

Islamic Corporate Governance and Voluntary Risk Reporting in Saudi Arabia: The Role of Corporate Life Cycle

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Abstract

The main objective of study is to investigate the relationship between Islamic corporate governance effectiveness and the level of voluntary risk disclosure (VRD). The study also investigate the role of corporate life cycle (CLC) in the relationship. Islamic corporate governance effectiveness is represented by Shari'ah Supervisory Board (SSB)'s effectiveness. The sample of study consists of 167 firm-year observations of Islamic financial institutions (IFIs) listed on Saudi Arabia Stock Exchange (Tadawul) during the years of 2013–2017. Data were collected from companies' annual reports. The results show that SSB's effectiveness has a positive impact on level of VRD. Additionally, SSB's effectiveness is associated with higher level of VRD in mature-stage companies. The study enhances the current understanding on the importance of SSB's effectiveness, as an Islamic corporate governance mechanism for accountability reporting to stakeholders. A strong relationship between SSB and VRD for mature companies is economically justified by resource dependency theory that suggest, mature companies have more resources to report higher quality and transparent risk disclosure. The findings are useful to accounting and regulatory bodies by providing possible solutions to improve the risk reporting of companies in Saudi financial sector. This study improves the methodology used in past studies on the measurement of SSB's

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effectiveness, which include the combination of SSB size, SSB frequency of meetings, SSB reputation, and SSB cross membership.

Keywords: *Voluntary Risk disclosure, Islamic corporate governance, Shari'ah Supervisory Board, corporate life cycle, Saudi Arabia*

1.0 INTRODUCTION

Recently, the demand for risk management reporting by business entities has increased significantly. The reporting is important because high quality and timely reporting keep shareholders informed to make better investment decisions by making more updated risk-return analysis (Alsheikh et al., 2020; Elshandidy et al., 2013). Additionally, the reporting enable companies to address issues regarding compliance with regulatory requirements that can affect their sustainability (Abdul Rahman et al., 2010). However, the current level of risk management reporting is still low and considered not sufficient to be relied on to make sound economic decisions (Alzead & Hussainey, 2017). Mandatory risk management reporting alone seems insufficient to fulfil information need by investors and stakeholders (Elshandidy et al. 2013). Thus, voluntarily risk information reporting in companies' annual reports are needed to fill in the risk information gap.

Companies operate in Islamic Financial Institutions (IFIs) face additional types of business risk, apart from typical business risks faced by any conventional banks. This additional risks is due to the nature of IFIs operation, providing services and products in accordance with Shari'ah law¹ and regulation (Abdul Rahman et al., 2010). Merton (1995) warned about the possible spill over effect of IFIs risk towards the global financial system, if these risks are not managed and reported properly. In Islam, the Shari'ah law precede authority over all aspects of corporate practices and policies, including corporate responsibilities, governance and disclosures (Abu-Tapanjeh, 2009). One of the governance structure requirements in IFIs is the establishment of the Shari'ah Supervisory Board

(SSB) (AAOIFI, 2016). SSB has a fiduciary duty to certify Islamic products, services and procedures to ensure they are Shari'ah compliant.

Reporting of relevant information, including risk management information, is considered as one of the important tenet in Shari'ah law, and operationalized, via Islamic accounting system (Lewis, 2005). The reporting is also to promote transparency in business dealings (Bhatti & Bhatti, 2010). Although risk management reporting in IFIs has long been a debatable topic among researchers, only a few researchers have investigated this issues from Shari'ah governance perspectives (Barakat & Hussainey, 2013). We believe, Sharia'ah corporate governance mechanism may offer different insight of the risk reporting practice by IFIs. Thus, this study examines the effect of Shari'ah corporate governance, measured by SSB's effectiveness, on the level of voluntary risk disclosures (VRD) in Saudi Arabia IFIs, in which this relationship has not been empirically tested in the past studies.

Another issue that may affect the disclosure of risk information by business entities is whether companies have sufficient resources to collect and prepare the report. From Islamic perspective, resources are bestowed by God to be managed accordingly to what is allowable under Shari'ah law. Individuals or business entities are only trustees and the ultimate accountability is towards the God (Lewis 2005). Thus, this proposition lead to the belief that, in general, companies who have more resources are expected to be more accountable to make a higher risk disclosure (Campbell, 2007). In general, past studies documented evidences that companies at different life cycle stage have different resources, therefore have different level of

¹ In technical term, Shari'ah law refer to a legal system in keeping with the code of behaviour called for by the Holy Qura'n and the Sunnah (Lewis 2005).

disclosure (Dickinson, 2011; Hassan & Habib, 2017).

This study investigates the level of VRD in IFIs in different corporate life cycle stage and evaluates the moderating role of the corporate life cycle in the relationship between SSB's effectiveness and VRD. This study advances prior studies on role of corporate life cycle on the risk disclosure practices by IFIs. In this study, SSB's effectiveness is measured more comprehensively, by combining four different characteristics of SSB that formed one indicator of SSB's effectiveness. The characteristics are SSB's size, SSB's meeting, SSB's cross membership and SSB's reputation. This method shed more understanding of the influence of SSB's effectiveness towards risk disclosures.

