

Strengthening Transparency: An Empirical Assessment of Shariah Governance Disclosure in Malaysian Islamic Financial Institutions

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Abstract

Shariah governance disclosure constitutes a critical mechanism through which Islamic financial institutions (IFIs) demonstrate religious credibility and accountability to all stakeholders. Although Bank Negara Malaysia (BNM) has issued the Shariah Governance Framework (SGF) since 2010, there is limited empirical evidence on the actual implementation of Shariah governance disclosure across the institutional structure. Previous research mainly examined the disclosure behaviour of Islamic banks (IBs) with other categories of IFIs including Takaful operators, Islamic windows and Development Financial Institutions (DFIs) being ignored. This study fills this gap by exploring how Shariah governance disclosure across the entire population of Malaysian IFIs has developed and changed since the implementation of SGF. This study conducts systematic content analysis on 2016 annual reports, analysing Shariah governance disclosure across 12 components adopted from BNM regulation as a benchmark. The year 2016 was selected to indicate the maturation of disclosure during the 5-6 years of SGF implementation period. The findings indicate strong institutional-level heterogeneity in disclosure, with intensity ranging between 203 (highest) and a mere two (lowest) sentences. The disclosure ratio is dominated by the Function and Conduct of Shariah Committee members with 56.7%, while crucial control dimensions such as Zakat information (34 sentences) and Shariah non-compliance risk (41 sentences) are significantly underreported. This indicates that the strategic management of legitimacy is driven by an emphasis on the ceremonial aspects of governance rather than the actual control processes. Full-fledged IBs and DFIs are better performing than Islamic windows and Takaful operators, indicating that reporting intensity is systematically associated with centrality of the institutional business model and stakeholder visibility. This study provides empirical contribution through its first comprehensive review of all Malaysian IFI categories' reporting patterns and, practically, by specifying regulatory intervention priorities for BNM in improving

Shariah governance transparency and accountability throughout Malaysia's Islamic finance sector.

Keywords: Shariah Compliance, Shariah Governance, Shariah Disclosure, Board, Shariah Committee, Corporate Governance, Islamic Financial Institution, Governance Transparency

Introduction

The global Islamic finance industry has undergone significant growth, evolving from a niche sector to a mainstream financial system. As of 2024, the total Islamic finance assets have reached USD 6.0 trillion, reflecting an 11% increase from prior year (London Stock Exchange Group, 2025). The Islamic Financial Services Board (IFSB) indicated that in 2024, the global Islamic finance industry experienced consistent growth, with Islamic banking maintaining a dominant position, representing over 70% of total Islamic finance assets (Islamic Financial Service Board, 2025). Malaysia has established itself as a leading Islamic finance hub, accounting for around 12% of global Shariah-compliant assets and demonstrating improvements in regulatory practices related to Sukuk issuance, Takaful operations and halal investment products (London Stock Exchange Group, 2025). Malaysia's leadership has always been acknowledged with its top ranking on the Islamic Finance Development Indicator, illustrating decades of strategic policy design and dedicated effort to build comprehensive ecosystem of Islamic finance (London Stock Exchange Group, 2025). The significant expansion has led to increased regulatory focus on governance frameworks, as the credibility and sustainability of Islamic financial institutions (IFIs) rely on effective Shariah governance mechanisms that ensure Shariah compliance, operational integrity and accountability to stakeholders. Despite advancements in regulation, concerns remain about the extent to which IFIs have effectively implemented the regulatory requirements into significant Shariah governance disclosure practices.

Shariah governance disclosure is an important tool IFIs utilise to prove their religious credibility and accountability, operating under unique dual legitimacy pressures from both regulatory authorities and religious stakeholders (Haridan, Hassan & Karbhari, 2018; Alam, 2021). Shariah governance is a fundamental characteristic of IFIs, which are integral to Islamic finance through their unique institutional framework. These institutions establish their legitimacy via institutionalised Shariah oversight mechanisms aimed at ensuring adherence to Islamic jurisprudence across all operational dimensions (Grais & Pellegrini, 2006; Nomran, Haron & Hassan, 2018). IFIs differ from traditional financial institutions in that they operate under a dual legitimacy principle. These institutions must satisfy both regulatory authorities, who focus on prudence and financial stability, and religious stakeholders, who assess authenticity based on Shariah compliance and ethical integrity (Maali, Casson & Napier, 2006); Haniffa & Hudaib, 2007). The dual accountability framework is built on the foundation of stakeholder theory, which argues that IFIs should balance the pressures of various stakeholders, such as depositors, shareholders, religious communities and society at large, with legitimacy theory addressing how these IFIs carefully manage disclosure processes to ensure they maintain both regulatory and religious legitimacy (Haridan et al., 2018).

