



Does Audit Committee Expertise Mitigate the Impact of Executive Demographics on Risk Disclosure? Evidence from Islamic Banking in Indonesia

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ABSTRACT

The research aims to obtain evidence and analyze the influence of top management demographics on the disclosure of Islamic banking risk and the moderating role of the audit committee's expertise. Using purposive sampling, this study obtained a sample of 77 observations for the period 2014 – 2019. The first results of the study show that the demographics of top management do no effect on the disclosure of Islamic banking risk, except for the age demographics and experience in Islamic banking of top management. The second results are that the expertise of the audit committee plays a role in strengthening the influence of top management demographics such as age, education background, Islamic banking experience on risk disclosure of Islamic banking. The implications of this study emphasize the importance of the audit committee's expertise, especially those gained from its experience as an internal auditor and/or external auditor, which can support in complementing top management's performance in risk disclosure. It is considered by the board of commissioners in selecting of the audit committee team in order to achieve transparency in risk information.

ABSTRAK

Penelitian ini bertujuan untuk memperoleh bukti dan menganalisis pengaruh demografi manajemen puncak terhadap pengungkapan risiko perbankan syariah serta peran moderasi keahlian komite audit. Dengan menggunakan purposive sampling, penelitian ini memperoleh sampel sebanyak 77 observasi untuk periode 2014-2019. Hasil pertama penelitian menunjukkan bahwa demografi manajemen puncak tidak berpengaruh terhadap pengungkapan risiko perbankan syariah, kecuali pada demografi usia dan pengalaman manajemen puncak di bidang perbankan syariah. Hasil kedua menunjukkan bahwa keahlian komite audit berperan dalam memperkuat pengaruh demografi manajemen puncak seperti usia, latar belakang pendidikan, dan pengalaman di perbankan syariah terhadap pengungkapan risiko perbankan syariah. Implikasi penelitian ini menekankan pentingnya keahlian komite audit, khususnya yang diperoleh dari pengalaman sebagai auditor internal dan/atau eksternal auditor, yang dapat mendukung dan melengkapi kinerja manajemen puncak dalam pengungkapan risiko. Hal ini menjadi pertimbangan bagi dewan komisaris dalam memilih tim komite audit guna mencapai transparansi informasi risiko.

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INTRODUCTION

Risk management has become an important issue for banks, subsequently the negative impact of the financial crisis on the banking world. The issuance of Basel I tends to focus on simple requirements in the banking sector, especially regarding capital adequacy. The Basel Committee then



issued a new regulation which is often referred to as Basel II. As a renewal of Basel I, Basel II requires banks to carry out risk management against three main risks: credit, market and operational risk. Then in response to the crisis in 2007-2009, the Basel Committee issued Basel III further to strengthen regulations, supervision and risk management in banking. In addition to Basel, risk management for commercial banks in Indonesia is regulated in the Financial Services Authority Regulation number 18/POJK.03/2016. In the regulation, there are seven types of risk that commercial banks in Indonesia must manage. Meanwhile, risk management for Islamic banking in Indonesia is specifically regulated in the Financial Services Authority Regulation number 65/POJK.03/2016. Following these regulations, Islamic banking in Indonesia must manage ten types of risks that may be faced by Islamic banking. Islamic banking is not only required to manage the risks that occur, but according to Basel III, Islamic banking is also required to improve the quality of risk management, governance, transparency, and information disclosure.

As part of their accountability in risk management disclosure, Islamic banks are required to provide comprehensive information regarding the risk management activities undertaken. It is an effort to provide convenience for stakeholders in making economic decisions. Many studies state that regulators and stakeholders pay attention to risk disclosure in banks, especially after the global financial crisis (Abedifar et al., 2013; Barakat & Hussainey, 2013; Elamer et al., 2017), risk transparency as an effort to reduce information asymmetry is very important. It is also confirmed in Basel II and III in pillar 3, which states that to achieve efficient market discipline, transparent disclosure is required. Disclosure of risk management is crucial in maintaining transparency and market discipline (Al Maghzom et al. 2016; Abdallah et al., 2015; Elamer et al., 2019).

According to POJK number 65/POJK.03/2016, the board of directors is responsible for preparing, implementing, evaluating, and developing risk management policies. In addition, the board of directors is also responsible for improving the quality of human resources related to risk management. Meanwhile, the board of commissioners is responsible for evaluating and approving risk management reports from the board of directors. From these regulations, it could be said that the board of directors has a very important role in managing and disclosing information related to corporate risk management. With risk disclosure. So far, the research has only focused on corporate governance organs and their relation to risk management. Research conducted by Al Maghzom, et al. (2016) states that the size of the board of commissioners, the number of audit committee meetings and the presence of women on the board of commissioners have a significant effect on voluntary risk disclosure. While research in Indonesia related to risk management disclosure in Islamic banking is still very little, among these studies is the study of Saufanny & Khomsatun (2017), which found that the number of audit committees affected the disclosure of risk in Islamic banking. However, as far as the authors search, there has been no research examining the influence between the board of directors and the disclosure of risk management in Islamic banking.