Saudi Arabian IFIs are selected as sample for the study because currently the country is the leading economy in the Gulf Cooperation Council (GCC). The Tadawul All-Share Index (TASI) of the Saudi stock market is one of the most highly capitalized stock exchanges in the Arab world. The total value of shares traded annually is about SR60 billion (\$16 billion). The country also has the most considerable number of Islamic banks and windows. Therefore, the findings of this study can be applied in other smaller economy size Islamic countries to improve the effectiveness of SSB that can lead to better risk management reporting.

The results of the analysis show that the SSB's effectiveness has a positive impact on the level of voluntary risk disclosure. Additionally, the results also show that SSB's effectiveness is associated with a higher level of risk disclosure among mature-stage companies. The findings implied that effective SSB members do act in accordance of what is expected of them by the Shari'ah law, providing sufficient information for informed decision making. Companies in mature stage life cycle disclose more information as they have resources that required them to be more accountable.

The remaining of the paper is organized as follows: the second section presents the relevant and review

of the literature, followed by the development of the research hypothesis. The third section outlines the research methodology. The fourth section discusses the findings and results, and the last section reports the conclusions.

2.0 LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

The rationale for the Shari'ah law implementation in IFIs is to achieve Maqasid Al-Shari'ah objectives which aims at protecting and preserving public interests (maslahah) in all aspects and segments of life. Maqasid al-Shari'ah reflects the holistic view of Islam which is considered as a complete and integrated code of life and its goal encompasses individuals, business entities and society; in this world and the Hereafter. One important aspect of Islamic business practice, for the accomplishment of Maqasid Al-Shari'ah is to provide adequate information for users to make financial and nonfinancial decision (Lewis 2005).

Adequate disclosure practices is also consistent with what the Qur'an promotes as a vital element of the Islamic ethic and, "Disclosure of all necessary information/facts for accomplishment of the faithful obligations and the making of economic and business decisions consistent with that ethos is the most important tenet of an Islamic accounting system" (Lewis, 2006, p. 9). Therefore, Shari'ah law promotes proper disclosure and transparency in business reporting.

The following section discusses the development of two hypotheses that will be tested in this study.

2.1 Shari'ah Supervisory Board and Level of Voluntary Risk Disclosure

Shari'ah Supervisory Board (SSB) is an independent internal governance committee that was established to monitor the compliance of IFIs with Shari'ah law and other related Islamic practice regulations. It plays a vital role in strengthening the credibility of the IFIs and has significant importance to the Muslim community (*umma*), being the end-user of Islamic financial products and services (Grassa, 2015). Effective SSB ensure adequate level of risk management information are

made available for the benefit of shareholders and others stakeholders. Previous studies have demonstrated that SSB is directly responsible for disclosure levels in IFIs (Farook et al., 2011; El-Halaby & Hussainey, 2016).

The positive connection between SSB effectiveness and voluntary risk disclosures (VRD) is in line with an important belief in Islam is that corporate participants, SSB members, are fulfilling duties to the Creator by provide relevant information to stakeholders (*umma*) for them to make economic and business decisions (Lewis, 2005). Additionally SSB effectiveness provide added corporate governance layer to assist managers achieve their stewardship function, thus resulting in increased transparency in reporting (Elamer et al., 2019). Chobpichien et al., 2008 and Ward et al., 2009 suggest that, it is important to look at corporate governance mechanisms (conventional and Islamic) as a bundle of mechanisms, to protect shareholder interests, and not in isolation from each other because these corporate governance mechanisms act in a complementary manner (Chobpichien et al., 2008).

Effectiveness of SSB is measured using an index which comprises of four shari'ah board characteristics; size, meeting, cross-members, and reputation. SSB size is an important factor in determining the level of disclosure (Farook et al., 2011; Almutairi & Quttainah, 2017). Shari'ah boards with large board size contain scholars with various experiences and skills which could lead to a better interpretation of the products and operations (Hamza, 2013). Higher number of SSB members may add to the diverse knowledge accumulation and to better monitor the board and management (Singh et al., 2004). Therefore, with an increase number of Shari'ah board members, the level of risk disclosure may increase.

Few empirical studies have examined the impact of SSB size on disclosure (El-Halaby & Hussainey, 2016). They found that SSB size has a significant impact on the level of disclosure. Additionally, a study by Abdul Rahman and Bukair (2013) indicate that SSB size is important factors in determining the level of CSR

disclosure. Frequency of meetings also plays an important role in ensuring the effectiveness of SSB, as more meetings indicate active SSB (Al-Maghzom, et al., 2016). Therefore, active SSB influence more transparent reporting and more information will be disclosed (Allini et al., 2016).

