap on the association among AC and AAOIFI disclosure through using substantiation from MENASA countries. The first goal is to survey the reached link between FD and some AC determinants for IBs. The second goal is the choice guidance of the AC based on various factors, all functions, activities, tasks and managers. The third goal of the AC effective management is to make the IBs FD consistent and to ease its insertion into a new market, their activities' development, the initiation of a new banking product as well as the disclosure amelioration. The third target is to sustain the good structure of the warranted AC not just or the banks' disclosure supervision, but also for the reduction of the agency conflict regarding disclosure between stakeholders. Thus, we suggest that:

H6. AC effectiveness is not connected to the disclosure in IBs.

2.3.3 Shariah supervision board (SSB) and disclosure. The SSB scholars can examine Islamic principles and give specific rulings (Ben Abdallah and Bahloul, 2021). Therefore, El-Halaby and Hussainey (2016) showed a positive connection among the SSB and disclosure. The highest score of SSB would lead to more monitoring and would improve firstly the transparency of the report, secondly the conformity with AAOIFI and thirdly the clients' confidence. This outcome is consistent with Nomran *et al.* (2016), Mnif and Tahari (2020b), Bechihi *et al.* (2021) and Ben Abdallah and Bahloul (2021). This outcome is consistent also with the agency theory, which claims that when SSB is efficient, it reduces agency conflicts. Based on this earlier empirical evidence, we suggest the following null hypothesis:

H7. SSB effectiveness is not connected to the FD in IBs.

3. Data and empirical method

3.1 Sample

Like Ben Abdallah and Bahloul (2021), we used the same data in the same period. During this period, these observations are presented in the form of a panel with a double temporal and spatial dimension. In 2015, there are 141 banks related to the AAOIFI, but not all of these banks use these standards. Consequently, we chose banks in MENASA nations that have implemented AAOIFI. According to González *et al.* (2018), the generality of IFIs are installed in the MENASA region. Notably, the IBs have become a necessary portion for their economies' expansion. Consequently, the choice of the MENASA region can be justified by the importance of the Islamic banking sector in this region that differentiates from other countries. Additionally, the choice of these banks for our study in the MANASA region relies on the shared similarities of the culture mainly because Islam is the religion of the majority of people. Moreover, as stated by the IFCI (Islamic Financial Country Index), these countries have experienced significant growth in the IBs sector and are ranked among the IF assets top countries.

3.2 Estimates of disclosure index

This index (DCI) is proxy as the ratio among the overall number of disclosures and the entire number of items is applicable [3].

3.3 Measures of independent variables

Explanatory factors for disclosure consist of FP and governance mechanisms. Since the IBs, in our paper, have never been registered in stock exchange, Tobin's Q ratio is not added. Except for NIM and EPS, all variables are the same used by Ben Abdallah and Bahloul (2021) for the same list of Banks over the same period. Therefore, we use NIM, which is a rapport between the interest income and total assets. It represents the profit of the bank from interest rate activities. The supreme is the NIM ratio, the supreme is the management decisions. A higher NIM is the highest interest income or comparative with lower interest expense, which is charged upon the earning assets such as call money, short-term investment, loans and investment. Finally, we use EPS, which provides the proportion between net profit and total expenses, when the EPS is higher, the company seems better.

3.4 Empirical models

In our regression, we estimated the impact of performance and governance on the financial disclosure. The below regression equations determined this impact.

$$\mathrm{DCI}_{it} = \beta_0 + \beta_1 \mathrm{Perf}_{it} + \beta_2 \mathrm{SIZE}_{it} + \beta_3 \mathrm{LEV}_{it} + \beta_4 \mathrm{AGE}_{it} + \varepsilon_{it} \tag{1}$$

$$\mathrm{DCI}_{it} = \beta_0 + \beta_1 \mathrm{Gov}_{it} + \beta_2 \mathrm{SIZE}_{it} + \beta_3 \mathrm{LEV}_{it} + \beta_4 \mathrm{AGE}_{it} + \varepsilon_{it} \tag{2}$$

where:

- DCI_{it} measures the disclosure of banks;
- Perf_{it} indicates one of the bank performance measurements, which are ROA, ROE, NIM and EPS;
- Gov_{it} represents one of bank-level governance indexes, which are the BOD, AC and SSB;
- SIZE_{it}, LEV_{it} and AGE_{it}, are control parameters of bank;
- ε_{it} is the error term, β_0 is the constant parameter and $\beta_{1,}$ $\beta_{2,}$ β_3 and β_4 are the coefficients.