According to Hambrick & Mason (1984), strategy and company performance can be predicted through the demographic characteristics of the company's top management. Demographic characteristics of top management include age, career background, educational background, and socio-economic background that affect the strategy carried out by the company, which will then affect the company's performance. Companies with younger managers tend to take riskier strategies than those with older managers. Hambrick & Mason (1984) also stated that the previous work background of the managers had a positive effect on company performance. However, if the ranks of managers come from companies that do not have good performance, the company's performance will also tend to decline. In



the context of banking risk management reporting, the board of directors engages in coordination with the audit committee to enhance the quality, reliability, and transparency of disclosed information. In accordance with POJK No. 55/POJK.04/2015, the audit committee possesses the responsibility and authority for the oversight and communication of risk management activities within the firm. The audit committee, in this case, is in charge of supervising all company information reporting. According to Sellami & Tahari (2017) research, the existence of an audit committee can improve company compliance with applicable accounting standards. In addition to overseeing the entire process of reporting company information, the audit committee also ensures that the reporting carried out by the company follows applicable regulations. Research conducted Abernathy et al., (2015) concluded that the existence of an audit committee that is an expert in accounting and has experience as a public accountant will increase company compliance in the submission of financial statements. So that in this study, the audit committee becomes a factor that can increase the positive influence between top management characteristics and the disclosure of Islamic banking risks.

The novelty and contribution of this research are that it first uses top management demographic variables with an upper echelon's theory approach. Previously, according to research by researchers, it has never been used for Islamic banking in Indonesia. Research on Islamic banking risk disclosure is still very limited. Saufanny & Khomsatun (2017) examines the governance side (board of commissioners, audit committee and sharia supervisory board. Al Maghzom, et al. (2016) also examines from the side of upper echelons theory. The difference is in context, namely the research was conducted in Saudi Arabia, which has a one-tier governance system, while Indonesia is two-tier. The second expected contribution is in terms of the type of risk disclosed. Research by Elamer et al. (2019) focuses on the operational risks of Islamic banks in Middle East and North Africa (MENA) countries. Neifar & Jarboui (2018) also examine the voluntary disclosure of operational risk disclosures of Islamic banks in several Gulf countries and Malaysia. Operational disclosure is important in Islamic banking; however, other risks also support and play a role in managing the sustainability of Islamic banks.

The third contribution is in terms of measuring the risk disclosure of Islamic banking. Saufanny & Khomsatun (2017) have examined risk disclosure with coverage of all types of risks regulated in the POJK. The measure they use is a quantity disclosure that reviews the presence or absence of such disclosure. This study uses measurements with four indicators of risk disclosure quality measurement, namely qualitative (narrative), quantitative, future plans, and ratings (Otoritas Jasa Keuangan, 2015). This measure is expected to comprehensively capture the narrative quality of the Islamic bank risk disclosure sentence. The fourth study is a test of governance moderation on top management demographics' influence on Islamic banks' risk disclosure. The governance tested in this study is the competence of the audit committee. The board of director's coordinates with the audit committee concerning reporting on Islamic banking risk management. The audit committee, in this case, is in charge of supervising all company information reporting. So that in this study, the audit committee becomes a factor that can increase the positive influence between top management characteristics and the disclosure of Islamic banking risks. Meanwhile, the expected benefit from this research is for regulators to have additional regulations related to demographic diversity within the sharia banking board of directors in order to improve the quality and fulfill the information needs of all interested parties.



LITERATURE REVIEW

Top Management and Upper Echelons Theory

In the Upper Echelons Theory proposed by Hambrick & Mason (1984), it is stated that top management characteristics largely determine the company's performance. The performance is influenced by every strategic decision taken by top management. The Upper Echelons Theory also states that the background, knowledge and quality of top management is a team that will determine the company's policies and strategies. Hambrick & Mason (1984) broke down the demographic criteria of top management into several elements, such as age, background, tenure, experience and gender. The company's performance and operations reported in the form of an annual report represent the quality of top management, including reporting and disclosure policies.

POJK No. 65 of 2016 explains that risk management is the responsibility of the company's board of directors and board of commissioners. The board of directors will directly manage risk and report it, while the board of commissioners will supervise and direct the board of directors as the top management of Islamic banks. Companies with top young management will tend to take riskier strategies than if the company's top management consists of older members. Based on Upper Echelons Theory, risk management can play a role in risk management and disclosure.

Top Management and Agency Theory

According to Scott & O'Brien (2019) agency theory arises because two main parties have different interests in the company. In the corporate structure, the company owner appoints the management line to run the company's operations. Managers as an agent of the owner has the company information and has to inform to principle as their responsibilities operating the company. Jensen & Meckling (1976) stated that managers often make decisions that provide personal benefits to managers. So, it is feared that this could also cause of the reduced quality of disclosure of company information.

Research conducted by Kothari et al. (2009) concluded that management tends from hide important information to the public if the information contains bad news for the company. The manager does this because it involves incentives, careers and other motives related to the interests of the managers. Managers with various characteristics have their interests in the company, which can also influence its strategic decisions, including company risk disclosure.

Risk Disclosure and Stakeholder Theory

Full disclosure of the information is one of the characteristics of financial statements. Transparency of risk disclosure can reduce the information asymmetry of the company's stakeholders. Stakeholder theory developed by Freeman & David (1984) states that companies are obliged to provide relevant information to stakeholders. Risk disclosure is the important information for stakeholders for decision making. The report serves as a market discipline tool for banking (Basel III) so that there will be sufficient demand for information related to bank risk.

Unlike agency theory which only focuses on the relationship between agents and owners, stakeholder theory involves many interested parties. Stakeholders are groups or individuals who influence or are influenced by the achievement of company goals (Freeman & David, 1984). Islamic financial institutions have stakeholders as described by accounting standards, including shareholders, savings/ deposit customers, financing customers, employees, the community and the government (AAOIFI; KDPPLK-PSAK Syariah).

