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The effects of corporate governance on operational risk disclosure in Indonesian Islamic Banking

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Abstract

This study aims to examine the influence of corporate governance on operational risk disclosure in Indonesian Islamic Bank. The corporate governance variables examined in this study are institutional ownership, board of commissioners, audit committee and Sharia Supervisory Board (SSB). The study was conducted on all Sharia banks (13 banks) for the 2014-2018 period using multiple regression method. The results of the study showed that institutional ownership had a significant positive effect on the disclosure of operational risk, and the findings of this study support the hypothesis. However, the board of commissioners, audit committee, and SSB had no effect on the disclosure of operational risk. The results of the study indicated that the hypotheses only partially supported, implying that there are still opportunities to conduct other studies to identify the determinants of operational risk disclosure in Islamic banks. In addition, this study is expected to be able to contribute to measure operational risk disclosures by considering banking regulations in Indonesia.

Introduction

According to Barakat and Hussainey (2013), disclosure of risk information is an important mechanism to increase market efficiency. Disclosure of operational risk in Islamic banking is very important to increase legitimacy and manage the stakeholders' perceptions on the company's reputation (Oliveira et al., 2011). In addition, according to Malim (2015) operational risk is starting to get more attention in line with the trend that leads to technology dependence, competition between banks, and globalization of banking industry which make Islamic bank management need to expose operational risk information.

Bank of Indonesia (2011) Regulation Number 13/23/PBI/2011 defines operational risk as the risk of loss resulting from inadequate internal processes, failure of internal processes, human error, system failure, and/or external events affecting bank operations. Operational risks can arise because banks may not have the capacity and capability sufficiently qualified to carry out Islamic finance operations, including the different nature of business related to computer software and the large number of legal documents on the contract system of each Islamic bank product. As a result, the disclosure of operational risk is one of the risk disclosures that needs to be provided to stakeholders.

Many previous studies linked the quality of corporate governance with the risk disclosure of Islamic banks, such as the research by Abdallah et al. (2015) on the state company Gulf Cooperation Council Countries and found that corporate risk disclosure will be lower in Islamic financial institutions when compared to conventional financial institutions; Ashfaq et al. (2016) on Pakistani banking sector and stated that independent board of directors and lower managerial ownership affects positively risk disclosure; Al Maghzom et al. (2016) showed that external ownership, audit committee meetings, gender, size, profitability and board size are primary determinants of voluntary risk disclosure practices in Saudi listed banks. In addition, study conducted by Elamer et al. (2019) argued that Sharia Supervisory Board (SSB) and ownership structure have a positive effect on risk disclosure. However, study conducted by Khalil and Maghraby (2017) showed different result because they found that there are no significant associations between risk disclosure and board characteristics variables such as board size, board composition and CEO duality.

The unique characteristics of syariah bank operating systems make the operational risk of syariah banks more complex. Abdullah et al. (2011) suggest that there is serious concerns regarding the applicability of the Basel II methodology for Islamic banks and needs special attention regarding operational disclosure for Islamic banks. In Indonesia, previous studies examined the risk of Islamic banks in general or risk management disclosures such as Aryani and Hussainey (2017), Wicaksono and Adiwibowo (2017), Achmad and Faisal (2017), Hasina et al. (2018), Sarwono et al. (2018), Susanti et al. (2018), and Falendro et al. (2018). At the time this study was conducted, it had not been found a study on disclosure of operational risk, especially the effect of corporate governance on disclosure of operational risk and for this reason this study was conducted.

The results of the research conducted by Barakat and Hussainey (2013) showed that the increase in the quality of bank operational risk disclosures in Europe was influenced by the ownership structure, activity of the audit committee, contribution of supervision, and bank regulations. As for Islamic banking, Ameer (2018) research found that two-level governance system, government ownership, and board independence had significant positive effects in increasing the quantity of operational risk disclosures. These results are supported by the research by Neifar and Jarboui (2018) where the independence of board of directors and ownership structure had positive effects on the voluntary disclosure of operational risk, while SSB showed a negative effect on the voluntary disclosure of operational risk in the annual report of Islamic banking.

Several studies have investigated how corporate governance qualities such as ownership structure and board attributes drive risk disclosure. The research by Ashfaq et al. (2016), Al Maghzom et al. (2016), and Neifar and Jarboui (2018) proved that ownership structure was positively related to risk disclosure. The ownership structure of Islamic banks in Indonesia is divided into concentrated ownership and institutional ownership. Since the Islamic banks in Indonesia are mostly owned by institutions, this study will examine the effect of institutional ownership as a factor that may affect the disclosure of operational risk.