Another significant aspect of SSB members, which is predicted to influence the level of disclosure in Islamic banks, is SSB cross-membership (El-Halaby & Hussainey, 2016). Cross directorship enables SSB members to attain more information about Islamic law in the diverse Islamic financial sector (Ibrahim et al., 2015). Furthermore, the members of SSB with cross-membership will apply their implicit and explicit knowledge into their application of Shari'ah rulings in Islamic banking. As a result, there will be an improvement of knowledge about the implementation of the Shari'ah principles as well as corporate reporting (Haniffa and Cooke, 2002; Haat et al., 2008). Cross-directorships increase disclosure transparency because the know-how gathered from networking in various companies and decisions made in various boards meeting assist SSB members make better decision (Hannifa & Cooke, 2002; Haat et al., 2008; Farook et al, 2011).

Similarly, SSB members comprises of Shari'ah scholars or better known as *ulamas* have an excellent reputation in the community because of their knowledge of Islam and in-depth knowledge of Fiqh al-Muamalat. Having more reputable *ulamas* as SSB members increase IFIs reputation since this sector is based on trust; product and services offered must be Shari'ah compliant. Reputable scholars assist IFIs to grasp current operation of financial sector including in the area of disclosure. El-Halaby and Hussainey (2016) indicate that reputation is instrumental in measuring the level of disclosure in Islamic banks.

In conclusion, stewardship theory argues that effective SSB plays an important role in helping IFIs to fulfil their duties to provide higher risk management disclosure (Farook et al., 2011). Elamer et al., (2019), found that SSB and voluntary risk disclosure are positively

related and the effectiveness of SSB has the potential to influence the level of voluntary risk disclosure. Based on the above argument, the following hypothesis is formulated:

H₁: There is a positive association between the Shari'ah Supervisory Board effectiveness and level of voluntary risk disclosure.

2.2 Corporate Life Cycle, Shari'ah Supervisory Board and Level of Voluntary Risk Disclosure

Companies in different corporate life cycle stage face different systematic changes in operating, investing and financing activities. They also have different organizational capabilities, risk appetite and risk tolerance. Companies in mature life cycle stage have higher tendencies to invest more in corporate social responsibilities (CSR) activities (Hasan & Habib, 2017). Other studies show that companies at introduction and declining stage are less profitable and riskier whereas growth and mature companies are more profitable. Profitable companies have higher resources to invest in risk management practices and tends to make higher voluntary risk disclosure and vice versa is true for less profitable companies (Dickinson, 2011; Hassan & Habib, 2017).

From the conventional business perspective, companies make risk disclosures to give signal to relevant stakeholders about the risk management initiatives and practices. Mature companies, with more resources, can invest in risk management initiatives and less susceptible to various risk exposures (Bulan & Subramanian, 2009).

From the Islamic business perspective, mature firm have more resources bestowed by God, therefore these resources need to be managed according to what is permissible under the Shari'ah law. Individuals or business entities are only trustees and the ultimately they are accountable towards the God (Lewis 2005). Thus, this proposition lead to the belief that, in general, companies who are in the mature life cycle stage have more resources and

expected to be more accountable to make a higher risk disclosure (Campbell, 2007).

Elamer et al., (2019), found that SSB and voluntary risk disclosure are positive related. Accordingly, companies with high retained earnings (i.e. companies in mature life cycle stages), tend to disclose more risk information (Al-Hadi et al., 2015). This study predicts that although relationship between SSB and level of voluntary risk disclosure does make some economic sense, life cycle stage is also crucial in effecting relationship between SSB and VRD.

The current study hypothesizes that effective SSB in mature life cycle stage companies tend to disclose higher level of voluntary risk disclosure than companies in growth or declining life cycle stage. Thus, this study suggests the following hypothesis:

H₂: Sharia Supervisory Board effectiveness in mature life cycle stage is associated with greater level of voluntary risk disclosures.

3.0 RESEARCH METHODOLOGY

The sample of this study consists all companies in Islamic financial institutions (IFIs) listed on Saudi Arabia Stock Market (Tadawul) for a period of 2013 - 2017. The final sample comprises of 34 companies which consist 12 banks and 22 insurance companies. This give rise of 167 firm-year observations.

3.1 Measurement of the Variables

The dependent variable of this study is voluntary risk disclosure (VRD). Voluntary risk reporting is defined as a category of risk information that is provided by companies beyond the requirements of regulations where information is considered to be relevant to investors or other users of financial reports for decision making.