Stakeholder theory states that the company is not only responsible to the owner but also other wider parties. Even depositors and banking customers can discipline the market if the bank takes too much risk. Islamic banks have Muslim community stakeholders who will oversee bank activities



through reporting and disclosure. If Islamic banks manage risks that are not following sharia rules and rules, then the Muslim community can take action. For ensuring compliance with sharia principles, top management has a central role. Stakeholder theory itself also states that the board of directors is responsible to all stakeholders (Chen & Roberts, 2010). The effectiveness of good governance will support this role. Thus, the protection of stakeholder rights can be guaranteed.

Risk Disclosure, Legitimacy Theory, and Maqāṣid Shariah

Islamic banks, either directly or indirectly, have a social contract with the community. Islamic banks appear and develop based on the community's needs who require financial transactions according to sharia. It is the basis for the theory of legitimacy in Islamic banking. This legitimacy theory states that the entity must ensure that its operations are still within the boundaries and norms of society. Guthrie & Parker (1989) define legitimacy theory as an organization that has a social contract with society and will act in accordance with that society. Deegan (2002) states that organizations must obtain social approval in order to operate. Disclosure of information is the company's effort to show the public that the company is managed by paying attention to community's interests.

Islamic banks are obliged to provide information to the public, especially related to risk management. Maali, et al. (2006) said that in the context of Islam, social responsibility is derived from the Al-Quran and Al-Hadith. Islam considers that work and business are part of worship to Allah. It legitimizes to the business aiming to achieve profit, but this goal should be achieved on a sharia basis. Sharia business must clearly define the norms of humanity and how the business intersects with the external environment and must provide a role in society. Islamic banks are morally obligated to uphold risk transparency to protect the interests of depositors and shareholders. Within this framework, Audit Committee expertise is positioned as a fundamental instrument to ensure that the objective of wealth protection (*Hifz al-Mal*) is fulfilled through robust supervision.

Hypothesis Development

Demographic Characteristics of Top Management and Risk Disclosure

Upper echelon theory states that the demographic characteristics of top management can influence the company's strategy. Top management demographics including age, tenure, experience, background and gender can influence decision-making. POJK No. 65 of 2016 explains that risk management is the responsibility of the company's board of directors and board of commissioners. So, there is a strong possibility that the demographics of top management influence risk management disclosure. The theory of legitimacy and stakeholders provides the basis that Islamic banks are responsible to the owner and all stakeholders. The Muslim community gives legitimacy to Islamic banks to carry out financial transactions according to sharia principles. In order to ensure the sustainability of Islamic banks, stakeholders, the public and the government need to supervise Islamic banks, particularly with risk management and reporting. The regulation also clearly states the board of directors' responsibilities in managing and reporting Islamic bank risk.

The board of directors is an organ within the company that is responsible for formulating strategies in achieving company performance. Several studies which show that the demographic characteristics of top management affect the performance and quality of reporting were carried out by Ge et al. (2011), who concluded that the characteristics of the chief financial officer (CFO) consisting of age, educational background and gender influenced the accounting choices used. Research by Aier et al. (2005) concluded that CFO accounting expertise has a negative effect on financial reporting restatement. This means that the company's reporting performance is getting better with less restatement of financial statements. While related to the quality of information disclosure, the results of research by



Plöckinger et al. (2016) concluded that the characteristics of management executives have a positive effect on the quality of corporate reporting, especially related to the quality of disclosure. Meanwhile, research conducted by Alzoubi (2014) concluded that the demographic characteristics of managers affect the quality of reporting.

In addition to being related to stakeholders and legitimacy theory, the existence of top management is often associated with agency theory. This causes top management to often act according to their interests. The results of a study by Kothari et al. (2009) management often withhold bad information about the company. While research conducted by Chen et al. (2019) concluded that female top management tends to avoid strategic decisions that can have a negative impact on the company's reputation. So, it is feared that this will reduce the disclosure of company information, especially if the company experiences conditions that are not in accordance with the expected performance. Based on this description, the hypothesis in this study is as follows:

H_{1a}: Demographics age of top management affects the risk disclosure.

H_{1b}: Demographics of top management tenure affect the risk disclosure.

H_{1c}: Demographic background Education of top management affects the risk disclosure.

H_{1d}: Demographics of work experience in top management Islamic banks affect the risk disclosure.

H_{1e}: Demographics Work experience in risk management from top management affects the risk disclosure.

H_{1f}: Top management gender demographics affect the risk disclosure.

The Expertise of the Audit Committee as a Moderator Variable

The audit committee has the responsibility to monitor and improve the quality of the company's reporting system. From a corporate governance perspective, the existence of an audit committee can increase transparency and disclosure of company information with company stakeholders. The results of research conducted by Mutmainnah & Wardhani (2013) state that the quality of the audit committee improves the quality of the company's financial statements. The study concluded that the higher the audit committee's financial expertise, the better the persistence and predictability of the company's financial statement earnings. Meanwhile, research by Sellami & Tahari (2017) and Abernathy et al. (2015) found that the presence of audit committee members who are experts in accounting and finance will increase the company's compliance with applicable accounting standards and the timeliness of financial reporting. In particular, Abernathy et al. (2015) found that accounting and financial expertise derived from experience as a public accountant showed better results than if the audit committee had experience as the company's CFO. In particular Elamer et al. (2019) in his research suggests that further research can investigate the audit committee and disclosure of Islamic banking risk management. Based on this description, the audit committee is expected to be able to improve the quality of risk reporting on risk management that the board of directors has carried out. So, the second hypothesis in this study is as follows:

H₂: The expertise of the audit committee increases the influence of top management's demographics on the disclosure of Islamic bank risk management.