In Malaysia, the Shariah Governance Framework (SGF) established in 2010 and revised in 2019 through the Shariah Governance Policy Document (SGPD) outlines explicit expectations for IFIs (Bank Negara Malaysia, 2010; 2019). It mandates a comprehensive framework that encompasses the composition, competencies and practices of Shariah

governance entities, including the disclosure of governance activities, decisions and compliance outcomes in annual reports. Shariah governance disclosure serves multiple important functions. It provides stakeholders with essential information to assess the authenticity of IFIs, enhances accountability through regulated governance practices in public contexts, facilitates comparative evaluations of governance among institutions and ultimately fosters public trust in the Islamic finance sector regarding adherence to Shariah principles (Abdul Rahim et al., 2024). Abdul Rahim et al. (2024) found that Shariah governance disclosure strongly influences the financial performance of Islamic banks, for which the Shariah Committee has been found to be the greatest indicator which suggests the strategic relevance of the transparent governance by Islamic banks. Recent data indicates a notable disparity in disclosure practices in the Shariah Committee Report among IFIs (Ab Ghani, Mohd Ariffin & Abdul Rahman, 2024), raising concerns regarding whether this variation stems from differing governance quality or inconsistent practices. Additionally, it questions the effectiveness of regulatory frameworks in promoting transparency and accountability in Shariah governance within the sector.

Despite numerous regulatory initiatives designed to enhance Shariah governance frameworks and increased scholarly focus on governance issues in Islamic finance, substantial gaps remain in the empirical understanding of disclosure practices among Malaysian IFIs. A systematic literature review study also indicates limited empirical evidence about the need for Shariah-related disclosure, as well as the level, influencing factors and the performance implication of such disclosure since current studies are largely quantitative in nature and concentrating mainly on Islamic banks in Muslim countries (Abdulrahman, Ebrahimi & Al-Najjar, 2024a). Previous studies indicate that Shariah governance disclosure is significantly constrained, with institutions often favouring symbolic compliance to the minimum requirements rather than genuine transparency (Wan Abdullah, Percy & Stewart, 2015; Masruki, Mohd Hanefah & Dhar, 2020). Research on Malaysian Islamic banks (IBs) indicate that, despite the presence of advanced regulatory frameworks, there is significant variability in disclosure quality among institutions. This suggests that regulatory mandates alone may not be adequate to guarantee uniform and thorough governance reporting (Md Amin, Mohd Ariffin & Fatima, 2021). Cross-country analysis argued that the percentage of Shariah compliance disclosure is heterogenous, with overall Shariah compliance disclosure on average is 57.38% and that the extent of Shariah compliance is influenced by the board size, board independence and Shariah Supervisory Board composition (Abdulrahman, Ebrahimi & Al-Najjar, 2024b).

Moreover, the current body of literature has primarily concentrated on IBs, while giving insufficient attention to other categories of IFIs, such as Takaful operators (TOs), Retakaful Operators (RTOs), Islamic windows in commercial banks (IWCB) and Development financial institutions (DFIs). This focus limits a comprehensive understanding of Shariah governance disclosure practices across the entire institutional spectrum. Research specifically examined Takaful operators and Islamic windows has shown that these institutions give preference to regulatory compliance over Shariah compliance, but vary in terms of Shariah compliance disclosure intensity, when compared with a full-fledged Islamic bank (Ab Ghani et al., 2024). The lack of comprehensive empirical evidence concerning current Shariah governance disclosure practices restricts regulatory capacity to identify specific areas needing intervention, hinders stakeholders' ability to make informed evaluations of institutional

governance quality, and may jeopardise Malaysia's aspirations to uphold its status as a global leader in Islamic finance, distinguished by high governance standards and transparency practices. In the context of emerging Islamic finance hubs in the Middle East and Southeast Asia, where Malaysia seeks to maintain its competitive position, empirical studies on Shariah governance disclosure in the annual report of IFIs that goes beyond the disclosure in the Shariah Committee Report becomes critical to achieve regulatory legitimacy and market leadership.

This study addresses these empirical gaps by conducting a comprehensive assessment of Shariah governance disclosure among Malaysian IFIs. It employs content analysis of 2016 annual reports to systematically evaluate disclosure intensity, patterns and heterogeneity. The year 2016 marks the fifth year since Bank Negara Malaysia (BNM) mandated IFIs to implement Shariah governance control functions in the Shariah Governance Framework (SGF) (Bank Negara Malaysia, 2010), representing a maturation period sufficient for IFIs to have operationalised Shariah governance disclosure requirements while preceding the revised version of the Shariah Governance Policy Document (SGPD) issued in 2019 (Bank Negara Malaysia, 2019). This research aims to evaluate the extent of Shariah governance disclosure across 12 critical dimensions, including board and Shariah committee functions, Shariah control functions and Shariah compliance reporting. This study provides notable contributions to both scholarship and practice. At the theoretical level, the research contributes to the legitimacy and stakeholder theories by considering how selective Shariah governance disclosure of the IFIs serve a double legitimacy function and contributing to broader understanding of Shariah governance in IFIs (Haridan et al., 2018; Alam, 2021).

The study documents significant variability in Shariah governance disclosure practices, even within consistent regulatory frameworks. The research provides BNM and other Islamic finance regulators with empirical evidence to guide policy improvements, such as strengthened enforcement mechanisms, clearer disclosure guidelines and targeted capacity-building initiatives for institutions with minimum disclosure performance. The research enhances stakeholders' understanding of Shariah governance disclosure variances among IFIs, supporting informed decision-making and enhancing the monitoring of institutional Shariah governance quality. This study also contributes towards strengthening Shariah governance frameworks, enhancing transparency and accountability and maintaining the religious authenticity and ethical integrity that support the legitimacy of IFIs. By providing the comprehensive empirical assessment of Shariah governance disclosure practices across all Malaysian IFI categories, this research supports Malaysia in its strategic objective of maintaining its position as a global Islamic finance hub characterised by the exemplary Shariah governance framework.