In addition to the ownership structure, the governance structure which includes the board of directors and board of commissioners is also a factor that can affect risk disclosure. Previous studies have mostly examined the effect of the characteristics of the board of directors on risk disclosure (Al Maghzoom et al., 2016; Alkurdi et al., 2019; Ashfaq et al., 2016; Khalil & Maghraby, 2017; Nahar et al., 2016; Rosli et al., 2017). To expand on previous studies, this study examines the influence of the board of commissioners on operational risk disclosure. Hasina et al. (2018) has studied the effect of board of commissioners size on enterprise risk management disclosure but the results are not significant, and this implies the need for studies regarding the role of the board of commissioners in increasing operational risk disclosure.

In addition to board of commissioners, another governance element which has been studied to have effect on risk disclosure is audit committee. The board attributes which were studied included audit committee as seen from the number of audit committee meetings (Ashfaq et al., 2016; Alkurdi et al., 2019; Neifar & Jarboui, 2018) and the number of audit committee members (Nahar et al., 2016; Achmad & Faisal, 2017; Susanti et al., 2018) which showed inconsistent results. Therefore, this study will re-examine the role of audit committee in voluntary disclosure of operational risk by looking at the independence of audit committee in encouraging disclosure of operational risk.

The fourth independent variable studied in this paper is SSB. There are not many studies that examine the effect of SSB on risk disclosure, especially operational risk, and the results of the study show inconsistencies. Elamer et al. (2019) shows that the frequency of SSB meetings has a positive effect on the increase in banking risk disclosure in Middle Eastern and North African countries. Meanwhile, according to Neifar and Jarboui (2018) the existence of SSB has a negative effect on operational risk disclosure. Therefore this study examines the role of SSB in increasing the disclosure of operational risk in Islamic banks.

Based on the formulation of the problems above, the purpose of this study is to examine and analyze the effects of institutional ownership, audit committee, board of commissioners, sharia supervisory board on the disclosure of operational risks in Islamic banking in Indonesia.

Literature Review

To explain the relationship between corporate governance and disclosure of operational risk, this study uses two theories, namely stakeholders theory and agency theory. Stakeholder theory as the basis for the relationship among Islamic banking governance is supported by the presence of the Sharia Supervisory Board (Mohammed & Muhammad, 2017). Linsley and Shrives (2005) explain the relationship between agency theory and risk disclosure, that managers' actions to disclose risk information are used to convince shareholders that the company has a risk management system. In addition, disclosing information to external parties (shareholders) can help resolve conflicts and reduce information asymmetry.

Effects of Institutional Ownership on Operational Risk Disclosure

Based on agency theory, institutional ownership can minimize agency conflicts that occur between managers and shareholders because institutional investors can increase more optimal supervision on the management performance. Institutional ownership will encourage companies to be more transparent in disclosing more information than which is required. Institutional shareholders have an active role in overseeing and establishing regulations related to voluntary disclosure (Khlif et al., 2017). Therefore, the presence of institutional investors will motivate managers to disclose risk information widely. There are only two types of ownership structures generally found in Indonesian banking, namely concentrated ownership and institutional ownership. The previous research has proven that concentrated ownership has a positive relationship with risk disclosure (Ashfaq et al., 2016; Al Maghzom et al., 2016; Neifar & Jarboui, 2018). The hypothesis to be tested is as follows.
H1: Institutional ownership has a positive effect on operational risk disclosure.

Effects of Audit Committee on Operational Risk Disclosure

Based on agency theory, the principals will try to find information and provide incentives to ensure the agent responsibility for company ownership. Here, the role of audit committee is needed because the committee is responsible for financial reporting, corporate governance, and supervision so that the audit committee is expected to fulfill the principal's information needs. The existence of an audit committee also aims to ensure that the leaders disclose the financial information without being manipulated and biased (Abdullah et al., 2015). An independent audit committee will assist the board of commissioners in monitoring the company performance, especially in relation to the review system, internal company controls; ensuring the quality of financial reports; and increasing the effectiveness of the audit function (IBI, 2016). The audit committee's good reputation will support transparency. The previous research used proxies for the number of members and number of audit committee meetings, whereas this study used a

different proxy by observing the independence of the audit committee. The hypothesis to be tested is as follows.
H2: The audit committee has a positive effect on operational risk disclosure.

