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# Islamic Corporate Governance Quality and Value Relevance of Accounting Information in Islamic Banks

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## **Abstract**

*Purpose:* The study investigates the Shari'ah governance quality effectiveness, at the bank and national levels, on the value relevance of Islamic banks' Earning per Share and Book Value per Share.

*Design/methodology/approach:* Quantitative analyses are conducted using a panel of 40 listed Islamic banks from 12 countries during 2012-2019. Data were retrieved from the Refinitiv-Eikon database and banks' annual reports.

*Findings:* The findings suggest that Shari'ah supervisory boards' attributes negatively influence the value relevance of accounting information while the internal procedures positively impact it. The results also provide evidence of a complementary effect between Shari'ah governance mechanisms at the bank and national levels on the value relevance of accounting information.

*Originality:* Existing studies tend to ignore the effectiveness of Shari'ah governance quality at the bank level on value relevance. There is a similar lack of empirical research on the effectiveness of the centralized Shari'ah governance scheme on accounting issues.

*Research implications:* Islamic banks' boards and managers need to be more aware of the role of Shari'ah governance and its impact on value relevance. The observed complementarity between Shari'ah governance systems at the bank and national levels may incite regulators to include comprehensive Shari'ah governance regulations in their best practices. Strengthening collaboration between regulators and the AAOIFI is also required to create an enabling environment for investors to rely on the AAOIFI accounting standards in their investment decision-making process.

## **Keywords**

National Shari'ah Supervisory Board; Internal Shari'ah Supervisory Board; Internal operational procedures; Earning Per Share; Book Value Per Share; IFRS; AAOIFI

## **1. Introduction**

Islamic banks (IBs) mostly seek to associate themselves with ethical institutions and to demonstrate that accountability and transparency are primordial in their management approach. The empirical literature provides evidence that IBs tend to be less prone to earnings management and accounting manipulation (Abdelsalam et al., 2016; Agbodjo et al., 2020; Elnahass et al., 2018; Lassoued et al., 2018), thereby attenuating financial reporting risk and reducing information asymmetry with outside investors (Abdelsalam et al., 2016; Agbodjo et al., 2020; Safieddine, 2009). Furthermore, Shari'ah requirements on the traceability of funds and Shari'ah constraints on speculation and high risk-taking preserve them from ambiguity and promote transparency (Boubakri et al., 2019). Thus, complying with the moral precepts of Shari'ah appears to enhance accounting reliability, encouraging outside investors to rely on financial information when making investment decisions, which increases their value relevance. In this vein, Agbodjo et al. (2020)'s study provides evidence of higher value relevance of accounting information in IBs compared to conventional banks (CBs). Abdelsalam et al., (2021) also argue that the impact of religiosity on banks' earnings quality becomes more pronounced among banks headquartered in countries where religion is an important element of national identity. These findings highlight the impact of the religious framework on accounting issues.

In the Islamic finance framework, both conventional corporate and Shari'ah governance mechanisms coexist (Abdelsalam et al., 2016; Beck et al., 2013; Mollah et al., 2017; Mollah and Zaman, 2015). The corporate governance system is designed to preserve the shareholders' interests, while the Shari'ah governance mechanisms aim to preserve stakeholders' interests in terms of Shari'ah compliance. These latter operate at the bank and national levels. At the bank level, the Shari'ah governance system includes a Shari'ah supervisory board (SSB) and internal organizational arrangements (OARR) such as Shari'ah review and audit (Fatmawati et al., 2022). At the national level, we distinguish two Shari'ah governance schemes: centralized and decentralized (Abd Razak, 2018; Hamza, 2013; Al Mannai and Ahmed, 2018). Under the centralized scheme, a national SSB serves as the highest Shari'ah authority for SSBs at the bank level. Such specificities in the governance system, at the bank and national levels, involve extra supervision, review, audit, and control processes in addition to those conventionally performed by corporate governance mechanisms (Fatmawati et al., 2022; Al Mannai and Ahmed, 2018), which may lead to differences in IBs' accounting

outcomes. This raises questions about the role played by the dual governance system, especially the Shari'ah governance, in the value relevance of IBs' accounting information.

A set of studies has empirically focused on the relationship between conventional corporate governance and the value relevance of accounting information. Best internal corporate governance practices are observed to reduce managerial discretion and improve the quality of accounting information and thus their value relevance (e.g., Cimini, Mechelli, & Sforza, 2020; Habib & Azim, 2008; Ntim, Opong, & Danbolt, 2012). Another set of studies emphasizes the importance of Shari'ah governance mechanisms (e.g., Abedifar et al. 2020; Boubakri et al., 2019). For example, Boubakri et al. (2019) find that enhanced dual governance structure and Shari'ah rules are among the main reasons for higher IBs stock liquidity. However, to the best of our knowledge, empirical studies have tended to ignore the effectiveness of IBs' Islamic corporate governance mechanisms, mainly Shari'ah governance practices, on the value relevance of IBs' accounting information. There is a similar lack of empirical research on the effectiveness of the centralized Shari'ah governance scheme, adopted at the national level by some regulators, on the quality of IBs' accounting outcomes.

To fill these gaps, the present study extends previous research and asks the following question: *“Do Shari'ah governance mechanisms at the bank and national levels improve the value relevance of IB's accounting information?”*.

Our empirical study considers a sample of 40 listed IBs from 12 countries between 2012 and 2019 (320 bank-year observations). We use earnings per share (EPS) and book value per share (BVPS) as proxies of the value relevance of accounting information. We follow Boudawara et al. (2023) to construct indexes that consider Shari'ah supervisory boards (SSBs) attributes and internal organizational arrangements (OARR) to measure Shari'ah governance quality at the bank level. At the national level, we consider country-level information that takes one if the bank operates in a centralized Shari'ah governance scheme.

The findings reveal interesting insights. First, the results suggest that the Shari'ah governance system and SSBs' attributes negatively influence the value relevance of accounting information, while the internal organizational arrangements positively influence it. Second, the findings point to a complementary effect between Shari'ah governance mechanisms at the national and bank levels on value relevance. Finally, additional analyses show that IFRS standards increase the value relevance of IBs' accounting information and cancel the negative effect of the Shari'ah governance system at the bank level. Finally, no moderation effect on

value relevance is detected for the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) accounting standards.

The current study extends the previous literature by linking three branches: corporate governance, religiosity, and value relevance. First, we enrich the literature on corporate governance and accounting information value relevance by identifying new factors related to the Shari'ah governance mechanisms at the bank and national levels. Second, we extend the literature on religiosity and value relevance by investigating the quality of accounting information in an Islamic context. Finally, we enrich the literature on accounting standards and value relevance by examining whether the interaction between Shari'ah governance quality and the IFRS and AAOIFI accounting standards affects IBs' accounting information value relevance.

The paper is structured as follows. Section 2 presents a literature review and develops the hypotheses. Section 3 details the research design. Section 4 presents the empirical findings. The final section offers concluding remarks.

## **2. Literature Review and Hypotheses Development**

The Shari'ah governance system aims to protect stakeholders' interests against Shari'ah non-compliance, a fundamental demand from the ecosystem in which IBs operate (Boudawara et al., 2023). It represents "*a set of institutional and organizational arrangements through which Islamic financial institutions ensure that there is effective independent oversight of Shari'ah compliance over the issuance of relevant Shari'ah pronouncements, dissemination of information and an internal Shari'ah compliance review*" (IFSB-10, 2009).

At the bank level, Shari'ah governance quality is related to the effectiveness of IBs' Shari'ah supervisory boards (SSBs). SSBs emerge as part of the governance system represented at the board level to oversight accountability on Shari'ah-related matters, which gives Islamic legitimacy to IBs (Sencal and Asutay, 2021) and introduces a second governance layer to the conventional corporate governance system (Mollah and Zaman, 2015; Sencal and Asutay, 2021). AAOIFI's Governance Standards for Islamic Financial Institutions stipulates that the Shari'ah process in IBs emphasizes the role of the SSBs in corporate reporting reviews, which include the review of "*contracts, agreements, policies, products, transactions, memoranda and articles of association, financial statements, reports (especially internal audit and central bank inspection), circulars, etc.*"(AAOIFI-GS2, 2015).