This study employed content analysis method to determine the level of voluntary risk disclosure in Saudi Arabia companies' annual reports (Al-Maghzom, et al., 2016; Abdallah et al., 2015). The unweighted disclosure index was developed and used since the study does not focus on a specific user group information need (Alsaeed, 2006). Therefore, there is no need to give different weight/importance levels to specific disclosed risk items (Oliveira et al., 2011). In line with previous studies, a dichotomous model is used; a score of 1 is given if disclosure item is disclosed and 0 otherwise (Alsaeed, 2006; Oliveira et al. 2011; Al-Maghzom et al. 2016; Alzead & Hussainey, 2017). For the purpose of constructing the risk disclosure index, the study has done a comprehensive review of literature to identify which disclosure items were widely used in the past studies (Maghzom et al, 2016; Linsley and Shrives, 2006; Lipunga, 2014). The study also reviewed of AAOIFI (2014) and

Islamic Financial Services Board (IFSB, 2013) to identify which risk disclosure items are recommended to be included in companies' annual reports.

The study has identified 60 disclosure items² which were categorized into eight areas comprising: A-Operational risk (10 items), B-Empowerment risk (9 items), C-Information processing and technology risk (5 items), D-Integrity risk (3 items), E-Strategic risk (12 items), F-Financial and other risks (6 items), G-Risks specific of Islamic institutions (11 items) and H-Islamic standards (4 items). A pilot test was conducted on 3 banks and 3 insurance companies to confirm which risk disclosure items are relevant IFIs in Saudi Arabia. Those which were not relevant are omitted. The final disclosure items consist of 45 items are presented in Table 1.

Table 1 Risk Disclosure Items

Categories	Items suggested by past studies	Final items after pilot test	Percentage
Operational risk	10	8	17.78%
Empowerment risk	9	8	17.78%
Information processing and technology risk	5	5	11.11%
Integrity risk	3	3	6.67%
Strategic risk	12	11	24.44%
Financial and other risks	6	6	13.33%
Risks specific of Islamic institutions	11	4	8.90%
Islamic standards	4	0	-
Total	60	45	100%

Note: The percentage is calculated based on final items compared to total disclosure items

A disclosure score was calculated as follows:

$$\text{VRD Disclosure Score} = \frac{\text{number of disclosure items actually disclosed}}{\text{possible maximum score (45 items)}}$$

The independent variable of this study is Shari'ah Supervisory Board effectiveness (SSB). The effectiveness of SSB is measured based on four dichotomous attributes: SSB size, SSB meeting, SSB reputation and SSB cross-memberships.

SSB size is measured based on the number of

members on SSB (Elamer et al., 2019). A score of "1" is given if number of members on the board is greater than the sample median and "0" otherwise. SSB meetings is measured based on the total number of board meetings in an accounting year (Elamer et al. (2019). A score of "1" is given if the number of meetings is greater than the sample median meeting, and "0" otherwise.

SSB reputation is based on the number of members who are appointed as Council of Senior

² A complete list of these items is available upon request.

Scholars³. A score of “1” is given if 50 percent or more SSB members are members of the Council of Senior Scholars and “0” otherwise (Abdul Rehman & Bukair, 2013; El-Halaby & Hussainey, 2016). SSB cross-membership is measured based on involvement of SSBs’ member involvement in other organization. A score of “1” is given if 50 percent or more members are also members in the other SSBs and 0 otherwise (Abdul Rehman and Bukair (2013); El-Halaby and Hussainey (2016); Farook et al. (2011).

The total score of SSB effectiveness is divided by total possible maximum score, which is 4. Therefore, the range of the score is between 0 – 1.

This study proposes corporate life cycle (CLC) as a moderating variable. This study uses retained earnings to total equity (RE/TE) as proxies for the CLC (Al-Hadi et al., 2015). Corporate life cycles were categorized into three stages; growth stage (group with the lowest one-third of RE/TE), mature stage (group with the middle one-third of RE/TE), and old or decline stage (group with the top one third of the top RE/TE ratios). A score of “1” is given if the firm in the mature life cycle stages and “0” otherwise

Control Variables

There are six control variables in this study: corporate governance, audit quality, firm size, profitability, leverage and beta (Alsheikh et al., 2020; Al-Maghzom et al., 2016; El-Halaby and Hussainey, 2016; Al-Hadi et al., 2015; Abdallah et al., 2015; Elshandidy and Neri, 2015; Elshandidy et al., 2013; Ntim et al., 2013; Allini et al., 2016; Hassan et al., 2009).

The corporate governance variable was measured based on the characteristics of the board of directors (BOD) and audit committee. Board characteristics include board size, independence, and frequency of board meetings. The attributes of the audit committee (AC) are AC size; frequency of meetings, and AC qualification. These attributes

are developed into an index (CG Index); (see Appendix A).