Effects of Board of Commissioners on Operational Risk Disclosure

According to agency theory perspective, board of commissioners represents the main internal mechanism to control the opportunistic behavior of management so that it can help align the interests of shareholders and managers (Jensen & Meckling, 1976). An independent member of board of commissioners means someone who has no relationship or affiliation with the company management, and is the majority shareholder, therefore, there is no relationship whatsoever that may influence an independent action of an independent member in terms of disclosing the information provided for the benefits of stakeholders. Good monitoring by an independent board of commissioners is expected to expand the risk disclosure to meet the information needs of Islamic bank stakeholders and to minimize the possibility of information from being hidden. A research by Alkurdi et al. (2019) shows that the independence of board of commissioners has a positive effect on risk disclosure. The greater the independence of a commissioner, the better it is to deal with stakeholder demands and to improve the quality of risk disclosure. The hypothesis to be tested then is as follows.
H3: The independence of the board of commissioners has a positive effect on operational risk disclosure.

Effects of Sharia Supervisory Board Characteristics on Operational Risk Disclosure

According to the perspective of agency theory, corporate governance needs to be implemented to control agency problems and ensure that managers act on behalf of shareholders. In regards with the governance of Islamic banks to deal with the agency problems that arise from the risks of manipulating the refund of paid funds or finding the activities that are not in accordance with Islamic values and principles, it is necessary to have an independent board called SSB. SSB has the responsibility to provide advice to board of directors as well as to Islamic financial institutions regarding the sharia issues to enable banks to comply with sharia principles. Moreover, SSB functions as an independent monitor to limit the excessive risk taken by board of directors and to fulfill the objectives of internal governance, namely transparency of information disclosure.

Beside agency theory, the role of SSB in Islamic banking governance is based on stakeholder theory. The SSB has a function to support the principles of accountability (one of which is through information disclosure), increasing compliance with sharia principles and the SSB has a role in aligning the decisions of members of the board of directors with the interests of all stakeholders (Naser & Muhammed, 2017). Farook et al. (2011) investigated the determinants of CSR disclosure in Islamic banks using SSB as sharia governance structures. The factors related to the characteristics of SSB can determine how SSB members effectively carry out their functions which then can increase the management's motivation to disclose the information about operational risks. The hypothesis to be tested is as follows.
H4: The characteristics of the SSB have a positive effect on operational risk disclosure.

Research Method

Population and Sample

Population is the whole research objects to be studied. The population in this study was all Islamic Commercial Banks in Indonesia in the 2014-2018 period.

Measurement of Research Variables

The dependent variable used in this study was operational risk disclosure. This study developed a measurement of operational risk disclosure based on the Financial Services Authority (2017), Neifar and Jarboui (2018), and Ameer (2018). The measurement of the disclosure index used the unweighted approach where the value for the item disclosed was 1 and 0 for the item not disclosed. The total sum of the items disclosed were then divided by the maximum values of all disclosed operational risk items. The more the information elements of a bank are fulfilled, the greater the operational risk disclosure index. The banks with high index numbers indicate more comprehensive disclosure practices. The independent variables examined in this study were institutional ownership, audit committee, board of commissioners, and Sharia Supervisory Board. The measurement of all variables is explained in Table 1.

Table 1. Measurement of Variable

Variables	Measurement	Source
Operational Risk Disclosure	45 items	(Financial Services Authority, 2014; Elamer et al., 2017; Neifar & Jarboui, 2018; Linsley & Shrives, 2005)
Instutional Ownership	The percetage of the number of shares owned by institutional investors	(Neifar & Jarboui, 2018)
Audit Committee	Number of Independent audit committee	(Achmad & Faisal , 2017)
Board of Commissioner	Number of independent board of commisioners	(Alkurdi et al., 2019)
Sharia Supervisory Board (SBB)	Islamic Governance Score (IGS), which includes SSB presence, number of SSB members, cross membership, educational background and experience or reputation	(Farook & Lanis, 2005)
Performance	ROA	(Sarwono et al., 2018; Susanti et al., 2018)

Method of Analysis

Multiple linear regression analysis was used to determine the effects of two independent variables on one dependent variable which was displayed in a regression equation.

Results

In this section, descriptive statistics, classic assumption tests and hypothesis testing are explained.

Statistical Descriptive Analysis

The descriptive statistics of all variables is explained in Table 2.