The Shari'ah governance system also involves internal operational procedures including several functions (e.g., Shari'ah risk management, Shari'ah review, Shari'ah audit), considered as extra processes to those conventionally performed by corporate governance mechanisms (Fatmawati et al., 2022; Al Mannai and Ahmed, 2018). Shari'ah governance system presents relevant features that could enhance the relevance of accounting information encouraging outside investors to place confidence in IBs' financial reports to make investment decisions.

The stakeholders, signal and agency theories are promising avenues to explain the Shari'ah governance mechanisms and value relevance of accounting information relationship. First, from a stakeholder theory perspective (Freeman and Reed, 1983), the primary role of Shari'ah governance is to achieve the ultimate compliance objective with Islamic finance ethics claimed by IBs' stakeholders, essentializing the interests and rights of all of them (Mergaliyev et al., 2019; Sencal and Asutay, 2021). Involved actors in the Shari'ah governance processes work to ensure that the financial interests of all stakeholders, investors included, are protected to avoid a situation of incomplete information (Agbodjo et al., 2020). This enables investors to benefit from adequate and accurate information and helps them to rely on the disclosed financial information, which increases value relevance.

Second, from a signal theory perspective (Spence, 1973, 2002), implementing strong Shari'ah governance can indicate to outside investors that the bank is monitored more closely. The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) states that *"IBs that develop strong Shari'ah governance practices win public confidence and promote trust amongst their shareholders, investors and the other stakeholders dealing with them"* (AAOIFI, 2005). A well-structured SSB is likely to send a signal to outside investors that IBs are operating under a strong monitoring system. In fact, SSBs' members have consultative and supervisory functions (Mollah et al., 2017) and provide additional controls that can add value to IBs (Mollah and Zaman, 2015). Elnahass, Salama, and Yusuf (2022) found that large SSBs with financially qualified and highly reputable Shari'ah scholars are likely to promote better financial reporting quality in IBs. SSBs' members are regarded as the counterparts of conventional internal auditors who enhance the credibility and reliability of published information on the stock market (Godlewski et al., 2016). In the same vein, Elnahass, Salama, and Trinh (2022) report that investment choices and stock price valuations in IBs are influenced by the information released on the characteristics of SSBs. Furthermore, well-designed processes are vital preconditions for Islamic accountability and may signal a sound

monitoring framework. IBs actors involved in these processes are expected to consider their accountability when performing their tasks of guaranteeing adequate controls, reviews, and audits of contracts, transactions and documents, allowing better control of traceability and management of funds (Agbodjo et al., 2020). This leads to reduced information asymmetries with outside investors helping them to trust the bank activities and rely on the disclosed financial information to make investment decisions and, thereby, enhance value relevance.

Finally, from the agency theory perspective (Jensen and Meckling, 1976), Shari'ah governance monitoring mechanisms deal with Shari'ah-related agency problems that could exist between managers and all stakeholders (Basiruddin and Ahmed, 2020; Kok et al., 2022) as new agency relationships could emerge in IBs context (Toumi, 2023; Toumi et al., 2012). According to Elnahass, Salama, and Trinh (2022), SSB members are employed in environments plagued with high agency costs to alleviate agency problems and ensure transparency between managers and stakeholders, outside investors included. Hence, they play a key role in reducing agency costs by overseeing the effectiveness of management policies and practices to avoid a situation of incomplete information. Similarly, Elnahass, Salama, and Yusuf (2022) argued that the impact of Islamic social norms on lowering managerial opportunism appears to be more visible through effective Shari'ah monitoring and supervision. In the same vein, Farag et al. (2018) showed that the dual board structure that characterizes IBs lowers agency costs. This mitigates information asymmetries, leads to a higher level of trust in accounting information and enhances value relevance.

Based on the above-reviewed literature, the following hypothesis is formulated:

*H1: Sound Shari'ah governance quality at the bank level increases the value relevance of accounting information in IBs*

At the national level, Shari'ah governance quality is associated with the Shari'ah governance regime implemented by the regulator in the country. Two Shari'ah governance frameworks have emerged: centralized and decentralized (Abd Razak, 2018; Hamza, 2013; Al Mannai and Ahmed, 2018). Under the centralized framework, the centralized Shari'ah supervisory board (national SSB) serves as the highest Shari'ah authority for the country's Islamic financial institutions (IFIs). Regulators embracing a centralized approach believe that they need to oversee Shari'ah compliance processes and thus endorse specific regulations for Shari'ah governance (Fatmawati et al., 2022). Accordingly, national SSBs develop comprehensive Shari'ah governance regulations and provide guidelines and rulings to IFIs in the industry.

SSBs at the IBs level need, thus, to comply with the national SSB guidelines. Centralized schemes give considerable importance to operational procedures to ensure consistency with national SSB rulings and assist SSBs at the bank level (Fatmawati et al., 2022). It emphasizes the Shari'ah processes at bank level, strengthening the bank Shari'ah governance system and its effectiveness in providing accurate information. Furthermore, the diversity of IB Shari'ah rulings (*fatwas*) worldwide, resulting from the variety of Shari'ah opinions, *urf* (customs), and schools of thought, confuse stakeholders regarding the actual Shari'ah compliance status of IBs financial products and services. Consequently, centralizing guidelines is a solution to mitigate the risk of controversy or irregularity of *fatwas*, which increases stakeholders' trust and confidence (Abd Razak, 2018).

Based on the above discussion, we formulate the following hypothesis:

*H2: Centralized Shari'ah governance enhances the association between Shari'ah governance quality at the bank level and the value relevance of accounting information in IBs.*

### **3. Research Design**

#### **3.1. Sample and data collection**

The initial sample includes all IBs available on the Eikon financial database. Several IBs are removed from this initial list for the following reasons. First, financial information is missing for a great number of IBs on the Eikon financial database. Second, a significant number of annual reports are not available on IBs' websites, which prevents collecting data on *Shari'ah* governance practices. Finally, we retained only listed IBs, as the objective of the paper deals with the value relevance of accounting information for investors, which further limits our sample. The study's final sample considers 40 listed IBs from 12 countries between 2012 and 2019 (320 bank-year observations). Secondary data on financial information were retrieved from the Refinitiv-Eikon database and primary data on Shari'ah governance mechanisms are collected from IB's annual reports as well as the Refinitiv-Eikon database. (See Table 2). All listed IB variables were winsorized at the 1% and 99% percentiles to mitigate the influence of potential data errors and outliers (Barth et al., 2022). Table 1 presents the sampled IBs, their country of origin and the number of observations.

[Table 1]

#### **3.2. Description of variables and econometric modeling**

The study investigates the contribution of Shari'ah governance quality at the bank and national levels to the value relevance of accounting information in IBs. Table 2 describes the variables.

[Table 2]

The study considers Shari'ah governance best practices related to SSB attributes and the internal operational procedures within IBs to assess IBs' Shari'ah governance quality. We follow Boudawara, Toumi, Wannes, & Hussainey (2023) to construct the Shari'ah governance quality indexes. We also consider indicators based on guidelines on Shari'ah governance issued by the main standards-setting bodies for the Islamic finance industry (e.g., AAOIFI, IFSB, and Bank Negara Malaysia BNM) (See Table 2). For instance, the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) issued seven standards titled "Governance standards for Islamic financial institutions". The Islamic Financial Services Board (IFSB) also issued, in 2010, "Guiding principles on Shari'ah governance systems for institutions offering Islamic financial services". In addition, the Bank Negara Malaysia issued, in 2009, guidelines on the "Shari'ah governance framework for Islamic financial institutions", which is amended in 2019.

We also collected data on the Shari'ah governance scheme implemented in each country and in a given year to measure Shari'ah governance quality at the national level. We thus mobilized the following indexes:

- (i) *ShGovGlobal*: the overall Shari'ah governance index that includes all Shari'ah governance best practices (21 items)
- (ii) *ShGovSSB*: the Shari'ah governance sub-index that only includes SSB attributes (13 items)
- (iii) *ShGovOARR*: the Shari'ah governance sub-index that only includes the internal operational procedures established within IBs for Shari'ah supervision (8 items)
- (iv) *CenShGov*: Shari'ah governance quality at the national level provides country-level information that takes one if the IB operates in a centralized Shari'ah governance scheme in a given jurisdiction and a given year, and zero otherwise.

Each indicator of these indices is scored on a dichotomous basis, one or zero (see Boudawara et al., 2023).