Audit quality is measured by type of auditor; Big4 or Non Big4 (Alsheikh et al., 2020). Firm size is measured based on total assets (Albassam & Ntim, 2017; Linsley & Shrivs, 2006); Profitability is measured by return on equity (ROE) (Buckby et al., 2015; Elshandidy et al., 2013, 2015) and leverage is measured by long-term debt divided by total assets (Buckby et al., 2015; Elshandidy et al., 2013, 2015). Finally, the beta is calculated by regressing the 12 months share price against the respective market index (Alsheikh et al., 2020). The following models are used to test the hypotheses related to the association between variables:

Model 1: To test the association between SSB effectiveness and VRD.

$$VRD = \beta_0 + \beta_1 SSB_{it} + \beta_2 CGI_{it} + \beta_3 ABig4_{it} + \beta_4 SIZE_{it} + \beta_5 PROF_{it} + \beta_6 LVG_{it} + \beta_7 Beta_{it} + E_{it}$$

Model 2: To test the association SSB effectiveness and corporate life cycle with VRD.

$$VRD = \beta_0 + \beta_1 SSB_{it} + \beta_2 CLC_{it} + \beta_3 CGI_{it} + \beta_4 ABig4_{it} + \beta_5 SIZE_{it} + \beta_6 PROF_{it} + \beta_7 LVG_{it} + \beta_8 Beta_{it} + E_{it}$$

Model 3: To test the moderating effect of corporate life cycle in the relationship between VRD and SSB effectiveness

$$VRD = \beta_0 + \beta_1 SSB_{it} + \beta_2 CLC_{it} + \beta_3 SSB_{it} * CLC_{it} + \beta_4 CGI_{it} + \beta_5 ABig4_{it} + \beta_6 SIZE_{it} + \beta_7 PROF_{it} + \beta_8 LVG_{it} + \beta_9 Beta_{it} + E_{it}$$

Where:

VRD = voluntary risk disclosure;
SSB = Score on SSB effectiveness;
CLC = Corporate Life Cycle;
CGI = Corporate Governance Index;
ABig4 = Auditor type: 1 if from Big4 and 0 otherwise;

³ Council of Senior Scholars (Senior Council of Ulama’) is the highest religious body in Saudi Arabia, founded in 1971.

The council member is appointed by the King of Saudi Arabia by royal order.

SIZE = Firm size;
PROF = Profitability;
LVG = Leverage;
Beta = Firm's beta for at least 12 months;
and
 E_{it} = error term.

4.0 RESULTS AND DISCUSSIONS

The descriptive statistics of dependent variable, voluntary risk disclosure (VRD), is depicted in Table 2. A summary of the disclosures made by both banks and insurance companies is also presented in the table.

Table 2 Descriptive Statistics for Voluntary Risk Disclosure (n=167)

VRD Categories	Min	Max	Mean (Year)					Strd. Dev	
Panel A:			2013	2014	2015	2016	2017	All	
Overall VRD	0.16	0.64	0.34	0.36	0.40	0.42	0.42	0.39	0.09
Panel B: VRD Based on Sector									
Banks (n=60)	0.24	0.64	0.36	0.39	0.43	0.46	0.49	0.43	0.10
Insurance (n=107)	0.16	0.53	0.33	0.34	0.39	0.40	0.39	0.37	0.08

Panel A of Table 2 shows the mean value for overall VRD is 0.39. This indicates that 39% of the risk disclosure items (out of 45 items) are disclosed in the annual report of bank and insurance companies listed at Tawadul Stock Market. The minimum value for overall VRD is 0.16, the maximum value is 0.64.

The level of VRD has been increasing over the years. It had been 0.34 in year 2013 and increased to 0.42 in year 2017. The increasing trend is supported by the study of O'Connell (2016) which asserted that voluntary risk disclosures have been recently on a rising trend.

Panel B of the table shows that the mean of disclosure by banks is 43% compared to 37%

disclosure by insurance companies. The maximum value for risk disclosure among banks is 0.64 and the minimum value is 0.16. Overall, companies in banking sector disclosure more risk information compared to companies in insurance sector.

Table 3 shows that descriptive information of all variables in this study. The average SSB is only 0.38 (or 38 percent). As SSB is one of the corporate governance mechanisms, this indicate that that listed Saudi Arabian financial companies need to improve on their corporate SSB quality. About 35 percent of sample firm are in the mature stage life cycle, and the majority are audited by Big4 audit firm.

Table 3 Descriptive Statistics of Variables

Variable	Mean	S. D	Min	Median	Max
SSB	0.38	0.23	0.00	0.25	1.00
<i>Control variables</i>					
CGI	0.42	0.22	0.17	0.33	1.00
Size	22.51	2.56	18.78	21.32	26.83

ROE	0.05	0.21	-0.92	0.11	0.64
LVG	0.06	0.03	0.01	0.06	0.20
Beta	1.13	0.34	0.60	1.09	3.74

Where: VRD = Voluntary Risk Disclosure, SSB= Sharia Supervisory Board Effectiveness, CGI = corporate governance index, SIZE = Firm size (Natural logarithm of total assets), ROE = Return on equity, LVG = Leverage (Long-term debt/ total assets), Beta= risk which is calculated by regressing 12 months the share price against the respective market index.

In order to assess the association between independent variables, the correlation coefficients between variables are obtained from Pearson correlation tests. Table 4 shows that none of the independent variables have a correlation of more

than 0.7 with any other independent variables. The highest level of correlation are between SSD and Size (0.467) and between size and leverage (0.414). Thus, there is no multicollinearity issue among the selected independent variables.