Table 2. Descriptive Statistics

	n	Minimum	Maximum	Mean	Std. Deviation
ORD	65	.53	.87	.7102	.08908
Ins.Own	65	.60	1.00	.9582	.09533
Aud.Com	65	.29	1.00	.6163	.14077
BOC	65	.00	1.00	.6215	.16876
SSB	65	.60	1.00	.8708	.12465
SIZE	65	14.06	18.44	16.3666	1.28938
ROA	65	-.81	.07	-.0103	.10776

Classic Assumption Test

This study used Kolmogorov-Smirnov to identify whether the assumption of normality is fulfilled. The amount of Sig. value was 0.200 which was greater than 0.05, so it could be concluded that the residuals were normally distributed.

The multicollinearity test result showed that there were no independent variables that had a tolerance value less than 0.10, which meant that there was no correlation between independent variables.

This study used Glejser test to examine the heteroscedasticity by regressing the independent variables and their residual absolute values. The significance values of the four independent variables, namely institutional ownership, independent audit committee, independent board of commissioners and Sharia Supervisory Board were more than 0.05, thus it could be concluded that there was no heteroscedasticity in this regression model.

The criteria used to detect the presence or absence of autocorrelation symptoms were based on Durbin Watson DL (bottom) and DU (top) table. Based on the results of regression data processing, Durbin Watson value was 2.092, while from the manual calculation, the value of DL was 1.4378 and DU was 1.7673. Because the value of DW (2.092) was more than that of DU (1.7673), there was no positive autocorrelation. Also, the value of 4-DW (2.5622) was more than that of DU (1.7673), there was also no negative autocorrelation.

Regression Testing Results

The hypotheses in this study were tested using multiple linear regression method generally used to test the effects of two or more independent variables (explanatory) on one dependent variable. The results of t-test, F-test, and coefficient of determination can be seen in Table 3.

Table 3. Multiple Linear Regression Results

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.182	.226		-.804	.425
	Int.Own	.236	.111	.253	2.122	.038
	Com.Aud	-.022	.072	-.035	-.309	.759
	BOC	-.054	.057	-.102	-.941	.351
	SSB	-.030	.087	-.042	-.345	.731
	SIZE	.045	.010	.653	4.744	.000
	ROA	.013	.090	.016	.149	.882

Based on the regression results shown in Table 3, the adjusted R^2 value of 0.313 indicates that the variables of institutional ownership, independent audit committee, independent board of commissioners, Sharia Supervisory Board, company size, and profitability were able to explain 31.3% of the disclosure of operational risk in Islamic banking in Indonesia, while the remaining 68.7% is determined by other factors which were not detected in this model. The regression results showed a significance of F amounting 0.000 which is significantly strong to conclude that the proposed model was of good quality.

T-Test

In this study, the hypothesis testing partially used t-test with the significance level 5%. The t-test was used to prove hypothesis one (H1) up to hypothesis four (H4). The results of probability comparison (sig.t) with the significant level 0.05 were used as the basis for decision making. Table 4 shows the t-value of each variable processed using SPSS 23.

Table 4. t-test results

Variable	t	Sig.	Hypothesis
Institutional ownership	2,122	0,038	Supported
Audit Committee	-0,309	0,759	Not supported
Board of Commissioners	-0,941	0,351	Not supported
SSB	-0,345	0,731	Not supported
ROA	0,149	0,882	-
SIZE	4,744	0,000	-

Result and Discussion

Effects of Institutional Ownership on Operational Risk Disclosure

Based on the statistical calculation, the t-value of institutional ownership on disclosure of operational risk is 2.122 and the probability value is 0.038, so the hypothesis is supported. This means that there is a significantly positive relationship between institutional ownership and operational risk disclosure in Islamic banking of Indonesia. The higher the level of institutional ownership in Islamic commercial banks, the more transparent the disclosure of operational risk information in the annual report.

Institutional ownership is the ownership of shares of a company by an institution or institutions such as insurance companies, banks, investment companies, and others. Agency theory suggests that greater institutional ownership has an extra incentive to monitor disclosure policies. A high level of institutional ownership will lead to greater supervision efforts by institutional investors so that it can hinder the behavior of managers who are only concerned with their own interests, which in turn will hurt the company owners. Institutional investors have the experience and resources to enable effective monitoring on managers' decisions including decision regarding disclosure. This institutional ownership role will encourage companies to be more transparent in disclosing information, including information about operational risks.