Regarding the value relevance of accounting information-related variables, we consider the basic and widely used model in the literature on value relevance that associates the market

value of equity (*PRICE*) with book value per share (*BVPS*) and earnings per share (*EPS*) (e.g., Agbodjo et al. 2020; Feltham and Ohlson 1995; Kothari and Zimmerman 1995). We add to these models the Shari'ah governance quality indexes as we aim to investigate their contribution to earnings per share (see Eq. 1 and 2) and book value per share (see Eq.3 and 4) value relevance. We thus run the following models to test H1:

$$PRICE_{it} = \alpha_0 + \alpha_1 EPS_{it} + \alpha_2 ShGovGlobal_{it} + \sum_{j=3}^{n-1} \alpha_j X_{i,t} + \alpha_n DummyYear + \varepsilon_t$$

(Eq. 1)

$$PRICE_{it} = \alpha_0 + \alpha_1 EPS_{it} + \alpha_2 ShGovGlobal_{it} + \alpha_3 EPS_{it} * ShGovGlobal_{it} + \sum_{j=4}^{n-1} \alpha_j X_{i,t} + \alpha_n DummyYear + \varepsilon_t$$

(Eq. 2)

$$PRICE_{it} = \beta_0 + \beta_1 BVPS_{it} + \beta_2 ShGovGlobal_{it} + \sum_{j=3}^{n-1} \beta_j X_{i,t} + \beta_n DummyYear + \varepsilon_t$$

(Eq. 3)

$$PRICE_{it} = \beta_0 + \beta_1 BVPS_{it} + \beta_2 ShGovGlobal_{it} + \beta_3 BVPS_{it} * ShGovGlobal_{it} + \sum_{j=4}^{n-1} \beta_j X_{i,t} + \beta_n DummyYear + \varepsilon_t$$

(Eq. 4)

Where,  $P_t$  is the price of a share of firm  $i$  three months after fiscal year-end  $t$ ;  $EPS_{it}$  is the earnings per share of firm  $i$  at the end of year  $t$ ;  $BVPS_{it}$  is the book value per share of firm  $i$  at the end of year  $t$ ;  $ShGovGlobal_{it}$  is the Shari'ah governance quality index that includes all Shari'ah governance best practices (21 items) at IB level.  $X_{it}$  is the control variables;  $n$ : number of variables,  $\alpha$  and  $\beta$  are a regression coefficient;  $\varepsilon$  is an error term (See Table 2).

The same regressions described above are conducted taking into consideration the two sub-indices  $ShGovSSB$  and  $ShGovOARR$  to deepen the analysis (See Table 2).

To test H2 highlighting the role played by centralized Shari'ah governance, we run the following regressions (Eq. 5 and Eq. 6):

$$PRICE_{it} = \alpha_0 + \alpha_1 EPS_{it} + \alpha_2 ShGovGlobal_{it} + \alpha_3 CenShGov_{it} + \alpha_4 EPS_{it} * ShGovGlobal_{it} + \alpha_5 EPS_{it} * CenShGov_{it} + \alpha_6 ShGovGlobal_{it} * CenShGov_{it} + \alpha_7 EPS_{it} * ShGovGlobal_{it} * CenShGov_{it} + \alpha_8 \sum_{j=4}^{n-1} \alpha_j X_{i,t} + \alpha_n DummyYear + \varepsilon_t$$

(Eq. 5)

$$PRICE_{it} = \beta_0 + \beta_1 BVPS_{it} + \beta_2 ShGovGlobal_{it} + \beta_3 CenShGov_{it} + \beta_4 BVPS_{it} * ShGovGlobal_{it} + \beta_5 BVPS_{it} * CenShGov_{it} + \beta_6 ShGovGlobal_{it} * CenShGov_{it} + \beta_7 BVPS_{it} * ShGovGlobal_{it} * CenShGov_{it} + \beta_8 \sum_{j=4}^{n-1} \alpha_j X_{i,t} + \beta_n DummyYear + \varepsilon_t$$

(Eq. 6)

Where CenShGov measures the Shari'ah governance scheme at the national level.

As shown in Table 2, we control for the effects of variables identified in the prior literature that affect the market value of equity (*PRICE*). Based on the previous studies (e.g., Agbodjo et al., 2020; Anandarajan et al., 2011; Asa'd et al., 2022), we consider IBs' specific variables such as bank market value (MV) as a proxy of the banks' size, bank capital adequacy ratio (TIER1) as a proxy of the banks' capital structure, bank profitability (ROA) and board of directors' size (BOD). Besides, as the primary role of Shari'ah governance is to manage the Sharia'h non-compliance in IBs, we also control for the Shari'ah non-compliant income reported in IBs' annual reports (SNCI). We also consider country-level variables: the supervisory pillar III disclosure requirements for banks (PIL3), the GDP growth rate (GDP), and the inflation rate (INFL) (See e.g., Agbodjo et al. 2020; Anandarajan et al. 2011). Finally, we integrate variables related to the AAOIFI and IFRS standards adoption for additional analyses to consider more regulatory and political settings of IBs.

We conduct a random effect (RE) GLS technique analysis in our estimations as regressions include dummy variables that rarely change over time (CentsGov, IFRS, and AAOIFI).

### **3.3. Descriptive statistics**

Tables 3 and 4 report the descriptive statistics and the matrix of Pearson correlation coefficients, respectively.

[Tables 3 and 4]

As shown in Table 3, the share price of IBs (*PRICE*) ranges between \$ 0.01 and \$ 6.52, with an average value of \$ 1.013. The standard deviation of *PRICE* is 1.276, indicating enough variation within the IBs' share price to perform a meaningful analysis of the factors driving their value relevance. Table 3 reports that 40,6% of the sample IBs operate in jurisdictions that adopt a centralized Shari'ah governance framework. The comparative analysis reveals that IBs' shares in a decentralized regime are over-priced on average than those of IBs operating in a centralized framework (\$ 1.48 versus \$ 0.32). In addition, IB earnings per share (EPS) and Book value per share (BVPS) are recorded, on average, at \$ 0.06 and \$ 0.69 respectively, with higher values recorded in a decentralized governance regime (EPS: \$ 0.09 versus \$0.02; BVPS: \$ 0.99 versus \$0.25). Such divergence highlights the importance of

exploring IBs' value relevance in view of the Shari'ah governance scheme implemented in each country.

Regarding Shari'ah governance-related variables, the overall Shari'ah governance index (ShGovGlobal) has an average of 53%, while the sub-indexes related to the SSB attributes (ShGovSSB) and the internal operational procedures (ShGovOARR) have average values of 58% and 40%, respectively, revealing that SSB profiles matter more for IBs. Furthermore, we observe disparities regarding IBs' Shari'ah governance practices between the two Shari'ah governance frameworks. The ShGovGlobal presents a slightly higher value in a centralized regime (54% versus 53%). In addition, the ShGovSSB shows a higher average value in a decentralized regime (61% versus 54%), while ShGovOARR appears to be higher in a centralized scheme (46% versus 36%). Regarding conventional corporate governance, IBs in a centralized regime have slightly larger BODs on average than those in a decentralized scheme (2.27 versus 2.21).

Concerning the adoption of IFRS and AAOIFI accounting standards, 75% of IBs adopt IFRS while 46% adopt those of AAOIFI. We also observe a disparity in the implementation of the IFRS between IBs operating under the centralized scheme (43%) and those operating in a decentralized framework (98%). This disparity also exists regarding the adoption of AAOIFI accounting standards, where 49% of IBs in a decentralized regime adopt those standards (vs. 43% in a centralized scheme).

Finally, the Pearson correlation coefficient matrix indicates a relatively weak association between the explanatory variables (Table 4).

## **4. Results**

We test our hypotheses H1 and H2 as follows. First, we investigate the effect of Shari'ah governance quality at the IB level on the value relevance of earnings per share (EPS) and the book value of equity per share (BVPS) (see Table 5). Second, we explore the contribution of the centralized Shari'ah governance scheme to EPS and BVPS value relevance (see Tables 6 and 7).

### **4.1. Shari'ah governance quality at the *bank* level and value relevance**

Table 5 reports the regression results associating Shari'ah governance quality at the IBs level with EPS and BVPS value relevance to test H1. We consider three indices: *ShGovGlobal*, *ShGovSSB*, and *ShGovOARR*.