The structure of this paper is arranged as follows: the following section reviews relevant literature concerning the Shariah governance disclosure and its proposed measures. Next section provides further details on the research methodology, which is then followed by the analysis with regards to the findings. The concluding section wraps up the paper and offers valuable insights on the contribution of this research.

Literature Review

Academic scholars' interest in the discussion on Shariah governance disclosure has undergone notable evolution, reflecting the growing importance of IFIs within the global financial system. This includes identifying the measurement of Shariah governance, the determinants of disclosure, the effect of these measures on performance, the risk management process and implementation challenges, while simultaneously highlights persistent gaps in understanding the context surrounding the variability of institutions in performing Shariah governance and the effectiveness of regulatory frameworks (Wasim & Zafar, 2024; Masruki et al., 2020). Shariah governance refers to the institutional structures, processes and oversight mechanisms that set IFIs apart from conventional financial institutions and seek to maintain a culture of compliance across all operational aspects with the Shariah principles (Grais & Pellegrini, 2006; Nomran et al., 2018). Within the Shariah governance architecture, disclosure practices emerge as vital mechanisms in which IFIs communicate their status of Shariah compliance, ensuring accountability to varying stakeholders and facilitating legitimacy through regulatory and religious environment (Wan Abdullah et al., 2015; Abdul Rahim et al., 2024). The findings on Shariah governance disclosure research have consistently indicated significant heterogeneity between institutions in Malaysia and across jurisdictions, with Malaysian IBs exhibit higher disclosure levels than those banks in the Gulf Corporation Council (GCC) countries (Abdul Rahim et al., 2024).

On the other hand, it has been discovered that the disclosure of Shariah governance is still critically inadequate in many countries. IBs generally highlight information related to Shariah committee without reporting the important control functions such as Shariah audit, Shariah risk management and Shariah non-compliance matters (Wan Abdullah et al., 2015; Masruki et al., 2020). Wan Abdullah et al. (2015) explored the Shariah disclosures at Malaysian and Indonesian IBs and found that just four of 23 examined banks disclosed more than half of the Shariah Supervisory Board index items and that the disclosure was notably low in sensitive governance matters. Their results indicated that the level of disclosure differed significantly based cross-membership with other Shariah Supervisor Boards, suggesting that the transparency behaviour is affected by the human capital of the governance organs. These findings have been later confirmed by Ben Abdallah and Bahloul (2021) analysing 47 IBs in the Middle East, North Africa and Southeast Asia during the period from 2012 to 2019, which found positive relationship between disclosure indices and financial performance measures, though that degree of association depends on different governance mechanisms used. Their generalised least square regression analysis indicated that among Shariah governance mechanisms, the Shariah Supervisory Board was identified as an important performance determinant while the relationship was more complex and contextual in nature between Board of Directors, Audit Committee and performance.

Malaysian-specific research has brought temporal developments in Shariah governance disclosures following regulatory issuance through SGF. Noordin and Kassim (2019) explored the relationship of Shariah committee composition with disclosure concerning Shariah governance among Malaysian IBs, utilising data from 2009 annual report i.e. before the implementation of the SGF issued by BNM. The study demonstrated strong relationships between Shariah committee characteristics and disclosure levels, thereby establishing a baseline of governance-disclosure relationship. Subsequent research on those post-SGF implementation periods have shown mix results. An extensive study analysing the

annual report of 16 IBs in Malaysia between 2014 and 2018 reveals that whilst Malaysian IBs reported above-average information (60% overall), disclosure behaviours were uneven in the various dimensions, with higher reporting on Shariah review and Shariah risk dimensions (62.22% and 71.11% respectively) and lower reporting for others, indicative of adherence problems despite regulatory mandates (Aspiranti, Ali, Sudrajad & Rusgianto, 2023). Such results support by an earlier study carried out by Besar, Abdul Rahman and Omar (2009) who reported that the report of Shariah Committees did not provide further insights on mechanisms of compliance, substantially lacks assurance information and designed primarily to advocate Shariah compliance rather than safeguarding stakeholders' interests. This indicates that governance transparency would be more on the symbolic level rather than substantive scale.

BNM's issuance of the SGF in 2010 and revised in 2019 represent critical regulatory intervention aimed at enhancing governance structures, accountability mechanisms and transparency practices across Malaysian IFIs (Bank Negara Malaysia, 2010; 2019). The frameworks highlight requirements for all Shariah Committee members, including composition, qualifications, duties and procedures in relation to Shariah audit, Shariah risk management, Shariah review and Shariah compliance disclosure (Bank Negara Malaysia, 2010). Complementary regulatory frameworks such as the Corporate Governance Framework (CGF), guideline on Financial Reporting for Islamic Banking Institutions (FRIBI), guideline on Financial Reporting for Takaful Operators (FRTTO) and the Islamic Financial Services Act (IFSA) collectively create a strong regulatory platform for Islamic finance governance and disclosure practices (Bank Negara Malaysia, 2013; 2015; 2016a; 2016b). Research on implementation effectiveness shows varying outcomes. Some studies have reported improvements in disclosure comprehensiveness and governance quality upon introduction of SGF, while others still point to gaps that indicate incomplete institutionalisation (Noordin & Kassim, 2019; Aspiranti et al., 2023).

