DETERMINANTS OF CORPORATE GOVERNANCE DISCLOSURES OF ISLAMIC BANKS: EVIDENCE FROM SUDAN

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SAED AHMED SULUB

Thesis Submitted in Fulfillment of the Requirements for the Degree of Master of Science in the School of Maritime Business and Management Universiti Malaysia Terengganu

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DEDICATION

To my dear parents Hajja Faiza Mohammed Eid and Haj Ahmed Sulub Warsame,

Who have been always my source of encouragement and inspiration,

Who sacrifice their comfort, effort, money and time for me,

Who are behind every accomplishment I make in my life,

To whom I will never be able to pay back their favour,

I dedicate this work with my love

Abstract of thesis presented to the Senate of Universiti Malaysia Terengganu in fulfillment of the requirements for the degree of Master of Science

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Islamic banks are exposed to relatively high risks due to their uniqueness and requirement of *Shariah* compliance. Therefore, Islamic banks are expected to have high governance disclosure levels to inform investors and other stakeholders. However, recent studies revealed that the disclosure of governance information is low in Islamic banks. Thus, this study examines two objectives. First, this study explores the extent of Corporate Governance Disclosure (CGD) in Islamic Sudanese banks. Second, the study aims to determine the factors that may explain the variations in CGD levels. In order to fulfill these objectives, a sample of fourteen banks was taken for the period from 2009 to 2013. A content Analysis and Ordinary Least Squares (OLS) regression model with pooled effects were used to achieve the study objectives.

The findings of this study reveal low levels of CGD in Islamic banks of Sudan, which is only 39 percent on average. Islamic banks that have an established Audit Committee (AC), Internal Audit Function (IAF) and lower levels of governmental ownership were found to have higher CGD levels than their peers. In addition, the

results showed that Islamic banks with SSB members who have more advanced qualifications provided more information on CGD comparing with their counterparts. However, in contrast to previous studies, the study found that banks with SSB members who sit on more than one board tend to have lower CGD. These results have many implications for Islamic banks regarding the use of governance mechanisms to overcome the low disclosure levels reported by literature studies.

Overall, this study emphasizes Corporate Governance and SSB strength as important factors that contribute to CGD. However, there are some limitations that should be considered when interpreting these findings. First, some variables may be influenced by other moderating factors such as the effect of political system on the relationship between governmental ownership and CGD. Second, there may be better measures for some of the variables being studied. Therefore, future research may refine the model to further support the study findings.

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FAKTOR-FAKTOR PENENTU PENDEDAHAN TADBIR URUS KORPORAT OLEH BANK-BANK ISLAM: BUKTI DARI SUDAN

SAED AHMED SULUB

March 2017

Penyelia Utama : **Profesor Madya Zalailah Salleh, Ph.D.**

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Pusat Pengajian : **Pusat Pengajian Perniagaan dan Pengurusan Maritim**

Perbankan Islam sememangnya terdedah kepada risiko yang agak tinggi berikutan keunikan dan keperluannya untuk memenuhi prinsip patuh Syariah. Oleh itu, perbankan Islamik dijangka mempunyai tahap amalan tadbir urus yang tinggi sebagai makluman kepada para pelabur dan pihak berkepentingan yang lain. Walau bagaimanapun, kajian terkini menunjukkan bahawa pendedahan maklumat berkaitan tadbir urus di bank-bank Islamik adalah rendah. Justeru itu, kajian ini akan meneliti dua objektif utama. Pertama, untuk melihat sejauh mana Pendedahan Tadbir Urus Korporat (CGD) di bank-bank Islamik Sudan. Kedua, untuk mengenalpasti faktor-faktor yang menyebabkan terdapatnya variasi dalam tahap CGD. Seterusnya, bagi memenuhi kesemua objektif ini, sampel bagi 14 buah bank dikumpulkan dari tahun 2009 hingga 2013 dengan menggunakan Model Analisis Regresi Kuasa Dua Terkecil (OLS) dengan kesan terkumpul (*pooled effect*).

Hasil kajian menunjukkan tahap CGD dalam bank Islamik di Sudan adalah rendah iaitu hanya 39 peratus secara purata. Selain itu, bank Islamik yang mempunyai

Jawatankuasa Audit (AC), Fungsi Audit Dalaman (IAF) dan tahap pemilikan kerajaan yang rendah didapati mempunyai tahap CGD yang tinggi berbanding bank yang lain. Malah, dapatan kajian juga menunjukkan bahawa bank Islamik yang mempunyai ahli-ahli SSB yang berkelayakan tinggi berupaya menyediakan maklumat yang lebih terperinci mengenai CGD berbanding bank-bank yang lain. Namun, berbeza dengan kajian lepas, kajian ini mendapati ahli-ahli SSB yang memegang lebih dari satu keahlian SSB adalah cenderung untuk mempunyai CGD yang lebih rendah. Kajian ini memberi banyak implikasi kepada bank islamik berkaitan mekanisma tadbir urus bagi mengatasi kekurangan kajian tahap pendedahan seperti yang dilaporkan oleh kajian literatur.

Keseluruhannya, kajian ini menekankan kekuatan Tadbir Urus Korporat dan SSB sebagai faktor penting yang menyumbang kepada amalan CGD. Namun, terdapat beberapa batasan yang perlu dipertimbangkan. Pertama, beberapa pembolehubah boleh dipengaruhi oleh faktor-faktor moderator yang lain seperti kesan sistem politik kepada hubungan antara pemilikan kerajaan dan CGD. Kedua, kemungkinan terdapat kaedah pengukuran lain yang lebih baik terhadap pembolehubah kajian. Oleh itu, kajian masa depan boleh menggunakan model ini bagi menyokong dapatan kajian.