[Table 5]

The EPS and BVPS coefficients are positive and significant at 5% and 1% levels, respectively, suggesting the value relevance of these accounting numbers in IBs. The findings provide evidence that IBs' accounting information is a signaling instrument that effectively conveys IBs' value to investors, confirming the signaling theory assertion (Spence, 1973) that the primary objective of corporate reporting is to inform investors about a company's value. The findings are consistent with previous studies on the relevance of accounting information in banks (Anandarajan et al., 2011), especially in IBs (Agbodjo et al., 2020). The literature reports that IBs are less likely to maximize their earnings and are more committed to moral accountability and ethical practices (Abdelsalam et al., 2016; Agbodjo et al., 2020; Elnahass et al., 2018; Elnahass, Salama and Yusuf, 2022; Lassoued et al., 2018). This implies a high level of IB transparency, translated into the disclosure of accurate and credible accounting information that effectively transmits their values. In addition, agency conflicts between insiders and outsiders are frequently weakened in IBs as they are transparent (Abdelsalam et al., 2016; Farag et al., 2018; Safieddine, 2009). Moreover, based on the traceability, non-speculative, and non-high-risk principles that characterize the Islamic finance context, IBs present lower information asymmetry between insiders and outsiders (Agbodjo et al., 2020). This context improves outside investors' trust in IBs and helps them assess the bank's value fairly using equal and accurate information.

More importantly, when examining the effect of Shari'ah governance on the value relevance of IBs' accounting information, we find a significant impact of the overall index, ShGovGlobal, on EPS and BVPS value relevance, as shown in Models 2 and 8 in Table 5. The findings also report significant coefficients of the interactions terms when considering the Shari'ah governance sub-indexes related to the SSBs attributes (ShGovSSB) and the internal operational procedures (ShGovOARR) as indicated in Models 4, 6 and 10 respectively. Hypothesis H1 is, thus, validated.

The coefficients of the interaction terms  $EPS * ShGovSSB$  and  $BVPS * ShGovSSB$  are negative and significant at a 5% level, as seen in Models 4 and 10 in Table 5. Surprisingly, the findings suggest that SSB members' attributes negatively influence the value relevance of IBs' accounting information. The prior literature suggests that SSBs are mainly composed of members that are specialized jurists in Islamic jurisprudence and scholars in the field of Islamic finance (Farag et al., 2018; Fatmawati et al., 2022; Mannai and Ahmed, 2019). SSB members exert ex-ante control related to the certification of IBs' financial operations and ex-

post monitoring regarding transaction compliance with Shari'ah rulings (Mannai and Ahmed, 2019). Kok et al. (2022) argue that SSBs are viewed as intellectual resources for the board of directors as they contribute to the religious certification of financial services and can be seen, in the same vein, as lawyers providing legal advice. From this perspective, outside investors may limit the SSB's role in providing guidance on the religious interpretation and Shari'ah compliance of IBs' financial operations, considering that supervision of accounting information remains outside the SSBs' jurisdiction. Thus, outside investors may negatively interpret the SSB's monitoring that goes beyond their fundamental role, considering it as "excessive monitoring" that threatens their incomes. Strong control exerted by SSBs members over IBs' processes sends a negative signal to investors that, subsequently, weakens the relevance of accounting information.

Furthermore, the presence of SSBs can make IBs' operations more complex since they need to comply with both Shari'ah rules and the legal and risk management departments' requirements (Abedifar et al., 2020; Farag et al., 2018). Complex financial products can exacerbate the asymmetric information issue and delay the incorporation of information into market prices (Abedifar et al., 2020), reducing value relevance.

However, the findings regarding the contribution of the Shari'ah governance sub-index related to the internal operational processes, ShGovOARR, show the opposite results. Indeed, the coefficient of the interaction term  $EPS * ShGovOARR$  is positive and significant at a 1% level, respectively, as shown in Model 6 in Table 5. The findings show that the best Shari'ah governance practices regarding organizational arrangements within IBs positively impact the value relevance of the accounting information, EPS. The findings suggest that operational procedures play a crucial role in enhancing IBs' organizational structure by balancing the stakeholders' roles. These procedures include supplementary reviews, audits, and control processes to ensure Shari'ah compliance (Fatmawati et al., 2022; Al Mannai and Ahmed, 2018). They thus complement the conventional governance system, strengthening the monitoring system's effectiveness in detecting accounting manipulation (Basiruddin and Ahmed, 2020). Shari'ah operational procedures improve the reporting process and, subsequently, the value relevance of accounting information. This finding aligns with previous studies in the literature on audit effectiveness (Alfraih, 2016; Lee and Lee, 2013). It highlights the importance of developing unified Shari'ah operational procedures in a standard and robust form.

Concerning the control variables, the IBs' size, as proxied by the bank market value, appears to carry a positive sign at a 1% significance level. Larger IBs tend to record higher stock prices. Our result aligns with Agbodjo et al. (2020)'s study on IBs as well as with empirical studies on financial firms (Abdelsalam et al., 2016). Regarding the Pillar III disclosure variable, we also observe it to be positively significant at a 5% level for EPS, showing that IBs disclosing financial information related to risks, as required by the Basel Pillar III Market Discipline framework, tend to have higher stock prices. As for Shari'ah non-compliant income (SNCI), the coefficients are negative and significant, as shown in Models 1-6 and Table 5. The findings suggest that the higher the SNCI, the lower the IBs' stock prices. Indeed, SNCI represents a non-halal income generated from Shari'ah non-compliant transactions. This income is not recognized in the IBs' books and is thus distributed to charities (Basiruddin and Ahmed, 2020), reducing investors' earnings and consequently impacting IBs' stock prices.

#### **4.2. Shari'ah governance quality at the *national* level and value relevance**

Tables 6 and 7 report the results of EPS and BVPS value relevance, respectively, considering Shari'ah governance quality both at the bank and national levels. To test H2, we add the Shari'ah governance scheme, CenShGov, as an interaction variable (See Eq 5 and 6).

[Tables 6 and 7]

The findings in Tables 6 and 7 are consistent with those in Table 5. First, the coefficients of EPS and BVPS variables are positive and significant, proving their value relevance in IBs. Second, we found a significant impact of the overall index, ShGovGlobal, on EPS and BVPS value relevance (Model 2). Third, the interaction terms EPS\*ShGovSSB and BVPS\*ShGovSSB are negative and significant at a 1% level, as shown in Model 4 in Tables 6 and 7, implying a substitution effect between IB's accounting information and SSBs' attributes. Fourth, the interaction term EPS\*ShGovOARR is positive and significant at a 1% level, implying that the internal organizational arrangements promote IBs' EPS value relevance (Model 6, Table 6).

More interestingly, when examining the contribution of the centralized Shari'ah governance scheme, the coefficients of CenShGov appear to be negative and significant, as shown in the basic models 1, 3 and 5 in Table 6, implying that IBs operating in a centralized regime tend to have lower stock prices. Furthermore, the interaction terms EPS\*CenShGov (Models 2 and 4,

Table 6) and BVPS\*CenShGov (Models 2, 4 and 6, Table 7) carry negative and significant coefficients. The findings suggest a substitution effect between the centralized Shari'ah governance scheme and the value relevance of accounting information in IBs.

This finding could be explained by the “Shari'ah dual-monitoring” of central/national SSBs and the regulative authorities' role in identifying Shari'ah non-compliance at the bank level. Indeed, in addition to the monitoring exerted by IBs' internal SSBs, centralized SSBs inspect IBs' activities to ensure proper implementation of national Shari'ah pronouncements (Hamza, 2013). National SSBs continually develop comprehensive frameworks and regulations to guide the structures and processes to conduct Shari'ah governance effectively at the IBs' level. Such a scheme increases the Shari'ah control, audit, and review functions (Fatmawati et al., 2022), strengthening the operational procedures' effectiveness in detecting and finding Shari'ah violations. When disclosed in banks' annual reports, high SNCI amounts raise doubts among outside investors, mainly those faith-driven, about IBs' moral accountability and break their confidence in IBs' compliance with Islamic finance ethics. In this context, Shari'ah violations in IBs translate into SNCI disrupting the informational environment and weakening accounting information relevance.

In addition, implementing a higher authority such as a national SSB may disappoint investors who find such a regime as an intensive control detrimental to their earnings. Indeed, a centralized regime allows the detection of higher SNCI. This non-*halal* income is set aside by the management as it is generated from transactions declared void. SNCI amounts are not recognized in the IB's book and are allocated to charities (Basiruddin and Ahmed, 2020), which reduces investors' earnings. In such a context, investors are less willing to rely on financial information disclosed by IBs to make investment decisions.