Jensen and Meckling (1976) stated that institutional ownership had a very important role in minimizing agency conflicts. Higher level of institutional ownership will lead to greater supervision efforts by the investor, so that it can hinder the unexpected behavior of managers which might be detrimental to the company. The majority of the shareholdings of Islamic commercial banks in Indonesia is institutional, so that the control and power of Islamic banks is in the hands of institutional investors. The concentration of ownership in Islamic banks can replace the control exercised by the board and committee. By increasing the disclosure of information about operational risks, banks can increase their attractiveness to stakeholders in the long term. Therefore, bank management can take advantage of this to communicate more information about risk management, especially operational risks.

The results of this study support the statement that an increase in the number of institutional shareholders can determine the level of corporate information disclosure and the requirements for broader access to other company information. The greater attention given to the management by institutional investors indirectly exerts pressure that has an impact on the quality of risk management disclosure (Ashfaq et al., 2016). These results are consistent with the research by Al Maghzom et al. (2016) and Neifar and Jarboui (2018) which state that institutional ownership has a positive effect on disclosure of operational risk.

Effects of Audit Committee on Operational Risk Disclosure

Based on the statistical calculation, the t-value of independent audit committee on disclosure of operational risk is -0.309 and the probability value is 0.759, so the second hypothesis was not supported. This means that there is no significant influence between independent audit committee and disclosure of operational risks. This means that the managers disclose operational risk in the annual report not due to the existence of the independent audit committee.

According to Financial Services Authority (2015) Regulation Number 55/ POJK.04/2015, audit committee is defined as a committee formed by and responsible to Board of Commissioners to help carry out the duties and functions of the Board of Commissioners. Audit committee is responsible for recommending the appointment of an external auditor, overseeing audit process, managing internal audit, and ensuring the credibility of financial reporting. A larger audit committee can provide stronger monitoring which leads to a higher level of transparency (Abdallah et al., 2015). In this study, the size of audit committee was seen from the number of independent audit committee members. Independent audit committee will assist the board of commissioners in ensuring the quality of financial reports and increasing the effectiveness of the audit function (IBI, 2016). In addition, the good reputation of independent audit committee will support transparency which will encourage management to provide more information than which is required, especially the disclosure of operational risks in Islamic banks.

The results of this study indicate that independent audit committee has no influence on the actions of Islamic commercial bank managers in disclosing operational risk information items in annual reports. It is possible because the number of independent audit committees is limited to comply with the requirements of Bank of Indonesia (2009a) Regulation Number 11/33/PBI/2009 on implementation of good corporate governance for sharia commercial banks and sharia business units, which states that audit committee consists of at least three people, two among whom are independent parties with the expertise in financial accounting and Islamic banking.

The research by Ashfaq et al. (2016), Al Maghzom et al. (2016), and Alkurdi et al. (2019) revealed the different results from the results of this study. The difference was caused by the proxy for the audit committee in the previous research which used the number of meetings held to see the effect on the overall risk disclosure. Other research on the effects of independent audit committee on disclosure of operational risk using other proxies have also been carried out with the result of no significant effect detected. In addition, the existence of regulations governing risk management disclosures makes the managers only fulfill the mandatory disclosures according to the regulations from OJK regarding operational risk. Therefore, further research is suggested to remove the independent audit committee variable from the model.

Effects of Board of Commissioners on Operational Risk Disclosure

Based on the statistical calculation, t-value of independent board of commissioners on the disclosure of operational risk is -0.941 and the probability value is 0.351 which means that there is no significant effect of the independent board of commissioners on the operational risk disclosure. This means that managers disclose operational risk in the annual report not due to the presence of independent board of commissioners.

One of the characteristics of corporate governance that a company must have is an independent commissioner whose function is to supervise and ensure that the bank has implemented the practices of accountability, transparency, disclosure, independence, and fairness in accordance with the prevailing regulations. Independent Commissioner is a member of Board of Commissioners who has no financial, management, shared ownership and/or family relationship with the controlling shareholders, members of board of commissioners and/or members of board of directors or financial relationship and/or shared ownership with bank (IBI, 2016). Based on agency theory, a large proportion of independent commissioners in the board of commissioners' structure can fulfill a role to provide a strict supervision and control toward manager's opportunistic behavior (fraud) that may occur.