RESEARCH METHODOLOGY

This study uses a quantitative descriptive approach to analyze the audit committee's moderation on the relationship between top management demographics and Islamic banking risk disclosure. The population in this study were all Islamic commercial banks in Indonesia from the 2014-2019 period, while the sampling in this study used purposive sampling with the following criteria: Islamic



commercial banks registered with the Financial Services Authority for the 2014-2019 period, Islamic commercial banks have information related to the board of directors and risk disclosure in its annual report, and the financial statements have been audited.

The period of 2014-2019 was selected by considering that risk management in Islamic banking was first regulated through Bank Indonesia Regulation No. 13/23/PBI/2011, which came into effect in November 2011. By starting from 2014, it is expected that the transition period for the implementation of this regulation had been completed by all Islamic banks. Meanwhile, the year 2019 was chosen to avoid potential bias arising from the impact of COVID-19, which began to be significantly felt in Indonesia in 2020. The variables in this study consisted of voluntary risk disclosures, which were measured using scoring. Then, the results of the scoring will be divided by the total items measured. Scoring for risk disclosure in this study refers to research on ten types of risks regulated by OJK through POJK Number 65/OJK.03/2016. The measurement of risk disclosure in this study uses a four-point assessment, namely: disclosure of qualitative, quantitative data, analysis related to forward-looking (anticipation) (Neifar & Jarboui, 2018; Otoritas Jasa Keuangan, 2016) and the existence of information risk rating of each risk (Otoritas Jasa Keuangan, 2016). If the Islamic bank discloses the disclosure item qualitatively, it is rated 1 and 0 otherwise; if disclosing quantitative data is scored 1 and 0 otherwise; if it discloses forward-looking analysis, it is rated 1 and 0 if, and finally it is given a value of 1 if the Islamic bank discloses the risk rating and 0 if not. The following is a table of disclosures and the total score obtained if all items are met.

Table 1: Content Analysis of Risk Type in Islamic Banking

No	Risk Type	Qualitative	Quantitative	Future Forward	Ranking
1	Financing risk	√	√	√	√
2	Operational risk	√	√	√	√
3	Market risk	√	√	√	√
4	Law risk	√	√	√	√
5	Reputation risk	√	√	√	√
6	Strategy risk	√	√	√	√
7	Liquidity risk	√	√	√	√
8	Investment risk	√	√	√	√
9	Profit-sharing risk	√	√	√	√
10	Compliance risk	√	√	√	√

If Islamic banking discloses all items that have been determined, the total score for the disclosure of items is 40 disclosure items. Then based on the table above, the measurement of the dependent variable in this study is as follows:

$$\frac{\text{Total items disclosed}}{\text{Maximum items that must be disclosed}}$$

While the independent variables in this study are the demographic characteristics of top management. This study defines the upper echelon or top management team as the board of directors, including the CEO, referring to the research by Hambrick and Mason (1984), which consist of:



Age Demographics

While prior research on top management or CEO age has often relied on Likert scales e.g., Barker & Mueller (2002), the present study adopts a binary approach. By assigning values of 1 and 0 to represent older and younger management, respectively, this research utilizes a median age of 45 as the cutoff point between the two groups. The measurement of this variable is to give the number 1 if the top management is over 45 years old and 0 for under 45 years old. Then the total top management members aged over 45 divided by the total top management members multiplied by 100%:

$$\frac{\text{Total top management team member over 45}}{\text{Total of top management}}$$

Tenure Demographics

The measurement of this variable is to assign a number 1 for those who have served five or more terms on the board of directors and 0 for others. Then the total score obtained is divided by the total members of top management.

$$\frac{\text{Total top management tenure more than 5 years}}{\text{Total of top management member}}$$

Demographics of Educational Background

The measurement of this variable is to indicate the number 1 if top management has a formal educational background and or certification in accounting and management, and 0 for members of top management who do not have these provisions. Then the total score of top management members who have a formal educational background and or certification in accounting and management is divided by the total top management members.

$$\frac{\text{Total top management have economic background}}{\text{Total of top management member}}$$

Demographics of Work Experience

The demographics of work experience are divided into two, namely experience in Islamic banking and experience in risk management. The measurement of the experience variable in Islamic banking is done by giving a number 1 if the top management member has work experience in Islamic banking and 0 if not.

$$\frac{\text{Total top management has experience in Islamic banking}}{\text{Total of top management}}$$

While the second measurement is to give a number 1 for those who have served in risk management and 0 if not.

$$\frac{\text{Total top management has experience in risk management}}{\text{Total of top management}}$$

Gender Demographics

The measurement of this variable is to assign a number 1 for female top management members and 0 for male top management members (Al Maghzom, et al., 2016).

$$\frac{\text{Total woman as top management member}}{\text{Total top management}}$$



This study uses a moderating variable, namely the audit committee that has experience as an external and or internal auditor. Measurements in this variable are as follows:

$$\frac{\text{Audit committee has experience as external and or internal auditor}}{\text{Total audit committees member}}$$