In addition, in a centralized regime, SSB members at the bank level are appointed with central SSB approval, while in the decentralized model, they are appointed by the boards of directors. In the latter scheme, SSB members have more flexibility and autonomy to deal with *Shari'ah* matters (Abd Razak, 2018; Hamza, 2013). Consequently, they may decide in favor of the management and shareholders' interest, tending to align *Shari'ah* rules with the management needs, exacerbated by the absence of a higher authority and external monitoring. Unlike a decentralized regime, a centralized model overcomes such a dilemma, which may generate disappointment among outside investors.

Delving further into understanding the moderation role of the CenShGov on the relationship between Shari'ah governance quality at the bank level and accounting information value relevance, Table 6 reports an additional result. The coefficient of the interaction terms of  $EPS*ShGovGlobal*CenShGov$  (Model 2) and  $EPS*ShGovSSB*CenShGov$  (Model 4) are positive and significant at a 1% level, implying a complementary effect between both national and internal Shari'ah governance systems of IBs and the value relevance of EPS. The findings suggest that a centralized Shari'ah governance scheme enhances the value relevance of EPS only when the IBs have high internal Shari'ah governance quality at the bank level. The findings are consistent with the prior literature which argues that strong external governance mitigates moral hazard problems through stringent regulations and the supervision imposed on banks, making banks' operations more regulated (Shimizu, 2003; Zhang and Wu, 2020). In addition, the combination of strong internal and external governance can improve transparency and reduce the problem of information asymmetry with outside investors (Zhang and Wu, 2020). Under poor internal Shari'ah governance at the bank level, investors are concerned that the external Shari'ah governance will overpower banking practices and weaken the effectiveness of internal SSBs by limiting their members' independence. However, when investors are reassured about the effectiveness of their banks' internal Shari'ah governance system, the presence of a centralized governance regime is not considered an inconvenience.

#### **4.3. Additional analyses: IFRS and AAOIFI Accounting standards, Shari'ah governance quality, and value relevance**

The governance systems of institutions interact with their legal and regulatory environments and this interaction may have an impact on institutions' disclosure and practices. Accordingly, studying the quality of IBs' accounting information without taking into consideration the interaction between Shari'ah governance mechanisms and accounting standards seems insufficient. IBs show some variation in financial reporting practices since IBs adopt different accounting treatments for their Islamic financial contracts (Mnif and Tahari, 2022; Vinnicombe, 2010). In some countries, the financial statements of IBs are prepared following IFRSs. In other countries, accounting standards of the Accounting and Auditing Organization for Islamic Financial Institutions AAOIFI are required, permitted, or used.

Beyond the models presented in Tables 5-7, we conduct additional regressions in Tables 8 and 9, including variables related to international accounting standards. More specifically, we explore whether IFRS and the AAOIFI accounting standards influence the value relevance of EPS and BVPS variables in the presence of sound internal and external/Centralized Shari'ah governance systems.

[Tables 8 and 9]

Regarding the effect of IFRS, Table 8 offers mixed results. Indeed, the coefficients of the IFRS variable are negative and significant at the 10% level, as found in Models 2, 3 and 4. The results show that the implementation of IFRS negatively influences IBs' stock prices, suggesting that IBs adopting IFRS are lower priced than those that do not implement IFRS. A possible explanation of these findings is that the disclosure requirements provided by IFRS are not suitable for applying Shari'ah transactions and not fully compliant with IBs' disclosure standards and practices. Under the difference between IFRS and IBs' accounting practices, investors can be less attracted by stocks of IBs preparing financial reports with IFRS, which leads to lower-priced stocks of such banks. This is consistent with Sharairi (2020)'s conclusion about investors' opinions of IFRS compliance with the application of Shari'ah transactions.

However, the interaction terms of IFRS\*EPS (Model 2, Table 8) and IFRS\*BVPS (Model 4, Table 8) are significantly positive. The introduction of IFRS seems to strengthen the relationship between EPS and BVPS with the stock price and contributes, thus, to a greater value relevance of these accounting indicators. The findings support the evidence of the increased value relevance of accounting information under IFRS for IBs (Agbodjo et al., 2020) and CBs (e.g., Agostino et al., 2011; Leventis, Dimitropoulos, & Anandarajan, 2011; Manganaris, Spathis, & Dasilas, 2015).

We further observe in Models 2 and 4 (Table 8) insignificant coefficients of the interaction terms EPS\*ShGovGlobal\*IFRS and BVPS\*ShGovGlobal\*IFRS, signifying the absence of moderating role of internal Shari'ah governance quality on the value relevance of IBs' accounting information under IFRS. These findings may be explained by opposing effects on value relevance (negative for ShGovGlobal, as reported in Table 5, and positive for IFRS as revealed in Table 8) that cancel each other out. The co-existence of IFRS and a sound internal Shari'ah governance system neutralizes the negative effect that the latter could have on the value relevance of accounting information in IBs.

Table 9 presents the results dealing with the contribution of the adoption of AAOIFI accounting standards. The coefficient of the interaction term ShGovGlobal\*CenShGov\*AAOIFI is positive and significant at a 10% level (Model 4, Table 9). The findings suggest that the implementation of AAOIFI positively affects the stock prices only for IBs operating under a centralized scheme and having a sound Shari'ah governance system at the bank level. However, there is no moderating role of AAOIFI on the value relevance of EPS and BVPS. This result is expected as the adoption of AAOIFI accounting standards is voluntary in most countries (Hassan et al., 2019; Kamla, 2009), so outside investors could be less incited to rely on these standards even in robust internal and external governance systems. It is challenging for AAOIFI standards to penetrate the international markets in which Western regulations (e.g., IFRS) dominate the financial industry (Agbodjo et al., 2020; Alqaraleh et al., 2020; Kamla and Haque, 2017). Alqaraleh et al. (2020) exposed several factors explaining the non-adherence to AAOIFI standards including the lack of government institutions' support and professional organizations having professional and legal licenses to qualify or audit according to the AAOIFI accounting standards.

## **5. Conclusion**

This paper examines the effectiveness of Shari'ah governance quality, at the bank and national levels, on IBs' EPS and BVPS value relevance. At the bank level, the Shari'ah governance quality (ShGovGlobal) takes SSBs members' attributes (ShGovSSB) and the internal Shari'ah organizational arrangements (ShGovOARR) into account. At the national level, the Shari'ah governance quality is measured by the centralized or decentralized scheme (CenShGov) required by the regulator in its jurisdiction. Using a sample of 40 listed IBs from 12 countries between 2012 and 2019, the findings show that ShGovGlobal negatively affects the value relevance of IBs' accounting information. Moreover, they show a significant effect when considering Shari'ah governance sub-indexes related to ShGovSSB and ShGovOARR. Indeed, the results suggest that ShGovSSB negatively influences the value relevance of IBs accounting information, unlike the ShGovOARR, which has a positive influence. We also provide evidence of a complementary effect between both Centralized and Shari'ah governance mechanisms at the bank level and EPS value relevance. As additional analyses, we demonstrate that the IFRS standards improve the value relevance of IBs' accounting indicators and cancel the negative effect that the Shari'ah governance system at the bank level

can have on this relationship. Finally, we show that the implementation of the AAOIFI accounting standards positively affects the stock prices of IBs that simultaneously operate under a centralized scheme and have a robust Shari'ah governance system at the bank level. However, no moderation effect is detected for AAOIFI accounting standards on EPS and BVPS value relevance.

The current study contributes to the existing literature in different ways. First, we enrich the literature linking corporate governance and accounting information value relevance by identifying a new factor related to the Shari'ah governance system at the bank and national levels. The existing literature provides evidence that best corporate governance practices are observed to improve the quality of accounting information and, thus, their value relevance (e.g., Cimini, Mechelli, & Sforza, 2020; Habib & Azim, 2008; Ntim, Opong, & Danbolt, 2012). We extend this literature by providing new insights into the role played by the internal and external Shari'ah governance processes on accounting issues.

Second, we extend the emerging literature linking religiosity and accounting information value relevance. Some studies have suggested that religiosity may be associated with a preference for conservative accounting practices (Abdelsalam et al., 2021; Chourou, 2020; Elnahass, Salama and Yusuf, 2022). We extend this literature by exploring the governance practices that consider Islamic religious beliefs and investigating their impact on accounting issues. The outside investors pay more attention to the operational procedures that help produce better accounting information quality while SSBs are likely to be seen by investors as only responsible for Shari'ah matters.