3.5 Estimation method

Before applying the model, several specific tests have been realized. These outcomes are shown in Table 1 (available online at: https://docs.google.com/document/d/1shjAMINL-XXkMcznqbiN-dqHbMgTe7Rp/edit?usp=sharing&ouid=114663301791920754882&rtpof=true&sd=true). First, the p-value of Hausman test is fewer than 5%, which justify the fixed effects. Second, the modified Wald test shows the being of a heteroskedasticity problem (p-value < 0.05). Finally, the Durbin–Watson test shows the being autocorrelation problem.

Therefore, we employed the generalized least squares (GLS) regression. Furthermore, we utilized the GMM estimation in the robustness study.

3.6 Description statistics and correlation analysis

We reported descriptive statistics for dependent and explanatory variables for the full IBs in Table 2 (available online at: https://docs.google.com/document/d/1FmPzroR1zR-0rJGLsXEsOWh8aYnjHXHa/edit?usp=sharing&ouid=114663301791920754882&rtpof=true&sd=true) [4]. Table 3 (available online at: https://docs.google.com/document/d/1h62DtkiOTgNKFpLzvj03nrsUC1RW6ByB/edit?usp=sharing&ouid=114663301791920754882&rtpof=true&sd=true) notably Panel A presents the connection between all variables. This Table designates that the highest significant correlation coefficient between independent variables is 0.43. According to Gujarati (2003) and Hair *et al.* (2010) studies, when the coefficient of correlation is less than 0.80, there is not a multicollinearity problem. We can understand the absence of the multicollinearity problem. Panel B reported a value less than 10. Referred to Hair *et al.* (2010), this finding is accepted by the VIF (Variance Inflation Factor).

4. Empirical findings

Table 4 (available online at: https://docs.google.com/document/d/10OEBs51XaXbRpEz0VXLRx30ZtHetzM-A/edit?usp=sharing&ouid=114663301791920754882&rtpof=true&sd=true) reports the result estimation for the effect of each of the FP measurements on AAOIFI disclosure.

Table 4 demonstrates that the regression is appropriate. Except for EPS, all variables are significant. The ROA and return on equity (ROE) have a negative significant power on disclosure. Our outcome is inconsistent with the null of H1 and H2. Thus, we accepted the alternative hypothesis. In Addition, our findings is incoherent with Tabash (2019), who revealed that IBs, with high performance, would report more information for investors and other institutions in order to minimize the cost of equity and to increase their market value.

The power of NIM on disclosure is significantly positive with a coefficient equal to 0.29%. This signals that higher loans/investments may tend to encourage higher inter-mediation margins. Consequently, it waited that NIM has a positively connection with the financial disclosure, which shows the rejection of H0. The higher is the NIM ratio, the higher is the management decision quality.

The EPS has a positively insignificant impression on the disclosure. As there is no relationship between these two variables, we accepted the null hypothesis. EPS shows the operational and market inefficacy of a bank. Hence, higher EPS appears to better evaluate the bank's performance and to minimize price earnings multiples.

Table 5 (available online at: https://docs.google.com/document/d/1oWzhF6FP89f4U111fRb51dPwP3DXILj3/edit?usp=sharing&ouid=114663301791920754882&rtpof=true&sd=true) reports the result estimation for the effect of each of the governance mechanisms on AAOIFI disclosure.

This outcome considered that with elevated governance, whether the institution's performance is poor, the IBs would be committed to conforming to accounting disclosure. The positive power of governance on the FD is consistent with Marsidi *et al.* (2018). This positive association is explicated by the presence of governance, which helps the bank to increase the disclosure standards and to issue protection for shareholders' interests. Also, the function of government is considered as a factor of transparency, especially for disclosure. Therefore, the governance structure serves to motivate managers to progress the bank meaning instead of pursuing their objectives and limiting the transfer of wealth between shareholders and managers. The attendance of the governance minimizes offensive reporting and is joined with the supreme of disclosure (Khalid, 2020).

Besides, the joint among the BOD and disclosure is positive significantly with a coefficient equal to 0.007. Indeed, in IBs, there is a requirement to ameliorate the efficacy of BOD governance after improving the other services. Therefore, management and regulatory bodies should take the initiative to increase the image of customers, bringing improved Shariah governance. This finding rejects the null hypothesis and it is coherent with the findings of Marsidi *et al.* (2018) and Grassa *et al.* (2018). Grassa and Chakroun (2016) and Neifar and Jarboui (2018) predicted a positive correlation by corroborating that independence' board rise from IBs' disclosure. According to Hussain *et al.* (2021) and Ben Abdallah and Bahloul (2021), the larger board size improves the monitoring capability of the board, and significantly combination betwixt stakeholders and the bank, which suggests in the stakeholder's theory that the bank will report more information. In contrast, it opposes with El-Halaby and Hussainey (2016) who stated that indices of governance, related to BOD, have a non-significant impact on disclosure. Besides, the alliance among AC and FD has a positively significantly coefficient with a value equal to 0.005. The AC ensures compliance with quality information on IB annual reports and financial statements. We accept the alternative hypothesis, and it is consistent with Mnif and Tahari (2017) and Sulub *et al.* (2018), who declared that AC has a greater incentive to develop enormous disclosure standards as they lose more for their reputation. Consistently, it contradicts the predictions of the agency theory arguing that AC is an efficacious mechanism for improving corporate disclosure and reducing agency costs (Forker, 1992). Finally, the impression of SSB on disclosure is positive with a coefficient equal to 0.03. These outcomes declare that IBs with higher SSB score are likely to disclosure more. Also, the SSB would lead to improve transparency of disclosure. We affirm the alternative hypothesis. This result is coherent with Noordin *et al.* (2016) and El-Halaby and Hussainey (2016) who claimed that the SSB mechanism is a determining factor affecting the financial disclosure. These results also imply that banks with a high SSB quality are liable to disclose. This signifies that SSB can force managers' oversight to participate in the disclosure. Consequently, it appears that it mitigates the agency conflict theory.