Table 4 Correlation Matrix

	SSD	CLC	CGI	Abig4	SIZE	ROE	LVG	Beta
SSD	1							
CLC	-0.0783	1						
CGI	0.290***	-0.046	1					
Abig4	0.169**	-0.277***	0.045	1				
SIZE	0.467***	-0.313***	0.393***	0.387***	1			
ROE	0.102	-0.220***	0.014	0.156**	0.360***	1		
LVG	0.218***	0.020	0.241***	0.192***	0.414***	-0.159**	1	
Beta	-0.142*	0.050	-0.147*	-0.093	-0.390***	-0.144*	-0.142*	1

Where: *** $p < .01$ ** $p < .05$ * $p < .10$, respectively.

SSB= Shari'ah Supervisory Board Effectiveness, CLC= corporate life cycle, CGI = corporate governance index, Abig4= Auditor type, SIZE = Firm size (Natural logarithm of total assets), ROE = Return on equity, LVG = Leverage (Long-term debt/ total assets), Beta= risk which is calculated over 12 months by regressing the share price against the respective market index.

Hypothesis Testing

The results of multiple regressions are shown in Table 5. Model 1 tests the direct relationship between SSB's effectiveness and the level of voluntary risk disclosure (VRD). The adjusted R^2 value indicates that 54% of changes in VRD are explained by all variables in the regression equation. The results show that SSB's effectiveness

is a significant predictor for the VRD. Additionally, the ROE and beta also show significant relationship with VRD.

The results imply that effective of SSB influence IFIs to provide higher risk management disclosure practices. The presence of effective SSB creates a trustworthy business climate in which risk management are disclosed to maintain fair and

transparent risk management practices. The results are consistent with the findings by Abdul Rahman and Bukair (2013) and Elamer, Ntim, Abdou, Zalata, and Elmagrhi (2019) which also show positive impact of SSB towards disclosure in Gulf and MENA region, respectively.

The results are consistent with the requirement in Shari'ah law which stated that business entities should fulfil duties to the Creator by provide relevant information to stakeholders (*umma*) for

them to make economic and business decisions (Lewis, 2005). The result are supported by the legitimacy theory which states that the disclosures can be used as possible tool in order to decrease regulatory pressures from the government and justify the existence of IFIs (Zadeh & Eskandari, 2012). In Islamic societies, SSB works as per the Islamic rules of business and calls for complete transparency. Therefore, H_1 , which posits that there is a positive association between SSB effectiveness and VRD voluntary risk disclosure is accepted.

Table 5 The Regression Result of Direct Relationship between SSB with VRD.

Variable	VRD Model 1	VRD Model 2	VRD Model 3
SSB	0.1033* (1.920)	0.1395*** (4.110)	0.0733 (1.610)
CLC		0.0505*** (2.97)	-0.0207 (-1.14)
SSB*CLC			0.1865*** (3.310)
CGI	0.0331 (0.490)	-0.0010 (-0.020)	-0.0229 (-0.490)
A big4	0.0162 (0.740)	0.0152 (0.680)	0.0215 (0.980)
SIZE	0.0254 (1.040)	0.0063 (0.780)	0.0103 (1.120)
ROE	0.0360* (1.840)	0.0219 (1.120)	0.0174 (0.950)
LVG	0.2645 (0.680)	-0.0549 (-0.160)	0.0021 (0.010)
Beta	-0.0241* (-1.820)	-0.0204 (-1.42)	-0.0169 (-1.340)
Constant	-0.3241 (-0.550)	0.1428 (-0.150)	0.0706 (0.300)
Adjusted R ²	0.54	0.53	0.62

Where: *** $p < .01$ ** $p < .05$ * $p < .10$, respectively; *t* values are in bracket.

VRD: Voluntary Risk disclosure score, SSB= Shari'ah Supervisory Board Effectiveness, CGI= corporate governance index, Abig4= Auditor type, SIZE = Firm size (Natural logarithm of total assets), ROE = Return on equity, LVG = Leverage (Long-term debt/ total assets), Beta= risk which is calculated over 12 months by regressing the share price against the respective market index.

Model 2 tests the direct relationship of SSB's effectiveness and corporate life cycle (CLC) toward VRD. The adjusted R² value indicates that 53% of changes in VRD are explained by all variables in the regression equation. The results show that SSB's effectiveness (coefficient =

0.1395, $p < 0.001$) and CLC (coefficient = 0.0505, $p < 0.001$) are significant in explaining the level of VRD. This implies that IFIs at mature life cycle stage, report higher level of voluntary risk disclosures than that of growth and decline stage companies. The results are consistent to Al-Hadi et

al., (2015), that the companies with high retained earnings (i.e. companies in mature life cycle stage), tend to disclose more risk information.