Several implications emerge from our research. First, IBs boards and managers need to be more aware of the role of Shari'ah governance mechanisms at the IBs level, especially the internal operational procedures. The latter include extra review, audit and control processes added to the conventional mechanisms that help improve the quality of accounting information and value relevance, as revealed in the results. Disclosing information about such internal procedures on IBs' annual reports, for instance, helps IBs in giving signals of better monitoring and higher quality of accounting information to outside investors. Second, the study may interest regulators questioning the effectiveness of a centralized Shari'ah governance scheme in their jurisdictions. Recently, there is a debate about whether the Islamic finance industry needs national SSBs to complement and supervise Shari'ah governance processes at the bank level. The observed complementarity effect between

centralized and internal Shari'ah governance on value relevance may incite regulators and standards-setting bodies to enhance Shari'ah governance regulations. Finally, the study may interest the AAOIFI organization as findings highlight challenges facing AAOIFI accounting standards to bring public confidence. Strengthening collaboration between regulators and the AAOIFI organization is required to create an enabling environment for investors to rely on AAOIFI accounting standards in their investment decision-making process.

The results present a main limitation due to the small size of the sample. This is explained by the unavailability of data on Shari'ah governance practices for several listed IBs. As future perspectives, it would be interesting to develop a governance index including both Shari'ah and conventional corporate governance mechanisms to better assess the dual governance system in IBs. The interaction between international accounting standards and Shari'ah governance mechanisms would be also an interesting avenue to explore its effect on value relevance.

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<b>Table_1: Country-wise distribution of the sample</b>			
Country	Listed_IBs	Obs.	%
Emirates	5	40	12.5
Bangladesh	6	48	15
Bahrain	6	48	15
Indonesia	1	8	2.5
Jordan	2	16	5
Saudi Arabia	3	24	7.5
Kuwait	5	40	12.5
Malaysia	1	8	2.5
Oman	2	16	5
Pakistan	4	32	10
Qatar	4	32	10
Syria	1	8	2.5
Total	40	320	100

Table 2: Variables		
PRICE <sub>it</sub>		Price of a share of bank i three months after fiscal year-end t
EPS <sub>it</sub>		Earnings per share of bank i at the end of year t
BVPS <sub>it</sub>		Book value per share of bank i at the end of year t
ShGovGlobal		The overall index
	ShGovSSB	The sub-index includes 13 items
		Shari'ah_Qualification It takes 1 if more than 50% of SSB members have at least a Bachelor's degree in Shariah
		Banking_and_Finance_Qualification It takes 1 if at least one member among the SSB members has banking and finance qualifications
		Experience It takes 1 if more than 50% of SSB members have experience in issuing fatwas, documents, Sukuk and funds
		Reputation It takes 1 if the number of current and former positions of SSB members is over the median of the sample
		Gender_Diversity It takes 1 if there is a female among the SSB members
		Nationality_Diversity It takes 1 if there is a mix of nationalities among the SSB members
		Cross_Membership It takes 1 if there is at least one member serving only one IB and one Takaful company
		Annual_Change It takes 1 if the SSB composition in total changes annually
		Size It takes 1 if the SSB size is limited to between 3 and 8
		Independence It takes 1 if there are no executive directors or senior officers among the SSB members
		Integration It takes 1 if the bank appoints one member of the SSB inside the BOD as an independent non-executive director or holds a joint meeting
		Chair_Qualification It takes 1 if the SSB chairman is Shari'ah qualified
		Chair_Experience It takes 1 if the SSB chairman has more experience in issuing fatwas, documents, Sukuk and funds than the median of the sample
	ShGovOARR	The sub-index includes 8 items.
		Internal Shariah Audit/review unit It takes 1 if there is an internal Shari'ah unit
		SNCR_Management_Unit It takes 1 if there is a department for Shariah non-compliance risk management
		Shariah_Training It takes 1 if the bank provides Shari'ah training for its employees
		SSB_Secretary It takes 1 if the SSB has a secretariat
		Public_Disclosure_of_Shariah_Report It takes 1 if the IB discloses the Shari'ah report
		Meetings_Attendance It takes 1 if SSB members attend 75% of the SSB meetings in a year
		Meetings_Frequency It takes 1 if the SSB hold a minimum of 6 meetings per year
		Senior_Management_Attendance It takes 1 if the senior management and/or board attend the SSB meetings
CenShGov		Centralized_Model It takes 1 if the IB operates in a centralized Shari'ah governance regime
BOD <sub>it</sub>		ln(BoD_Size)
MV <sub>it</sub>		ln (Market_value) three months after fiscal year-end t
ROA <sub>it</sub>		Return_on_assets
TIER1 <sub>it</sub>		Capital_adequacy_ratio
SNCI <sub>it</sub>		ln(Shariah_non_compliant_income)
PIL3 <sub>t</sub>		It takes 1 if in a given country banks implement Pillar 3 disclosure requirements
GDP <sub>t</sub>		GDP growth rate
INFL <sub>t</sub>		Inflation rate

Table_3 : Descriptive_Statistics													
	Panel_A : IBs					Panel_B: CenShGov =1			Panel_C: CenShGov = 0			Kruskal-Wallis equality of populations rank test (1)	
	Obs.	Mean	SD	Min	Max	Obs.	Mean	SD	Obs.	Mean	SD	df	$\chi^2$
PRICE	320	1,013	1,276	0,01	6,520	130	0,322	0,413	190	1,485	1,441	1	126.24***
EPS	316	0,066	0,095	-0,110	0,620	129	0,027	0,036	187	0,092	0,113	1	37.53***
BVPS	318	0,691	0,794	0,002	4,146	130	0,259	0,215	188	0,990	0,904	1	129.48***
ShGovGlobal	318	0,532	0,120	0,238	0,952	130	0,54	0,151	188	0,531	0,093	1	0.13
ShGovSSB	318	0,584	0,125	0,231	0,923	130	0,544	0,155	188	0,613	0,089	1	17.11***
ShGovOARR	318	0,403	0,192	0	1	130	0,462	0,208	188	0,362	0,170	1	19.84***
CenShGov	320	0,406	0,492	0	1	130	1	0	190	0	0	-	-
BOD	320	2,244	0,361	0,693	3,091	130	2,279	0,517	190	2,219	0,190	1	4.58**
TIER1	278	0,172	0,088	0,060	0,763	114	0,132	0,060	164	0,200	0,094	1	84.03***
ROA	312	1,142	2,419	-11,26	23,58	130	1,159	3,044	182	1,129	1,857	1	8.88***
MV	303	6,467	1,552	2,715	9,600	122	5,548	1,338	181	7,086	1,372	1	74.36***
PIL3	320	0,756	0,430	0	1	130	0,815	0,389	190	0,716	0,452	1	2.29
SNCI	320	4,227	5,782	0	14,742	130	6,896	5,857	190	2,400	4,975	1	33.66***
GDP	320	3,637	2,482	-4,712	9,045	130	4,737	2,351	190	2,884	2,286	1	46.16***
INFLT	298	2,905	3,362	-2,372	36,702	122	4,672	2,849	176	1,680	3,145	1	88.44***

(1) The test determines if there are statistically significant differences between IBs operating in a centralized scheme vs those operating in a decentralized scheme.  
 \*\*\* p<0.01, \*\* p<0.05, \* p<0.1

		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1	PRICE	1														
2	EPS	0.79***	1													
3	BVPS	0.84***	0.85***	1												
4	ShGovGlobal	0.12**	0.13**	0.19***	1											
5	ShGovSSB	0.16***	0.15***	0.22***	0.76***	1										
6	ShGovOARR	0.01	-0.01	0.0614	0.72***	0.14***	1									
7	CenShGov	-0.44***	-0.33***	-0.45***	0.01	-0.27	0.25***	1								
8	BOD	0.04	0.08	0.08	0.14***	0.07	0.03	0.08	1							
9	TIER1	0.10*	0.01	0.19***	0.05	0.20***	-0.01	-0.37***	-0.31***	1						
10	ROA	0.09*	0.21***	0.07	-0.16***	-0.21***	-0.03	0.00	-0.09	-0.02	1					
11	MV	0.55***	0.46***	0.42***	0.16***	0.33***	-0.10	-0.48	0.07	0.02	-0.02	1				
12	PIL3	0.15***	0.12**	0.21***	0.21***	0.13***	0.19***	0.11**	0.28***	-0.09	-0.05	0.04	1			
13	SNCI	-0.26***	-0.18***	-0.28***	0.16***	0.07	0.13***	0.38***	0.01	-0.15***	0.09	-0.23***	0.18***	1		
14	GDP	-0.29***	-0.25***	-0.30***	-0.13***	-0.24***	-0.0512	0.36***	0.22***	-0.24***	0.07	-0.35***	-0.11***	0.18***	1	
15	INFLT	-0.22***	-0.20***	-0.23***	-0.14***	-0.28***	0.03	0.43***	0.14***	-0.09	0.14***	-0.37***	-0.18***	0.06	0.29***	1