Despite increasing academic attention to Shariah governance disclosure, considerable gaps remain in theory and practice. First, existing research has predominantly focused on IBs while paying limited attention to other IFI categories such as TOs, RTOs, Islamic windows and Islamic banking business in DFIs, which hinder the comprehensive understanding on the disclosure practices over various institutional spectrums (Abdul Rahim et al., 2024). Second, the determinants of disclosure heterogeneity need to be further examined, as existing research has identified various influencing factors including institutional size, ownership structure, profitability, Shariah Committee characteristics and Board composition, but comprehensive models combining several determinant categories are still missing (Noordin & Kassim, 2019; Abdul Rahim et al., 2024). Third, the stakeholders' perceptions regarding the quality, use and comprehensiveness of the disclosure are relatively under-explored, as most works have been conducted on the disclosure from a supply side but have not thoroughly focused on the demand side expectations, the processing and the effect to decision-making (Maali et al., 2006). In a nutshell, these research gaps reflect multitude of opportunities for future scholarship to contribute theoretical implications, methodological quality and practical recommendations to regulators, IFIs and stakeholders interested in enhancing governance transparency and accountability, in line with the Shariah principles.

Research Methodology

Research Design

This study employs content analysis as the primary research methodology to systematically examine the Shariah governance disclosure in the 2016 annual reports of Malaysian IFIs. Content analysis, a research technique used to derive replicable and valid conclusions from texts to their actual uses is used widely in Islamic finance research to understand the quality of disclosures and governance transparency (Wan Abdullah et al., 2015; Krippendorff, 2018; Abdul Rahim et al., 2024). The study sample consists of 39 IFIs in Malaysia ranging from various categories which include 13 IBs, 6 IWCBs, 2 IWIB, 6 DFIs, 10 TOs and 2 RTOs. These comprehensive samples are representative of the total population of licensed IFIs in Malaysia as of 2016, ensuring generalised findings across all institutional categories in Malaysian Islamic finance industry.

The 2016 annual report is strategically selected because 2016 is a transitional year extending within a period of 5 to 6 years from when SGF is issued by BNM in 2010, which is acceptable as it allows for adequate temporal distance to examine institutionalisation and development of Shariah governance disclosure practices that were already present in Malaysian IFIs. This period is theoretically based on institutional theory, suggesting that institutional responses to regulatory mandates would unfold in the organisation through three phases with initial awareness and interpretation, followed by implementation and experimentation, and then institutionalisation and normalisation of practices (DiMaggio & Powell, 1983; Scott, 2008). The 5-6 years of the time provides an opportunity to examine disclosure activity beyond the days of compliance that has happened and how far IFIs have embedded their Shariah governance principles in their reporting frameworks as opposed to merely implementing them for compliance purposes. Moreover, the year 2016 predates the next revision of SGF (currently issued in 2019), thus allowing a clean assessment of disclosure practices under the original framework, which is not pre-adjusted due to regulatory changes in future.

Based on existing content analysis conducted by previous studies (Md Amin et al., 2021; Masruki et al., 2020), this research adopts number of sentences as a unit of analysis because it demonstrates complete meaning and supports objective, repeatable coding, unlike other units including number of words, pages or thematic classifications (Gray, Kouhy & Lavers, 1995; Hackston & Milne, 1996; Ingram & Frazier, 1980; Milne & Adler, 1999; Unerman, 2000). Each annual report was read and sentences relevant to the 12 governance dimensions were retrieved and coded according to the predetermined disclosure index. The coding process was conducted by closely reading the narrated sections of the Shariah committee report, corporate governance statement, risk management disclosure and other relevant sections in the annual reports to capture all relevant Shariah governance-related information. To minimise any coding bias and enhance reliability, the study reviewed the annual reports and consistently conducted multiple reviews of each report to maintain coding protocols to ensure that reporting data were systematic and consistent (Hackston & Milne, 1996). To count the number of sentences disclosed and treat all information as equally important, dichotomous procedures and unweighted approach was adopted (Cooke, 1989; 1992). As Shariah governance disclosure index is developed directly from the regulatory framework issued by BNM in SGF, FRIBI and FRTTO, no perception or judgement is necessary in carrying out the content analysis. The study counts a sentence disclosed as '1' according to each

disclosure items regardless of its length. Undisclosed items will be disclosed as '0'. The descriptive ranking profile on the extent of Shariah governance disclosure is reported based on the total number of sentences disclosed for each item (G1-G12) from the 2016 annual report of each IFI.

Proposed Measures

Recent studies have developed a Shariah governance disclosure index based on SGF, Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) and IFSB to underscore the significance of Shariah governance disclosure in annual reports of IFIs in different jurisdictions. Yet, the Shariah governance disclosure index is constrained to mandatory and voluntary items to be disclosed by the Shariah Committee members in the Shariah Committee Report (Abd Majid, Sulaiman & Ariffin, 2011; Al-Shammari, 2013; Aribi, Arun & Gao, 2019; Haniffa & Hudaib, 2007; Ousama & Fatima, 2010; Wan Abdullah et al., 2015). However, Shariah governance elements that are required to be disclosed and approved by the Board of Directors in the annual report are not specifically emphasised. This is likely to the absence of a requirement in SGF, AAOIFI and IFSB issued between 2010 to 2016 for the Board of Directors to mandatorily disclose the Shariah governance information in the annual report (Bank Negara Malaysia, 2010; Accounting and Auditing of Islamic Financial Institutions, 2020; Islamic Financial Services Board, 2009). Hence, this research argued on the significance of evaluating the Shariah governance information disclosed in the annual report by the IFIs in statements other than the Shariah Committee Report. This includes the Directors' Report, Statement of Corporate Governance, Statement of Internal Control and Risk Management as well as the profile of Board of Directors, Shariah Committee members and management. This study excludes the Financial Statements from its data collection since its purpose is not to analyse the financial information from the annual report.