The results of this study indicate that the number of independent commissioners has no influence on the actions of Islamic commercial bank managers in disclosing operational risk information items in annual reports. The appointment of independent commissioners at Indonesian Islamic commercial banks may only be done to comply with the regulations and does not show the realization of strengthening good corporate governance. Bank of Indonesia (2009a) Regulation Number 11/33/PBI/2009 concerning Implementation of Good Corporate Governance for Islamic Commercial Banks and Sharia Business Units stipulates that board of commissioners ensures that board of directors has followed up on audit findings and/or recommendations from the results of supervision by Bank of Indonesia, internal auditors, Sharia Supervisory Board and/or external auditor. In other words, they do not have direct involvement to influence the decision on compliance with operational risk information disclosure.

The result of the research by Alkurdi et al. (2019) was different from this research result, in which the independent board of commissioners had a positive relationship with the mandatory and voluntary disclosure of risk information. The result was inconsistent because the previous study used the dependent variable for mandatory disclosure and voluntary disclosure, so the result was biased. In addition, the previous research only looked at the relationship between variables, not the influence between variables.

Effects of Sharia Supervisory Board Criteria on Operational Risk Disclosure

Based on the statistical calculation, the t-value of Sharia Supervisory Board on operational risk disclosure is -0.345, and the probability value is 0.731, which means that there is no significant influence of Sharia Supervisory Board on disclosure of operational risks. This means that managers disclose operational risk in the annual report not due to the existence of a Sharia Supervisory Board. In other words, the existence of SSB in Islamic banks in Indonesia is not yet effective to increase the disclosure of operational risks.

This study measures the quality of SSB based on five elements, namely SSB presence, number of SSB members, cross membership, educational background, and experience. The ineffectiveness of SSB in increasing the transparency of operational risk information indicates that the number of SSB members may not play an important role. However, the board quality is more influenced by the competence and expertise of the board as stated in Bank of Indonesia (2009b) Regulation Number 11/3/PBI/2009 concerning sharia commercial banks.

According to Bank of Indonesia (2009b) Regulation Number 11/3/PBI/2009 concerning Sharia Commercial Banks, the definition of Sharia Supervisory Board (SSB) is a board that is tasked with the provision of advice to board of directors and supervision on bank activities to comply with sharia principles. The role of SSB is to advise, supervise, and ensure that company operations comply with sharia principles. Directors, acting on behalf of shareholders, have the duty to monitor and supervise the overall business activities, while managers have a fiduciary obligation to manage the company as a trust on behalf of all stakeholders, not just shareholders. The supervisory board must be able to understand the provisions of Islamic Fiqh as the source of Islamic laws and understand national positive laws, both of which are the basis for the operational laws of Islamic banks. Ideally, SSB members have extensive knowledge in Islamic law, banking, and accounting.

Conclusion

This study aims to examine the influence of governance structure on the disclosure of operational risk in Islamic banking based on agency theory, and stakeholder theory. The results of the study indicate that the governance structure which has a significantly positive effect on disclosure of operational risk is only ownership structure. This implies that agency theory is only partially supported. Furthermore, the result of this study which failed to prove the effects of Sharia Supervisory Board indicates that stakeholder theory does not receive empirical support. The practical implication of the findings of the study showing that institutional ownership has a significant positive effect on operational risk disclosure is that institutional investors can promote transparency, especially disclosure of operational risk.

The results of the study that only support a small proportion of the hypotheses are probably caused by the measurement of operational risk disclosure. This study developed a measurement of operational risk disclosure by combining the regulations in Indonesia and the references containing opinions from the experts and academics related to operational risk and operational risk disclosure. It is possible that some of the items used to measure operational risk disclosure are not practiced by Islamic banking in Indonesia. Therefore, the future research is needed to examine the measurement of operational risk disclosures in accordance with the applicable regulations in Islamic banking in Indonesia. Another limitation of this study is that the operational risk disclosure index was calculated without using weights, where each disclosure item was treated equally. The calculation method of operational risk disclosure score needs to be considered by the further researchers. We recommend that the researchers use a new checklist that is adjusted to the applicable regulations since there are no specific regulations relating to the disclosure of operational risks in Islamic banking in Indonesia.

Adjusted R Square is 0.313, which means that the ability of the independent variables to explain the dependent variable is 31.3%, while the remaining 68.7% is influenced by other variables outside the model. It can be concluded that there are still many variables outside the model that affect the disclosure of operational risk in the annual reports of Islamic banking that are not included in the research model. Due to the limited study on the determinants of operational risk disclosure in Islamic banking in Indonesia, there is still a need for the future study on the effects of governance and performance on operational risk disclosure by applying different governance elements.

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