This study uses two control variables, namely profitability and the risk of non-performing financing. Profitability is measured using Return on Assets (Hassanein & Hussainey, 2015; Elamer et al., 2019). The risk of non-performing financing in this study was measured by non-performing financing. The data in this study will be analyzed using multiple regression with moderating variables with the following research model:

$$RD_{it} = \alpha + \beta_1 DAGE_{it} + \beta_2 DTen_{it} + \beta_3 DEDU_{it} + \beta_4 DFEB_{sit} + \beta_5 DFERISK_{it} + \beta_6 DGend_{it} + \beta_7 DKAFEIA_{it} + \beta_8 DAGE_{it} * KAFEIA_{it} + \beta_9 DTen_{it} * KAFEIA_{it} + \beta_{10} DEDU_{it} * KAFEIA_{it} + \beta_{11} DFEB_{sit} * KAFEIA_{it} + \beta_{12} DFERISK_{it} * KAFEIA_{it} + \beta_{13} DGend_{it} * KAFEIA_{it} + \beta_{14} ROA_{it} + \beta_{15} NPFin_{it} + size_{it} + e$$

While the testing in this study followed the following stages: 1) Descriptive analysis, was carried out to obtain an overview of the research data which included the average value, minimum value, maximum value and standard deviation. 2) Hypothesis test, before the data is tested by multiple linear regression with panel data, it is necessary to test the quality of the data which includes: Multicollinearity Test, Heteroscedasticity Test, Chow Test, Hausman Test and Lagrange Test.

RESULT AND DISCUSSION

This study uses a research sample of Islamic commercial banks registered with the Financial Services Authority (FSA) from 2014-2019, after going through the sample selection procedure, the research data obtained are 77 observational data with details as follows:

Table 2: Sampling Procedures

Sampling Criteria	2014	2015	2016	2017	2018	2019
Number of Islamic Banking listed in OJK	12	12	12	13	14	14
Uncompleted data	0	0	0	0	0	0
Sample data for the year	12	12	12	13	14	14
Total data for six years	77					

Table 3 presents descriptive statistics for observing the distribution of research data. The descriptive analysis includes the value of mean, minimum, median and maximum. The summary of the descriptive statistics of the research data is as follows:

Table 3: Descriptive Analysis

Variable	N	Mean	Minimum	Median	Maximum	sd
RD	77	0.4101	0.1000	0.4500	0.7500	0.1582
Dage	77	0.9038	0.3300	10.000	10.000	0.1752
Dten	77	0.1934	0.0000	0.2500	0.7500	0.2036
Dedu	77	0.6950	0.0000	0.7500	10.000	0.2558
Dfebs	77	0.2987	0.0000	0.3300	10.000	0.2758
Dferisk	77	0.1829	0.0000	0.2500	0.6000	0.1732



Dgend	77	0.1769	0.0000	0.2000	0.6700	0.1963
Dkafeia	77	0.1906	0.0000	0.0000	0.6700	0.2186
roa	77	0.9343	-201.300	0.6300	136.000	43.508
npf	77	23.847	0.0000	26.400	49.700	17.090
Size	77	161.478	134.029	158.585	185.366	12.465

RD: Risk Disclosure; Dage: Age Demographics; Dten: Demography of tenure; Dedu: Educational background demographics; Dfebs: Demographics of experience in Islamic banks; Dferisk: Demographics of Experience in Risk Management; Dgend: Gender Demographics; Dkafeai: Demographics Experience of the audit committee as an internal auditor; roa: Return on Assets; npf: non-performing financing; Size: Ln total assets of Islamic bank

Based on table 3, the mean percentage transparency of Islamic banking risk disclosure is 41.01%. This data shows that the transparency of risk disclosure is still quite small. Although it is a mandatory disclosure, the disclosure index which is a combination of quantity, quality, future analysis and rating is still below the value of 50%. This result shows that the transparency of Islamic banking risk disclosure is still not good enough. The highest percentage of risk disclosure transparency of 0.75 or 75% obtained by Bank Syariah Mandiri in 2018 - 2019. While the lowest percentage of risk disclosure was 0.10 or 10% obtained by Bank Bukopin Syariah in 2014. However, furthermore, the disclosure of Bank Bukopin Syariah has increased

The mean of the top management age demographic percentage is 90.38%, which shows that the top management age demographic percentage is dominated by those who are more than 45 years old and over. The highest percentage is 100% owned by each sample bank with different years meaning all top management is over 45 years old. The mean percentage of the top demographic that has a tenure of more than 5 years is 19.34%. This shows that Islamic banks are dominated by top management who have tenure of less than 5 years. It may also that some of Islamic banks are still newly established. Samples with top management under 45 years old are BCA sharia, BJB sharia, BSM, Maybank sharia, and Muamalat.

Demographic educational background of top management shows that the mean percentage of top management with economic, management and accounting education background is 69.5%. This data shows that the top management of Islamic banking is dominated by those who have an education background that is in accordance with their position, namely economics, management and accounting. Based on the table, the demographics of top management experience in Islamic banks on average are 22.87% with the highest percentage being 100% and the minimum value being 0%. The median value of 33% also shows that the majority of the top management of Islamic banks do not have experience serving or working in Islamic banking. For demographics based on experience in risk management, the average percentage is 18.29%, with the highest percentage value being 60%, namely BRI Syariah. The median value of 25% strengthens the mean data which shows a small percentage of top management with experience in risk management.