This study develops the self-constructed Shariah governance disclosure index on the components to be disclosed in the annual report based on the SGF, FRIBI, FRTTO and CGF as the benchmark (Bank Negara Malaysia, 2010; 2015; 2016a; 2016b). According to FRIBI published in 2016, BNM states that Shariah governance information relating to Zakat obligation and Shariah non-compliant income can be incorporated in the Directors' Report or Shariah Committee Report (Bank Negara Malaysia, 2016b). The Shariah governance disclosure index was carefully constructed. Several processes were employed to create and validate the Shariah governance disclosure index, focusing on items to be disclosed in the annual report except the Shariah Committee Report and Financial Statements. This study considers the disclosure items included in the Shariah Committee Report as mandatory items required by SGF, FRIBI and FRTTO (Bank Negara Malaysia, 2010; 2015; 2016b). These guidelines were reviewed to develop the preliminary list of Shariah governance disclosure items. The list is subsequently assessed and validated by the appointed Shariah Committee members from the IBs, IWIB, DFIs and TOs, who possess the relevant expertise in Shariah and Islamic finance. These Shariah Committee members are selected as the experts since they are the external parties to the IFIs, and they have a close communication with the Board of Directors in relation to Shariah matters (Bank Negara Malaysia, 2010). The experts provide useful recommendations for strengthening the items of the Shariah governance disclosure index. This study then finalised the items to consider the recommendations by the experts (Florou & Galarniotis, 2007; Wan Abdullah et al., 2015).

The final items of the Shariah governance disclosure index are outlined in Table 1. The index includes the responsibilities and conducts that govern the activities of the Board (G1), the Board Committees (G2), management (G3) and Shariah Committee members (G4) in relation to Shariah governance matters. SGF emphasised that the Board comprising of the Board Audit Committee, Board Risk Management Committee, Management and Shariah Committee members are the key entities that are responsible for monitoring and overseeing the Shariah governance arrangements mandated by BNM (Bank Negara Malaysia, 2010; 2016a). The function and conduct of these key entities include the roles and responsibilities related to Shariah governance and Shariah oversight matters. In addition, the Shariah governance disclosure index include the four Shariah control functions, which are Shariah review (G5), Shariah risk management (G6), Shariah audit (G7) and Shariah research (G8). Shariah control function is crucial to for enhancing the management of Shariah non-compliance risks in IFIs, as required by the SGF (Bank Negara Malaysia, 2010). In addition, this research also encompasses general information on the engagement of IFIs in Islamic financial services (G9) and the establishment of Shariah governance framework (G12) as the components in the Shariah governance disclosure index. Other aspects also include the information about Zakat (G10) and the Shariah non-compliance risks (G11) required by FRIBI and FRTTO (Bank Negara Malaysia, 2015; 2016b). The components (G1-G12) in the Shariah governance disclosure index enable this study to analyse the Shariah governance disclosures in the annual report, as this ensures that IFIs are accountable for providing reliable and sufficient information, which is an absolute necessity for the stakeholders. Higher disclosure of Shariah governance information signifies the transparency of Shariah governance arrangements in the IFIs, hence increasing the confidence of the stakeholders.

Table 1

Shariah Governance Disclosure Index

Shariah Governance Disclosure Items	CGF (2016)	SGF (2010)	FRIBI (2016)	FRTTO (2015)
G1: Function and conduct of Board on Shariah	Appendix 4	2.1 – 2.6		
G2: Function and conduct of Board Committees on Shariah	Appendix 1			
G3: Function and conduct of Management on Shariah		2.11 – 2.18, Appendix 3		
G4: Function and conduct of Shariah Committee members		2.7 – 2.10, Appendix 3 & 5		
G5: Shariah review function		7.3 – 7.6		
G6: Shariah risk management function		7.15 – 7.18		
G7: Shariah audit function		7.7 – 7.14		
G8: Shariah research and compliance function		7.19 – 7.24		
G9: Engagement in Islamic financial services				
G10: Zakat information			10.6 (b)	12.6 (p)
G11: Shariah non-compliance risk			10.6 (c), 10.21	12.6 (o)

Shariah Governance Disclosure Items	CGF (2016)	SGF (2010)	FRIBI (2016)	FRT0 (2015)
G12: Shariah governance framework		Principle 1, 3 – 6, 7.1 & 7.2		

Source: Bank Negara Malaysia (2010; 2015; 2016a; 2016b)