\*\*\* p<0.01, \*\* p<0.05, \* p<0.1

**Table 5: Shari'ah governance quality at the bank level and value relevance of EPS and BVPS. 2012-2019**

	(1) PRICE	(2) PRICE	(3) PRICE	(4) PRICE	(5) PRICE	(6) PRICE	(7) PRICE	(8) PRICE	(9) PRICE	(10) PRICE	(11) PRICE	(12) PRICE
EPS	5.205** (2.283)	11.984*** (4.123)	5.235** (2.281)	17.154*** (6.750)	5.264** (2.289)	0.909 (2.368)						
BVPS							1.050*** (0.219)	1.635*** (0.413)	1.057*** (0.215)	2.370*** (0.664)	1.031*** (0.219)	0.697** (0.330)
ShGovGlobal	0.129 (0.571)	0.861 (0.662)					-0.355 (0.450)	0.209 (0.471)				
EPS*ShGovGlobal		-12.430* (6.703)										
BVPS*ShGovGlobal								-0.989* (0.539)				
ShGovSSB			-0.680 (0.672)	0.632 (0.507)					-1.011* (0.583)	0.065 (0.492)		
EPS*ShGovSSB				-19.656** (8.523)								
BVPS*ShGovSSB										-1.985** (0.866)		
ShGovOARR					0.360 (0.300)	-0.319 (0.299)					0.171 (0.259)	-0.310 (0.301)
EPS*ShGovOARR						11.225*** (3.982)						
BVPS*ShGovOARR												0.764 (0.583)
BOD	0.002 (0.153)	-0.022 (0.154)	-0.016 (0.149)	-0.085 (0.128)	0.010 (0.159)	-0.013 (0.163)	-0.062 (0.113)	-0.085 (0.112)	-0.082 (0.107)	-0.171* (0.101)	-0.050 (0.126)	-0.068 (0.125)
TIER1	0.723 (0.969)	0.548 (0.901)	0.882 (1.015)	0.596 (0.769)	0.755 (0.931)	0.899 (0.978)	-0.731 (0.684)	-0.882 (0.659)	-0.505 (0.715)	-0.726 (0.579)	-0.720 (0.664)	-0.645 (0.663)
ROA	-0.004 (0.017)	-0.009 (0.016)	-0.003 (0.017)	0.000 (0.018)	-0.006 (0.017)	0.004 (0.019)	-0.001 (0.018)	-0.003 (0.018)	0.002 (0.019)	0.000 (0.020)	-0.001 (0.019)	0.002 (0.019)
MV	0.316*** (0.111)	0.309*** (0.109)	0.325*** (0.110)	0.317*** (0.105)	0.321*** (0.111)	0.331*** (0.111)	0.289*** (0.083)	0.273*** (0.082)	0.300*** (0.083)	0.261*** (0.074)	0.294*** (0.085)	0.305*** (0.089)
PIL3	0.313** (0.134)	0.305** (0.131)	0.304** (0.136)	0.294** (0.130)	0.310** (0.134)	0.310** (0.134)	0.182 (0.125)	0.178 (0.122)	0.174 (0.128)	0.144 (0.116)	0.183 (0.123)	0.184 (0.124)
SNCI	-0.022* (0.012)	-0.022** (0.011)	-0.019* (0.011)	-0.021* (0.011)	-0.022** (0.011)	-0.021* (0.011)	-0.005 (0.010)	-0.006 (0.009)	-0.002 (0.010)	-0.003 (0.009)	-0.007 (0.009)	-0.006 (0.010)
GDP	0.015 (0.010)	0.016 (0.010)	0.013 (0.010)	0.016* (0.010)	0.016 (0.010)	0.016 (0.011)	0.014 (0.011)	0.014 (0.011)	0.012 (0.011)	0.014 (0.011)	0.015 (0.011)	0.015 (0.011)
INFLT	0.004	0.004	0.002	0.005	0.003	0.006	0.009	0.010	0.007	0.010	0.009	0.010

Constant	(0.012) -1.717** (0.699)	(0.011) -1.965*** (0.703)	(0.012) -1.280* (0.693)	(0.010) -1.803*** (0.653)	(0.011) -1.839*** (0.667)	(0.012) -1.653*** (0.623)	(0.013) -1.368** (0.610)	(0.013) -1.498*** (0.547)	(0.014) -1.014* (0.542)	(0.012) -1.217*** (0.435)	(0.013) -1.663*** (0.638)	(0.013) -1.516*** (0.583)
Observations	320	320	320	320	320	320	320	320	320	320	320	320
Year_dummy	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
R2_o	0.688	0.685	0.692	0.712	0.694	0.708	0.806	0.813	0.812	0.837	0.802	0.803
Wald_Chi2	278.6***	329.7***	274.7***	385.9***	215.5***	199.3***	866.0***	1121***	904.9***	1081***	636.7***	758.9***

Robust standard errors in parentheses

\*\*\* p<0.01, \*\* p<0.05, \* p<0.1

**Table 6: Shari'ah governance quality at national and bank levels and EPS value relevance, 2012-2019**

	(1) PRICE	(2) PRICE	(3) PRICE	(4) PRICE	(5) PRICE	(6) PRICE
EPS	5.382** (2.260)	15.226*** (3.258)	5.332** (2.242)	16.927*** (6.331)	5.681*** (2.231)	1.355 (2.186)
ShGovGlobal	0.233 (0.554)	1.595 (1.078)				
EPS*ShGovGlobal		-17.98*** (6.478)				
EPS*CenShGov		-14.25*** (3.625)		-29.37*** (10.480)		-1.472 (1.857)
ShGovGlobal*CenShGov		-1.309 (0.946)				
EPS*ShGovGlobal*CenShGov		18.298*** (7.074)				
ShGovSSB			-0.840 (0.643)	0.647 (0.702)		
EPS*ShGovSSB				-19.45*** (7.807)		
ShGovSSB*CenShGov				-0.961 (0.814)		
EPS*ShGovSSB*CenShGov				37.281*** (14.879)		
ShGovOARR					0.506 (0.323)	-0.255 (0.581)
EPS*ShGovOARR						10.953*** (4.630)
ShGovOARR*CenShGov						0.372 (0.616)
EPS*ShGovOARR*CenShGov						-9.467 (5.866)
CenShGov	-0.424** (0.196)	0.478 (0.451)	-0.441** (0.187)	0.433 (0.536)	-0.449** (0.202)	-0.286 (0.255)
BOD	-0.011 (0.150)	-0.055 (0.132)	-0.028 (0.134)	-0.003 (0.130)	-0.013 (0.156)	-0.048 (0.133)
TIER1	0.381 (1.116)	0.274 (1.018)	0.578 (1.135)	0.466 (0.919)	0.414 (1.085)	0.624 (1.145)
ROA	-0.010 (0.016)	-0.005 (0.016)	-0.008 (0.016)	0.011 (0.019)	-0.013 (0.017)	0.008 (0.021)
MV	0.281** (0.115)	0.299*** (0.107)	0.294** (0.115)	0.324*** (0.108)	0.280*** (0.113)	0.328*** (0.110)
PIL3	0.413*** (0.157)	0.479*** (0.152)	0.405*** (0.155)	0.443*** (0.150)	0.418*** (0.157)	0.439*** (0.160)
SNCI	-0.019* (0.011)	-0.017** (0.009)	-0.014 (0.010)	-0.017* (0.009)	-0.018* (0.010)	-0.017* (0.010)
GDP	0.014 (0.010)	0.012 (0.009)	0.011 (0.010)	0.012 (0.010)	0.016 (0.010)	0.016* (0.010)
INFLT	0.013 (0.016)	0.010 (0.014)	0.011 (0.015)	0.009 (0.013)	0.014 (0.016)	0.012 (0.016)
Constant	-1.420** (0.723)	-2.184*** (0.788)	-0.860 (0.699)	-2.027** (0.788)	-1.493** (0.724)	-1.576** (0.636)
Observations	320	320	320	320	320	320
Year_dummy	Yes	Yes	Yes	Yes	Yes	Yes
R2_o	0.702	0.711	0.703	0.723	0.717	0.738
Wald_Chi2	314.0***	415.1***	404.0***	820.8***	272.4***	256.3***