Gender demographics show that the mean gender proportion of women in top management is 17.69%. The small mean value indicates that the top management of Islamic banks from the research sample is dominated by male directors. The top management demographic with the highest female gender is 67%, namely BCA sharia. Lastly, the demographics of audit committees with experience as internal auditors on average are 19.06% with the highest percentage of 50% obtained by Maybank



Syariah. A small mean and a median of 0% indicate that a small percentage of audit committees have experience as internal auditors.

Table 4 presents the regression results. Both model 1 without moderation and model 2 with moderation use the generalized least square (GLS) model which is free from heteroscedasticity and autocorrelation problems. Model 1 without moderation does not experience multi-correlation problems. The moderation model detected multi-correlation. This is reasonable because there is a relationship between the moderating independent variable and the moderator. Both models meet a good goodness fit as indicated by the F-statistic of 0.000 which is smaller than the 0.05 significance level. Model 1 without moderation has an Adjusted R square (Adj-R²) value of 28%, which means that the independent variable can be explained by 28% and 72% is explained by other variables outside the model. The model 2 with moderation has a greater Adj-R² value of 38.8%. The existence of a moderating variable can increase the explanatory power of the independent variable. The following is a discussion for each hypothesis testing results.

Table 4: Regression Results

Dependent Variable: Risk Disclosure				
Variable	Model 1		Model 2	
	Without Moderation		With Moderation	
	Coef	P-Value	Coef	p-Value
Independent Variable				
Const	-0.7931	0.0020	-0.3840	0.1730
DAGE	0.2463**	0.0120	0.1383	0.2350
DTEN	-0.0448	0.5710	0.0030	0.9770
DEDU	0.0991*	0.0950	-0.0557	0.3890
DFEBS	0.0532	0.3910	-0.0538	0.3990
DFERISK	-0.0285	0.7710	0.1093	0.3490
DGEND	0.0133	0.8900	-0.0989	0.3600
DKAFEIA			-13.729	0.0050
DAGE*KAFEIA			0.9133	0.0300
DTEN*KAFEIA			0.2819	0.4510
DEDU*KAFEIA			0.5876	0.0810
DFEBS*KAFEIA			0.9582	0.0330
DFERISK*KAFEIA			-0.8425	0.2910
DGEND*KAFEIA			0.2201	0.5830
Control Variable				
ROA	-0.0091	0.0440	-0.0138	0.0020
NPF	-0.0046	0.7140	-0.0269	0.0400
Size	0.0575	0.0000	0.0493	0.0030
N		77		77
F-stat		0.0000		0.0000
Adj-R ²		28%		38.80%

***1% statistically significant; **5% statistically significant; *10% statistically significant



RD: Risk Disclosure; Dage: Age Demographics; Dten: Demography of tenure; Dedu: Educational background demographics; Dfebs: Demographics of experience in Islamic banks; Dferisk: Demographics of Experience in Risk Management; Dgend: Gender Demographics; Dkafeai: Demographics Experience of the audit committee as an internal auditor; roa: Return on Assets; npf: non-performing financing; Size: age of Islamic bank

Top Management Age Demographics and The Disclosure of Islamic Banking Risk

The first hypothesis point a (H_{1a}) in this study is that the age demographics of top management affect the disclosure of Islamic banking risk. Based on the regression results, the coefficient value of the demographic variable age (dage) is 0.2463 with a p-value of 0.012. The regression results show that there is a positive influence of age demographics on risk disclosure. The results of the study do not support Ness, (2010) and Kusumastuti et al. (2007) who conclude that older top management has no effect on company performance. According to Robbins (1996) older managers have lower productivity and work ethic than younger managers. Older top management tend to have a comfortable life, do not have personal financial targets, and have a more humane orientation towards life. All of these have an impact on the company's performance, including performance in terms of risk reporting transparency. However, this research is in line with research conducted by Ma et al., (2019) which states that the age of top management shows experience in the industry so that they are able to provide the best decisions for companies related to the implementation of regulations. In addition, senior managers tend to be conservative so they prefer to follow the rules that have been set rather than make a different decision

Based on descriptive statistics, the mean age demographic has a figure of 90.3%, which means that the top management in the sample is more than 45 years old or old age with an average age of more than 51 years. This means that the composition of top senior management is better in risk management and disclosure.

The Demographics of The Tenure of Top Management on The Disclosure of Islamic Banking Risk

The first hypothesis point b (H_{1b}) in this study is that the demographics of top management's tenure affect the disclosure of Islamic banking risk. Based on the regression results, it is found that the P-value of variable dten is 0.5110, which indicates that there is no demographic effect of the tenure of Islamic bank top management on risk disclosure of Islamic banks. This result is not in line with the research of Milana & Maldaon (2015) which found that the tenure of top management has a positive effect on company performance. This study also does not support the research of Kim & Yang (2014) concluding that the longer the tenure of top management, the better the quality of disclosure of the company's financial statements. This lack of effect on the term of tenure of the board of directors may be because at the small top management has tenure more than 5 years. It is supported by the descriptive statistic data that show mean of tenure is only 19.34%. The median value of 25% also shows that not many top management have long tenure. The tendency for short positions of directors would effect in achieving financial performance and business strategies, not on transparency in risk disclosure of Islamic banks.