Findings and Discussion

The empirical findings provide significant insights into the Shariah governance disclosure in the 2016 annual reports of Malaysian IFIs. These findings can be seen through an evolutionary lens within Malaysia whereby the implementation of SGF since 2010 has aimed to enhance institutional accountability and build stakeholder confidence in the Islamic finance sector, although with significant variability in IFIs' uptake of the mandates. The analysis of the 39 Malaysian IFIs shows a total of 2473 sentences in Shariah governance disclosures over 12 dimensions, which is highly heterogeneous. Hence, it raises the question of a common compliance approach with the uniform regulatory framework. The intensity of Shariah governance disclosure ranges from 203 sentences for the best performing IFI (IB6, ranked first) through only two sentences for the lowest ranked IFI (IWIB3, ranked 37th) as outlined in Table 2. Such a wide divergence illustrates that regulation does not guarantee a sustainable transparency (Abdul Rahim et al., 2024). In addition, Md Amin et al. (2021) observed that regardless of high level of compliance that the study predicted from institutional theory, none of the 16 Malaysian IBs were completely in compliance with mandatory disclosure items. This indicates that regulations create both the pre-requisites and constraint on comprehensive disclosure. The disclosure demonstrates oligopolistic concentration patterns, such as that the top ten IFIs in the sample produced 1423 sentences (57.5%) of the entire Shariah governance disclosure, and the last ten IFIs generate only 131 sentences in total. Aspiranti et al. (2023) described this persistence of scattered patterns of disclosure in six dimensions even 4-8 years post-SGF implementation. This confirms that time is insufficient to account for transparency discrepancies when institutional capacity, organisational commitment and strategic disclosure options vary considerably from one IFI to another.

The function and conduct of Shariah Committee members (G4) dominates the disclosure content with extraordinary intensity, comprising of 1402 sentences i.e. 56.7% of total Shariah governance disclosure across all IFIs and dimensions. This concentration is more than the total of the next seven disclosure dimensions, indicating that IFIs place Shariah Committee information as the cornerstone mechanism of religious legitimacy of stakeholders. Masruki et al. (2020) argued that IBs were more likely to disclose Shariah Committee attributes, whereas Shariah control functions items were less likely to be disclosed. This indicates that IBs appear to be highly dependent on SSB member competency than the Shariah control mechanisms. The very high level of G4 concentration, with 17 IFIs dedicating more than 50% of their total disclosure to G4 and eight IFIs exceeding 70%, raises questions about whether formal Shariah Committee disclosure and substantive Shariah governance implementation are still separated by a high level of committee composition and activities reporting, which replace operational compliance.

The three primary Shariah control functions i.e. Shariah risk management (G6), Shariah audit (G7) and Shariah research (G8) are, in all, important assurance elements for operational integrity and Shariah compliance. However, these components receive severely inadequate disclosure in comparison to their central role in Shariah governance effectiveness as indicated in Table 2. Previous studies also found that the reporting of Shariah control functions items were less likely to be disclosed indicating some issues in implementing Shariah governance, risk management and control function by IBs (Masruki et al., 2020; Wasim & Zafar, 2024). Aspiranti et al., (2023) also argued that the disclosure patterns on the Shariah control function dimension were still below average even 4-8 years after the SGF implementation, implying the regulatory requirements have not been able to enforce complete Shariah control function transparency. This pattern gives rise to a considerable assurance gap where stakeholders possess little insights into how IFIs manage Shariah non-compliance risks.

The G10 (Zakat information) and G11 dimensions (Shariah Non-Compliance Risk) rank the last two information disclosed with only 34 and 41 sentences respectively, accounting for only 1.4% and 1.7% of the total disclosures. It is also noted in Table 2 that more than 50% IFIs provide absolutely no disclosure on G10 and G11 dimensions despite the explicit requirement of FRIBI in section 10.6 (b), 10.6 (c) and 10.21 as well as FRT0 in section 12.6 (o) and 12.6 (p). Mohd Ariffin and Osman (2022) found several challenges on inconsistent Zakat disclosure practices due to technical complexities such as different interpretations of Zakat rate, different distribution practices and shareholding related issues. Previous studies also found that Shariah non-compliance reporting is still inconsistent among all IFIs and mainly disclosed in Shariah Committee Report only (Ab Ghani et al., 2024). Shafiai & Engku Ali (2019) argued that existing Shariah non-compliant event disclosure has not satisfied the various stakeholders' needs on transparency and advocated for a more reliable and pertinent disclosure of Shariah non-compliant event.

In terms of ranking, IB6, a full-fledged IB, gained the highest ranking by disclosing 203 sentences of Shariah governance information in its annual report as indicated in Table 2. This IB did however exhibit high disclosure covering the Board's duties and responsibilities, the role of the Shariah Committee members and management responses on issues relating to Shariah matters, all of which were prominent in the Statement of Corporate Governance section. Another full-fledged IB (IB7) also indicates similar robustness and impressive results, similarly, disclosed 162 sentences of Shariah governance information in its annual report. Such outstanding results indicate that each Board of Directors' commitment to developing a culture of Shariah compliance across its institution is quite remarkable. It is argued that Shariah compliance-oriented organisational culture is a vital determinant for the quality of Shariah governance disclosure in IBs before and after the implementation of SGF issued by BNM (Bank Negara Malaysia, 2010; 2013; Besar et al., 2009; Chapra & Ahmed, 2002; Haniffa & Hudaib, 2007; Shafii & Salleh, 2010). Additionally, the annual report of IB6 also indicates its mission to pursue global leadership in delivering inventive financial solutions for market participants which keep Shariah compliance for stakeholders at the centre of business. Haniffa & Hudaib (2007) have stressed the importance of mission statements as a measure of their legitimacy as an IFI committed to Shariah. As a result, the Board of Directors at IB6 and IB7 have displayed outstanding strategic leadership by developing clear direction to ensure Shariah principles are integrated into internal control mechanisms and Islamic banking

operations, thus nurturing an institutional culture of ethical business practices and regulatory adherence.