Model 3 tests the moderating effect of CLC on the relationship between SBB's effectiveness and VRD. The results in Table 5 show the interaction of SBB*CLC towards VRD are significant (coefficient = 0.1865, $p < 0.01$). It shows that CLC has an impact on the association between SSB's effectiveness and voluntary risk disclosure. Effective SSB in mature life cycle stage IFIs disclose higher level of VRD than that of growth and decline life cycle stages IFIs. The adjusted R^2 value indicates that 62% of variability in VRD are explained by all variables in the regression equation.

This result is consistent with resource-based theory that propose mature companies are likely to have more resources and can afford to do higher reporting. Additionally, companies that have effective SSB, the level of reporting will be higher. Therefore, it can be concluded that H₂ which posits that SSB effectiveness in mature life cycle stage is associated with greater level of voluntary risk disclosures, is supported.

Additional Tests

Additional tests were carried out to identify which specific SSB's characteristics that can influence the VRD. Table 6 shows that three out of four SSB characteristics are positively significant in explaining the variation in VRD level. These three SSB characteristics are SSBSIZE (coefficient = 7.5293, $p < 0.01$, SSBCROSS (coefficient = 0.1865, $p < 0.01$) and SSBMEET (coefficient = 1.2324, $p < 0.10$). The adjusted R^2 value is 59.7%. Larger SSB board members, who are also members of SSB in other organization, which attend more meetings, are more likely to influence IFIs to do risk disclosure. The results are similar to the studies by Al-Bassam & Ntim, 2017; Farook et al., 2011, Haniffa and Cooke, 2002), Haniffa and Cooke (2002), suggest that there are significant implications of SSB characteristics for disclosure practices. However, the results also show that SSBREPU is also significant but at the opposite direction; SSB's reputation is associated negatively with risk disclosure. This is not what this study has predicted. Further study need to be carried out to investigate this matter.

Table 6 Specific SSB Characteristics and VRD

Variable	VRD
SSBSIZE	7.5293 (3.10) ***
SSBREPU	-19.4598 (-2.38) **
SSBCROSS	12.1413 (2.85) ***
SSBMEET	1.2324 (1.92) *
CGI	-8.577 (-1.45)
Abig4	-0.9175 (-0.27)
ROE	4.3708 (1.08)
LVG	27.2745 (0.80)
SIZE	-0.8061 (-0.86)
Beta	-0.4105 (-0.21)
Constant	15.9052 (0.86)

Adjusted R ²	0.597
Observations	167

Where: *** $p < .01$ ** $p < .05$ * $p < .10$, respectively; t values are in bracket.

VRD= Voluntary Risk disclosure; SSBSIZE= Shari'ah Supervisory Board size; SSBREPU= Shari'ah Supervisory Board Reputation; SSBCROSS= Shari'ah Supervisory Board Cross-membership; SSBMEET= Shari'ah Supervisory Board meeting; CGI= corporate governance index, Abig4= Auditor type, SIZE = Firm size (Natural logarithm of total assets), ROE = Return on equity, LVG = Leverage (Long-term debt/ total assets), Beta= risk which is calculated over 12 months by regressing the share price against the respective market index.

5.0 CONCLUSION

The reporting of relevant information including information about risk management practices by business entities is considered as one of the important tenet in Islamic business practices. Current study examines the role of Islamic corporate governance mechanism, specifically, the effectiveness of SSB, on the level of voluntary risk disclosure (VRD) of financial sector companies listed on Saudi Arabia Stock Exchange (Tawadul). Additionally, the study investigates the role of corporate life cycle in the relationship between SSB's effectiveness and VRD.

This findings of the study show that SSB's effectiveness positively influence the level of voluntary risk disclosure. Additionally, the results show that SSB's effectiveness is associated with higher level of VRD in mature-stage companies. From the Islamic business perspectives, SSB has fiduciary duties, as a part of corporate governance mechanism, to protect and preserve public interests to make informed decision. This in in line with the Maqasid Al-Shari'ah's objectives of IFIs. A strong relationship between SSB and VRD for mature companies is supported by resource dependency theory that suggest, mature companies have more resources to provide more transparent and higher disclosure. This study improve the methodology used in the past studies on the measurement of risk voluntary disclosure. This study use a comprehensive measure of SSB effectiveness; a

combination of SSB size, SSB number of meetings, SSB reputation and SSB cross membership.

Results from this study are expected to have important implications to the regulatory bodies, companies, and investors. Regulatory bodies, such as central banks, can have better understanding on the importance of effective SSB in improving the transparency of risk disclosures. Effective SSB complements the conventional corporate governance mechanism to provide better monitoring and enhance legitimacy of IFIs. This would lead to higher transparent disclosure. The life cycle stage of IFIs matter in the disclosure practice, as disclosure requires financial and nonfinancial resources. Therefore, only companies who are strong financially can afford to do more disclosure.

This study has certain limitations. The first is related to the issue of generalization of the results. The sample of this study is drawn from listed Saudi financial companies and thus, its findings may not be applicable to other sectors. Secondly, this study measures the level or quantity of voluntary risk disclosure and ignore its quality. This opens opportunity for future research as well. Future research can be conducted for the non-financial sector with a larger sample size by including other Islamic country in the world.