The Demographic Background of Top Management's Education and The Disclosure of Islamic Banking Risks

The first hypothesis point c (H_{1c}) in this study is that the demographic background of top management's education affects the disclosure of Islamic banking risk. The regression results in table 4



show that the P-Value for the dedu variable is 0.0950. although the P-value is greater than the 0.05 significance level, if using a 0.10 significance level, this variable still has an influence. The coefficient value of the dedu variable is 0.0991 which shows a positive effect. based on this result H1c is not rejected. This means that the educational background of economics, management and accounting from top management has a positive effect on the level of risk disclosure in Islamic banking. The results of this study support the research of Gottesman & Morey (2010) which concludes that top management with an MBA has a positive relationship with company performance. This study is also in line with the research of Hu et al. (2017) which concluded that the top management accounting education background is related to the level of conservatism and corporate earnings management. These results indicate that the higher the percentage of demographic background education in economics, management and accounting from top management, the better the transparency in Islamic banking. The knowledge gained helps to understand the importance of risk management and its disclosure.

Although it does not strongly influence risk disclosure, educational background could still be considered as a variable that increase the transparency of risk disclosure in Islamic banking. It may the educational background used in this study is too general, such as economics, management and accounting. The use of a more general educational background measure is due to the authors suspecting that the disclosure of risk information is also related to the ability of management to manage risks related to management science and the ability to assess risks at a macro level related to economics. Measurements that are specific to the accounting background could also be considered to find out whether these specifications have a better effect than the general economic background. Based on the results of descriptive statistics obtained data that 69.5% of top management has a background in economics, management and accounting, but only 10% of top management has an accounting education background. In addition, the descriptive statistics also show that Islamic banks that have top management with accounting expertise have a higher percentage than the mean of disclosure of the entire sample. The Islamic bank with the highest number of top managements with accounting expertise is BSM, has the highest average disclosure of 62.5%. Thus, the insignificant influence of the demographics of top management's educational background with the disclosure of risk management could be due to the lack of specificity of the educational background used in this study. The need to use a more specific background measure is supported by research results.

Demographic Experience in Top Management Islamic Banking and The Disclosure of Islamic Banking Risk

The first hypothesis point d (H_{1d}) in this study is that the demographics of experience in top management Islamic banking have an effect on risk disclosure in Islamic banking. Based on the results of the P-value regression of the Dfebs variable of 0.3910, it is greater than the significance level of 0.05, which means that the demographics of experience in top management Islamic banking have no effect on risk disclosure in Islamic banking. This can be caused because the experience being measured is also less specific in relation to the independent variable to be measured. According to research by Brochet & Welch (2012), top management who has experience related to goodwill transactions has an effect on the quality of the company's financial statements, especially in reporting on the company's goodwill. This means that the experience of top management in the appropriate field can increase the competence of top management so that it can improve future performance in the related field. The results of this study indicate that the experience variable in Islamic banking is not able to provide a specific description



of the competencies possessed by top management related to risk management. This causes no effect on the Islamic banking experience variable on the risk disclosure of Islamic banking.

Based on statistical descriptive data, only 29.87% of top management has work experience in Islamic banking, with positions that are not related to risk management. However, 100% of the top management of Islamic banking have experience in conventional banking. This may be the cause of not having an impact on the background of experience in Islamic banking on the disclosure of Islamic banking risks. Because the top management has more experience in conventional banking compared to experience in Islamic banking, the knowledge of Islamic banking risks is not yet optimal and cannot be applied by the top management.

Demographics of Experience in The Field of Top Management Risk Management Affect the Disclosure of Islamic Banking Risk

The first hypothesis point e (H_{1e}) in this study is that the demographics of top management's risk management experience affect the disclosure of Islamic banking risk. Based on the regression results, the P-value of D_{ferisk} is a p-value of 0.7710, which is greater than 0.05, so the hypothesis H_{1e} is rejected. The regression results indicate that the risk management experience background of top management has no effect on the level of risk disclosure in Islamic banking. This is not in accordance with the research of Brochet & Welch (2012) which states that top management experience in the same field will improve performance at the same job in the future. The results of the study also do not support the research findings of Aier et al. (2005) which found that top management experience in related fields will improve the quality of financial reports with fewer restatement of financial statements. Based on the statistical description, the mean top management experienced in the risk management division is only 16% with a median value of 25%. The result is not significant because the mean is quite small. Although there is quite specific experience, the tenure of the top management is still relatively short, ranging from less than one year to two years. This is suspected to be the cause of the insignificant effect of top management's risk management experience on risk disclosure. However, if someone has experience in risk management, they will have the opportunity to be more concerned with transparency and risk management reporting in the future. The next reason is that, even though top management has no experience in risk management, almost all top management has received risk management training and has even received a certificate. So, even though they do not have risk experience, top management will still pay attention to risk transparency in Islamic banking.

Top Management Gender Demographics and the Disclosure of Islamic Banking Risk

The first hypothesis point f (H_{1f}) in this study is that top management's gender demographics affect the disclosure of Islamic banking risk. The results of the regression showed that the p-value of the D_{gen} variable was 0.900, greater than the 0.05 significance level. The statistical results show that top management's gender demographics have no effect on the level of risk disclosure in Islamic banking. This result does not support the research of Peni & Vähämaa (2010) and Luo et al. (2017) which states that female gender tends to be conservative towards information and company strategy. These results indicate that there is no better risk disclosure between female and male gender, neither of which affects the disclosure of Islamic banking risk. In this study, the gender of women is also very small, with an average of 17.69%.

In general, the demographics of the top management of Islamic banking that can affect the disclosure of Islamic banking risk are the age of the top management. Other demographics, such as tenure, educational background, experience in Islamic banking, experience in risk management and gender do not affect risk disclosure. It is possible that risk disclosure is a mandatory disclosure.