According to Table 2, DFIs represent the leading IFI category with four out of six DFIs (DFI2, DFI3, DFI1, DFI5) among the top ten ranking profile, demonstrating consistent performance for Shariah governance disclosure in Malaysia. Their overall position indicates an exceptional concentration of high-performing IFIs that surpasses all other IFI categories. This notable category-wide performance is attributed to government ownership structures that provide inherent advantages to the DFIs. It is found that ownership structure has influenced the extent of Shariah governance disclosure in Saudi financial institutions (Azid & Alnodel, 2019). Government-owned organisations such as DFIs normally faced increased coercive institutional pressure in the form of regulatory oversight and the accountability to the stakeholders, resulting in dual compliance imperatives (Alam & Miah, 2024). It is also argued that Shariah governance procedures, rules and structures offer a better representation of the DFIs which enhance its accountability and transparency (Karbhari, Alam & Rahman, 2021). Apart from the most disclosed information on the function and conduct of Shariah Committee members (G4), DFI2 also disclosed high information on the function and conduct of Board on Shariah (G1) which is noteworthy. This is illustrated by the inclusion of a dedicated Statement of Shariah Governance alongside the Statement of Corporate Governance that emphasises the function of Board on Shariah in the annual report of DFI2. The Statement of Shariah Governance in the annual report of DFI2 offers more insights about the effectiveness of Shariah governance at all organisational levels. This reflects more accountability and commitment from the Board of Directors to emphasise the disclosure of their oversight responsibilities with respect to Shariah governance (Chapra & Ahmed, 2002).

On the other hand, TOs display the largest performance heterogeneity where their Shariah governance disclosures range from the 131 sentences in TO10 to only 12 sentences in TO5 as outlined in Table 2. This variation exceeds that observed among IBs and demonstrates the dual structure of Malaysia's Takaful industry, where a dominant market leader such as TO10 maintains Shariah governance disclosure comparable to IBs, while other TOs face challenges related to Shariah governance transparency. Noordin and Kassim (2019) argued that Shariah Committee composition has influenced the Shariah governance disclosure in IFIs. Hence, the findings found in TO10 could be due to the exceptional performance and expertise of Shariah Committee members, while weaker performance in TO5 could be due to less sophisticated Shariah governance organs. Although certain TO such TO3 could have strong branding and market presence in Takaful industry, the poor Shariah governance disclosure (only 16 sentences) is attributed to a misalignment of institutional priorities with the needs for transparency. The Board of Directors in TOs may not view comprehensive Shariah governance disclosure as beneficial to their stakeholders or as providing a competitive advantage in their strategy for engaging in Shariah compliant Islamic financial services.

Table 2

Shariah Governance Disclosure Index

Islamic Financial Institutions *	Shariah Governance Disclosure Items**												Total No. of Sentences	Ranking
	G1	G2	G3	G4	G5	G6	G7	G8	G9	G10	G11	G12		
IB6	11	1	18	152	1	7	2	1	1	1	6	2	203	1
DFI2	15	13	4	112	5	8	8	9	3	1	2	5	185	2
DFI3	11	5	6	48	17	21	13	32	1	1	3	7	165	3
IB7	16	7	8	109	1	10	2	0	2	4	3	0	162	4
DFI1	20	16	4	102	1	1	5	5	1	3	0	0	158	5
IB15	14	11	7	103	2	2	3	3	1	2	3	1	152	6
TO10	18	4	4	87	1	4	1	6	2	0	1	3	131	7
IB8	25	2	0	27	8	12	11	20	10	4	2	1	122	8
IB1	17	2	3	57	2	1	2	2	6	3	1	4	100	9
DFI5	4	3	0	70	1	0	2	1	2	0	0	0	83	10
TO4	9	7	6	35	4	4	4	3	4	0	3	3	82	11
IB12	4	0	2	55	1	1	1	1	4	3	0	3	75	12
IWCB1	8	5	0	42	1	1	2	0	12	0	0	1	72	13
IB9	8	3	0	51	1	0	2	0	2	0	0	1	68	14
IB4	6	1	1	17	7	6	5	2	12	3	4	1	65	15
DFI4	7	2	3	33	2	1	2	2	1	1	4	3	61	16
IWCB3	2	0	0	48	1	0	2	0	2	0	0	0	55	17
IWCB7	5	3	3	8	3	4	4	3	10	0	0	5	48	18
IB2	13	0	0	30	0	0	0	0	1	1	0	0	45	19
IB16	7	1	1	21	2	2	1	0	2	1	6	0	44	20
DFI6	1	0	1	24	3	2	3	2	1	1	1	1	40	21
TO9	2	7	1	22	1	1	1	1	1	0	0	2	39	22
IB14	3	1	1	6	2	1	3	1	16	1	0	2	37	23
IB11	5	1	1	16	2	0	1	0	3	2	0	0	31	24
TO2	3	3	3	13	2	1	2	0	1	0	0	2	30	25
TO1	3	10	0	12	0	0	0	0	2	0	0	2	29	26
TO7	4	0	0	11	2	1	0	1	1	0	1	3	24	27
IB13	2	0	0	12	0	0	2	0	5	0	0	1	22	28
IWCB6	2	4	0	15	0	0	0	0	0	0	0	0	21	29
IWIB1	2	0	1	14	1	0	1	0	1	0	0	0	20	30
TO11	2	0	0	12	1	0	1	0	2	0	0	0	18	31
TO3	3	6	0	5	0	0	0	0	1	0	1	0	16	32
IWCB5	1	1	0	11	1	0	1	0	0	0	0	0	15	33
RTO1	4	0	0	8	0	0	0	0	1	2	0	0	15	33
TO8	2	0	0	6	1	0	1	0	1	0	0	1	12	34
TO5	2	3	0	4	0	1	0	1	1	0	0	0	12	34
IWCB4	4	4	0	2	0	0	0	0	1	0	0	0	11	35
RTO2	0	0	0	2	0	0	0	0	1	0	0	0	3	36
IWIB3	0	0	0	0	0	0	0	0	2	0	0	0	2	37
Total No. of Sentences	265	126	78	1402	77	92	88	96	120	34	41	54	2473	
Ranking by Items	2	3	8	1	9	6	7	5	4	12	11	10		