After filling the research gap non-studied by Ben Abdallah and Bahloul (2021) by exploring the power of disclosure and governance indicators on IBs financial profitability, we conclude that the performance measured by ROE and ROA and the disclosure affect each other negatively. However, governance mechanisms have a positive impact on the level of disclosure is the studied IBs.

5. Robustness study

To confirm the robustness, we approximated the model for the DCI using the GMM method [5]. The results are reported in Table 6 (available online at: https://docs.google.com/document/d/1rE8tInrKPb5D3mPxy3uyYim8LkkEXHOe/edit?usp=sharing&ouid=114663301791920754882&rtpof=true&sd=true).

For Table 6, we observe that the performance measurement and the governance mechanism results are similar to those of Tables 4 and 5. Consequently, the robustness' study with the GMM confirms the results announced in Tables 4 and 5.

6. Discussion and conclusion

Outcomes illustrate that EPS does not have an important effect on disclosure. However, the finding confirms the impact of ROA, ROE and NIM on the financial disclosure. Furthermore, governance has a major effect on disclosure. Empirical work has produced mixed findings on the connection between disclosure and performance. Our empirical findings have exposed that the performance measured by ROA and ROE of MENASA countries IBs and their level of disclosure affect each other negatively. This result is unsupported by stakeholder and legitimacy theories concentrating on the interaction between bank and region that decreases favor for both sides. While disclosure negatively affects FP and is unsupported by stakeholders, legitimacy and signaling theories that admit disclosure in the annual reports as a strategic implementation to range banks goals can affect the attitude of stakeholders (Ben Abdallah and Bahloul, 2021). The results of the tests for hypotheses 5, 6 and 7, show that the measures of governance (SSB, AC and BOD) function a fundamental part in disclosure. Therefore, this finding issue that the governance is crucial as it develops the FD and transparency of IBs. Also, the research signals that better governance can ameliorate the surveillance of the managers' disclosure strategies which could reflect more agreement with mandatory disclosure. The evidence agrees with Ajili and Bouri (2017) and Ben Abdallah and Bahloul (2021). This investigation offers to spot the mandatory and non-mandatory AAOIFI items of IBs. Indeed, our resolutions are the best for IBs and they make them aware that more conformity with the AAOIFI might have an extensive force on their image. Consequently, our findings might help those preparing the IBs' annual reports to augment the disclosed information. Indeed, conformity with AAOIFI in MENASA countries requires more effective efforts to enhance the clearness of its standards issued by central banks.

Our study investigates the relationship between performance, governance and financial disclosure. Compared to Ben Abdallah and Bahloul (2021) work, we conclude that the link between disclosure and performance measured by ROA and ROE in the studied IBs is negative and bidirectional. However, our research contains some limitations. This paper reveals the conformity level only with AAOIFI. Further research may consider other variables that touch the GDP, ownership structure, corruption index and other cultural dimensions. The database is finite to IBs in ten countries that assumed the AAOIFI from 2012 to 2019. Further studies may extend the database to otherwise countries that have IBs and may extend the covered period. Consequently, the sample is only restricted to IBS. Future studies could deal with other typical fields including insurances and IFIs in order to examine other items to assure the conformity with the AAOIFI standards. Few empirical researchers have studied the accordance factors with the AAOIFI in the MENASA countries. Therefore, this task complements and extends the quest in the MENASA countries.

Notes

1. https://www.ifciltd.com/
2. Feasible general least square regression.
3. The disclosure index (DCI) is used by Ben Abdallah and Bahloul (2021) for the same list of banks over the same period. For more details, see this earlier reference.
4. Except for NIM and EPS, all variables are the same used by Ben Abdallah and Bahloul (2021) for the same list of Banks over the same period. For more details, see this earlier reference.
5. The GMM method is used by Ben Abdallah and Bahloul (2021). For more details, see this earlier reference.

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