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Appendix A

Risk Disclosure Index

	Category and Type of reported risks	References
	A- Operations risk	
A-1	Customer satisfaction	Al-Maghzom et al, 2016; Abdullah et al., 2015; Abdullah et al., 2015; Linsley and Shrives , 2006
A-2	Product development	Abdullah et al., 2015; Linsley and Shrives , 2006
A-3	Efficiency and performance	Abdullah et al., 2015; Linsley and Shrives , 2006
A-4	Product and service failure	Abdullah et al., 2015; Linsley and Shrives , 2006
A-5	Environmental	Abdullah et al., 2015; Linsley and Shrives , 2006
A-6	Health and safety	Al-Maghzom et al, 2016; Abdullah et al., 2015; Abdullah et al., 2015; Linsley and Shrives , 2006
A-7	Brand name erosion	Abdullah et al., 2015; Linsley and Shrives , 2006
A-8	Employees leakage risk	
	B-Empowerment risk	
B-1	Risk Governance	
B-2	Leadership and management	Abdullah et al., 2015; Linsley and Shrives , 2006
B-3	Outsourcing	Al-Maghzom et al, 2016; Abdullah et al., 2015; Abdullah et al., 2015; Linsley and Shrives , 2006
B-4	Performance incentives	Abdullah et al., 2015; Linsley and Shrives , 2006
B-5	Change readiness	Abdullah et al., 2015; Linsley and Shrives , 2006
B-6	Contingency	Al-Maghzom et al, 2016; Abdullah et al., 2015; Hassan, 2009
B-7	Natural disasters	Al-Maghzom et al, 2016; Abdullah et al., 2015
B-8	Physical disasters (Explosions and Fire)	Al-Maghzom et al, 2016
	C-Information processing and technology risk	
C-1	Integrity	Abdullah et al., 2015; Linsley and Shrives , 2006
C-2	Access	Abdullah et al., 2015; Linsley and Shrives , 2006
C-3	Availability	Abdullah et al., 2015; Linsley and Shrives , 2006
C-4	Infrastructure	Abdullah et al., 2015; Linsley and Shrives , 2006
C-5	Changes in Technology	Al-Maghzom et al, 2016; Abdullah et al., 2015
	D-Integrity risk	
D-1	Management and employee fraud	Abdullah et al., 2015; Linsley and Shrives , 2006
D-2	Illegal acts	Abdullah et al., 2015; Linsley and Shrives , 2006
D-3	Reputation	Al-Maghzom et al, 2016; Abdullah et al., 2015; Abdullah et al., 2015; Linsley and Shrives , 2006
	E-Strategic risk	
E-1	Environmental scan	Abdullah et al., 2015; Linsley and Shrives , 2006
E-2	Industry	Abdullah et al., 2015; Linsley and Shrives , 2006
E-3	Business portfolio	Abdullah et al., 2015; Linsley and Shrives , 2006
E-4	Competition	Al-Maghzom et al, 2016; Abdullah et al., 2015; Abdullah et al., 2015; Linsley and Shrives , 2006
E-5	Valuation	Abdullah et al., 2015; Linsley and Shrives , 2006
E-6	Planning	Abdullah et al., 2015; Linsley and Shrives , 2006
E-7	Life cycle	Abdullah et al., 2015; Linsley and Shrives , 2006
E-8	Performance measurement Regulatory	Abdullah et al., 2015; Linsley and Shrives , 2006
E-9	Sovereign and political	Al-Maghzom et al, 2016; Abdullah et al., 2015; Abdullah et al., 2015; Linsley and Shrives , 2006
E-10	Non-compliance with regulation	Al-Maghzom et al, 2016; Abdullah et al., 2015
E-11	Litigation risk	Al-Maghzom et al, 2016; Abdullah et al., 2015
	F-Financial and other risks	
F-1	Insurance Risk	Al-Maghzom et al, 2016; Abdullah et al., 2015
F-2	Reinsurance Risk	IFSB-14, 2013
F-3	Sustainability Risk	Al-Maghzom et al, 2016
F-4	Derivatives	Hassan, 2009; Abdullah et al., 2015; Al-Maghzom et al, 2016
F-5	Reserves risk	Hassan, 2009; Abdullah et al., 2015; Al-Maghzom et al, 2016
F-6	Use of Estimates	Al-Maghzom et al, 2016; Abdullah et al., 2015; Hassan, 2009

	<i>G-Risks Specific of Islamic Institutions</i>	
<i>G-1</i>	Risk of Shari'ah Non-Compliance	IFSB 2013
<i>G-2</i>	Risk of Islamic financial products	
<i>G-3</i>	Risks arising from the segregation of funds	IFSB-14, 2013
<i>G-4</i>	Unusual supervisory restrictions	Al-Maghzom et al, 2016