Source: Author

* Islamic banks (IB); Islamic window in commercial banks (IWCB); Islamic window in investment banks (IWIB); Islamic banking business in development financial institutions (DFI); Takaful (TO); Retakaful operators (RTO).

** Refer to Table 1 for the details of G1 to G12.

Conclusion

This study presents empirical findings concerning the Shariah governance disclosure in Malaysian IFIs, highlighting significant variability that challenges the assumption of consistent adherence to SGF issued by BNM. The analysis of annual reports for 39 IFIs, consisting of 2473 sentences of Shariah governance disclosure over 12 critical dimensions, has produced significant findings that enrich both scholarly understanding and practical insights into the transparency of IFIs towards Shariah governance practices. The most notable finding highlights a significant disparity in Shariah governance disclosure focus, with the highest disclosure on the information related to the function and conduct of Shariah Committee members (G4), accounting for 56.7% of the total disclosure content while essential control aspects such as Zakat information (G10) and Shariah non-compliance risk (G11) are markedly underreported with merely 34 and 41 sentences, respectively. The findings indicate that IFIs strategically prioritise the mandatory Shariah governance aspects that indicate religious legitimacy to the stakeholders and did not reveal information that could reveal operational weaknesses. The significant disparity in Shariah governance disclosure intensity is exemplified by the leading full-fledged IBs which disclose 203 sentences against a mere two sentences disclosed by weakest performer. The findings highlight considerable difference in transparency and accountability practices that remain evident despite consistent regulatory mandates. IBs and DFIs significantly outperform Islamic windows, TOs and RTOs. Six of the top ten IFIs are from these IFI categories, indicating a consistent link between the extent of Shariah governance disclosure and how important Islamic finance activities are to institutional business models, organisational capacity and levels of stakeholder scrutiny.

This analysis is conducted five to six years after the implementation of the SGF in 2010. Hence, it provides significant insights into the development and institutionalisation of Shariah governance disclosure practices, indicating that regulatory interventions have achieved partial success in promoting consistent and complete transparency within the Malaysian Islamic financial sector. The findings offer several key policy implications, practical contributions and recommendations to regulators, IFIs and stakeholders focusing on building better Shariah governance and transparency in the entire Malaysian Islamic finance industry. For BNM as the regulatory authority, the findings highlight the need for better enforcement tools, detailed Shariah governance disclosure benchmarks and diversified regulatory approach depending on the characteristics of IFI categories while considering the broad variation in disclosure measures. The study contributes the options for regulators to consider establishing minimum quantitative and qualitative disclosure thresholds in the Shariah governance dimensions. The significant underreporting of the Shariah control functions particularly Shariah audit, Shariah review and Shariah risk management represents a critical regulatory priority which requires robust monitoring, as these dimensions form the basis of operational integrity and stakeholder protection which should be disclosed in the annual report.

For IFIs, especially smaller IFI and Islamic windows which are situated in lower disclosure quartiles, the findings contribute significant potential for developing Shariah governance capabilities and improvements of Shariah governance disclosure quality that can enhance confidence of stakeholders and trust of the IFIs. For the stakeholders, this study provides concrete evidence that enables clearer assessments of the quality of institutional

Shariah governance to be based on the extent of an IFI's Shariah governance disclosure rather than assuming uniform compliance across the industry. On a wider scale, the need to enhance the consistency of Shariah governance disclosure transparency across all Malaysian IFIs is crucial for preserving Malaysia's standing as a leading global Islamic finance market leader in terms of Shariah governance, regulation and trust. Any weakening of Shariah governance credibility could compromise competitive advantage and stakeholders' confidence in Malaysian IFIs business operations.

Future research could address several critical gaps with further investigation of the Shariah governance dimensions. Future studies can systematically explore the determinants of the heterogeneity of Shariah governance disclosures through multivariate analysis including institutional features, governance characteristics, stakeholder contexts and regulatory factors to understand the complex causal processes that drives disclosure variation. Subsequent research may determine whether differences in Shariah governance disclosures are reflective actual Shariah governance quality differences rather than just differences in reporting. Such research would inform whether full disclosure offers sufficient evidence of robust Shariah governance. Future research also can conduct stakeholder perception studies on how investors, regulators and Shariah scholars view Shariah governance disclosure information in assisting decision-making as well as whether existing disclosure adequately address business needs and satisfy stakeholder interest for decision-usefulness.

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