Although this study uses content analysis in terms of qualitative, quantitative, future analysis and rating, the demographics of the directors do not affect the level of disclosure, except for the age of top management. In addition, top management is likely to focus more on other strategic matters such as product development, sharia-compliant operations, and increasing the level of profit sharing. Another reason is that reporting is the concern of accountants, internal auditors and the Islamic banking audit committee. In this case, Islamic banking is supervised and assisted by a committee in reporting risk information that is useful for stakeholders.

The Expertise of the Audit Committee Strengthens the Influence of Top Management's Age Demographics on the Disclosure of Islamic Banking Risks

Table 4 in column model 2 is a test using a moderating effect. This model is used to prove the second hypothesis (H_2), whether the expertise of the audit committee strengthens the influence of top management demographics on Islamic banking risk disclosure. Based on the regression results, the audit committee's expertise is proven to strengthen the influence of the demographics of top management's age and the demographics of Islamic banking experience on risk disclosure with a significance level of 0.05. Although the effect is not as strong as on the demographics of age and Islamic banking experience, the expertise of the audit committee also strengthens the influence of top management's educational background on risk disclosure with a significance level of 10%. The explanation regarding the expertise of the audit committee to strengthen the characteristics of top management is as follows:

The expertise of the audit committee strengthens the positive influence of the age characteristics of top management on the risk disclosure of Islamic banking. A more senior age of top management can increase risk disclosure. When there is an interaction between the senior age demographic of top management and the expertise of the audit committee, the influence is even stronger. The senior board of directors is also wiser so that they can properly accept the proposals of the audit committee on the reporting of Islamic banking risk information.

In the unmoderated regression model, management and accounting education background from top management has no effect on risk disclosure. Based on the moderation test, the demographic becomes influential when there is interaction with the expertise of the audit committee. This means that the expertise of the audit committee plays a role in increasing the positive influence of top management, both those who have a management/accounting education background or are experienced in the field of sharia accounting. Understanding the risks of Islamic banking can be obtained from education and experience in Islamic banking. When they get supervision from audit committee members who are dominated by experts in their fields, it can strengthen the increase in risk disclosure in Islamic banking.

Experience in Islamic banking from top management will be strengthened by the expertise of the audit committee, top management becomes more confident in disclosing risk information owned by Islamic banking because of the expertise of the audit committee. Because the experience of top management in the field of Islamic banking does not always show their experience and knowledge in the field of risk management, so that with the existence of the expertise of the audit committee, this knowledge and ability complement each other to improve risk management and disclosure. Likewise, accounting or management education from top management can increase the disclosure of Islamic banking risk when equipped with an expert audit committee. With their educational background, top management can more easily understand the importance of transparency of risk information from an expert audit committee. The existence of both also complements each other. The existence of audit committee expertise causes top management who have accounting/management education and have experience in the field of sharia banking to be more confident in making risky strategic decisions



because of the sharing of risk on these decisions. top management is more confident to provide more detailed and transparent risk reports.

The audit committee's expertise is not proven to moderate top management demographics such as tenure, experience in risk management, and gender. From the statistical description of the tenure of top management positions slightly more than 5 years, this is also because several Islamic banks have just been established. Even though there is an experienced audit committee, if the tenure of top management is not too long, it cannot influence decision making to provide transparency of risk information. The expertise of the audit committee is not able to strengthen the influence of the characteristics of top management's experience in the field of risk management on the disclosure of Islamic banking risk. This is in line with research conducted by Hassan (2017) that the effectiveness of the audit committee is not able to complement the ability of top management in the concept of corporate governance.

CONCLUSION

The purpose of this study is to obtain evidence and analyze the influence of top management demographics on risk disclosure. The next objective is to prove and analyze the role of the audit committee's expertise in moderating the influence of top management's demographics on Islamic banking risk disclosure. In detail, the top management demographics tested in this study are the age of top management, tenure of top management positions, Islamic banking experience, experience in risk management, accounting or management education background, and gender. By using purposive sampling, a sample of 77 observations was obtained for the period 2014-2019.

The conclusion in this study is that the demographics of the top management have no effect on the disclosure of Islamic banking risk, except for the demographics of top management's age and education background. The higher the demographic percentage of top management who are over 50 years old, the higher the risk disclosure of Islamic banking. Top management who is more senior has more mature experience so that in making decisions, providing information will be bolder and more transparent. The expertise of the audit committee plays a role in strengthening the demographic influence of top management in the form of age, accounting/management education, Islamic banking experience on risk disclosure of Islamic banking. the expertise of the audit committee can complement the knowledge or education and experience of Islamic banking from top management in increasing risk disclosure.

The limitation in this study is that the use of educational background measurement is not specific enough to measure expertise related to disclosure (accounting) because of the limited information presented in the financial statements. This research also uses expertise in the field of risk management, while an understanding of risk management can also be obtained from the certification that top management gets. Gender in this study does not separate based on level, whether as president director or not. Suggestions for further research can consider testing the accounting education background to be more specific. Further research can also consider the risk management certification obtained and the level of women's top management positions. The implications of this study emphasize the importance of the audit committee's expertise, especially those gained from its experience as an internal audit, can assist in complementing top management's performance in risk disclosure. So that this can be considered by the board of commissioners in the selection of the audit committee team by adjusting to the performance focus to be achieved by the company.



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