Robust standard errors in parentheses

\*\*\* p&lt;0.01, \*\* p&lt;0.05, \* p&lt;0.1

**Table 7: Shari'ah governance quality at national and bank levels and BVPS value relevance. 2012-2019**

	(1)	(2)	(3)	(4)	(5)	(6)
	PRICE	PRICE	PRICE	PRICE	PRICE	PRICE
BVPS	1.013*** (0.235)	1.632*** (0.342)	1.022*** (0.227)	2.294*** (0.618)	0.998*** (0.232)	0.643** (0.340)
ShGovGlobal	-0.296 (0.490)	0.337 (0.775)				
BVPS*ShGovGlobal		-1.023** (0.505)				
BVPS*CenShGov		-1.882*** (0.709)		-2.994* (1.725)		-0.713* (0.399)
ShGovGlobal*CenShGov		-0.352 (0.798)				
BVPS*ShGovGlobal*CenShGov		1.410 (1.127)				
ShGovSSB			-1.067* (0.579)	-0.363 (0.643)		
BVPS*ShGovSSB				-1.850*** (0.783)		
ShGovSSB*CenShGov				0.204 (0.930)		
BVPS*ShGovSSB*CenShGov				2.802 (2.494)		
ShGovOARR					0.225 (0.286)	-0.468 (0.541)
BVPS*ShGovOARR						0.875 (0.645)
ShGovOARR*CenShGov						0.658 (0.639)
BVPS*ShGovOARR*CenShGov						-1.068 (0.805)
CenShGov	-0.150 (0.186)	0.488 (0.387)	-0.177 (0.172)	0.261 (0.536)	-0.177 (0.192)	0.060 (0.323)
BOD	-0.053 (0.117)	-0.081 (0.092)	-0.076 (0.105)	-0.124 (0.103)	-0.043 (0.132)	-0.064 (0.100)
TIER1	-0.837 (0.821)	-0.667 (0.767)	-0.629 (0.834)	-0.445 (0.590)	-0.858 (0.795)	-0.458 (0.743)
ROA	-0.002 (0.019)	0.003 (0.020)	-0.000 (0.019)	0.007 (0.021)	-0.003 (0.019)	0.007 (0.021)
MV	0.283*** (0.086)	0.309*** (0.082)	0.292*** (0.086)	0.297*** (0.075)	0.286*** (0.088)	0.343*** (0.088)
PIL3	0.215 (0.153)	0.310** (0.154)	0.210 (0.151)	0.231 (0.147)	0.219 (0.151)	0.304** (0.151)
SNCI	-0.004 (0.010)	-0.005 (0.007)	-0.001 (0.010)	-0.001 (0.007)	-0.006 (0.010)	-0.004 (0.009)
GDP	0.014 (0.011)	0.011 (0.012)	0.011 (0.011)	0.015 (0.012)	0.015 (0.011)	0.012 (0.010)
INFLT	0.013 (0.017)	0.008 (0.016)	0.011 (0.016)	0.007 (0.014)	0.013 (0.016)	0.008 (0.016)
Constant	-1.321** (0.634)	-1.921*** (0.618)	-0.880 (0.566)	-1.443*** (0.504)	-1.582** (0.674)	-1.828*** (0.572)
Observations	320	320	320	320	320	320
Year_dummy	Yes	Yes	Yes	Yes	Yes	Yes
R2_o	0.804	0.819	0.810	0.844	0.801	0.812
Wald_Chi2	805.0***	1492***	813.1***	2737***	583.0***	956.6***

Robust standard errors in parentheses

\*\*\* p&lt;0.01, \*\* p&lt;0.05, \* p&lt;0.1

<b>Table 8: IFRS, Shari'ah governance quality and value relevance</b>					
<b>Table 8A: EPS Value relevance</b>			<b>Table 8B: BVPS Value relevance</b>		
	(1) PRICE	(2) PRICE		(3) PRICE	(4) PRICE
EPS	4.948** (2.300)	-7.728 (11.686)	BVPS	0.985*** (0.244)	-3.375 (3.062)
ShGovGlobal	0.239 (0.542)	0.682 (1.411)	ShGovGlobal	-0.215 (0.477)	-0.921 (1.452)
EPS*ShGovGlobal		6.313 (17.928)	BVPS*ShGov_Global		4.881 (3.960)
CenShGov	-0.468** (0.183)	-0.771 (1.110)	CenShGov	-0.228 (0.174)	-1.678 (1.505)
EPS*CenShGov		-10.84*** (4.083)	BVPS*CenShGov		-1.170 (0.804)
ShGovGlobal*CenShGov		-0.735 (0.845)	ShGovGlobal*CenShGov		0.158 (0.687)
EPS*ShGovGlobal*CenShGov		13.985* (7.149)	BVPS*ShGovGlobal*CenShGov		0.450 (1.181)
IFRS	-0.164 (0.202)	-1.656* (0.921)	IFRS	-0.273* (0.158)	-2.866* (1.715)
EPS*IFRS		20.914** (10.224)	BVPS*IFRS		4.817* (2.978)
ShGovGlobal*IFRS		0.767 (1.362)	ShGovGlobal*IFRS		1.275 (1.619)
EPS*ShGovGlobal*IFRS		-22.679 (16.668)	BVPS*ShGovGlobal*IFRS		-5.756 (3.900)
CenShGov*IFRS		0.800 (0.981)	CenShGov*IFRS		1.697 (1.329)
BOD	-0.022 (0.153)	0.039 (0.158)	BOD	-0.094 (0.117)	0.059 (0.156)
TIER1	0.534 (1.130)	0.477 (0.954)	TIER1	-0.466 (0.888)	-0.239 (0.840)
ROA	-0.007 (0.016)	0.005 (0.015)	ROA	0.002 (0.020)	0.010 (0.020)
MV	0.306** (0.121)	0.352*** (0.124)	MV	0.307*** (0.088)	0.340*** (0.091)
PIL3	0.417*** (0.155)	0.483*** (0.167)	PIL3	0.247 (0.153)	0.387** (0.186)
SNCI	-0.019* (0.010)	-0.017** (0.008)	SNCI	-0.006 (0.009)	-0.007 (0.007)
GDP	0.012 (0.011)	0.006 (0.011)	GDP	0.012 (0.011)	0.014 (0.012)
INFLT	0.011 (0.015)	0.007 (0.014)	INFLT	0.010 (0.017)	0.007 (0.018)
Constant	-1.408** (0.711)	-0.970 (0.771)	Constant	-1.216* (0.622)	0.385 (1.383)
Observations	320	320	Observations	320	320
Number of IBs	40	40	Number of IB	40	40
Year dummy	Yes	Yes	Year dummy	Yes	Yes
R2_o	0.691	0.672	R2_o	0.802	0.810
Wald Chi2	323.3***	469827***	Wald Chi2	887.0***	738.16***

- In Model 2, the interaction terms: EPS\*CenShGov\*IFRS, ShGovGlobal\*CenShGov\*IFRS, and EPS\*ShGov\_Global\*CenShGov\*IFRS are dropped from the regressions as a result of multicollinearity problems. IFRS and CenShGov are highly correlated.
- In Model 4, the interaction terms: BVPS\*CenShGov\*IFRS, ShGovGlobal\*CenShGov\*IFRS, and BVPS\*ShGov\_Global\*CenShGov\*IFRS are dropped from the regressions as a result of multicollinearity problems. IFRS and CenShGov are highly correlated.
- Robust standard errors in parentheses. \*\*\* p<0.01, \*\* p<0.05, \* p<0.1

<b>Table 9: AAOIFI, Shari'ah governance quality and value relevance</b>					
<b>Table 9A: EPS Value relevance</b>			<b>Table 9B: BVPS Value relevance</b>		
	(1) PRICE	(2) PRICE		(3) PRICE	(4) PRICE
EPS	5.294** (2.301)	8.536 (10.315)	BVPS	1.041*** (0.229)	0.804 (1.568)
ShGovGlobal	0.226 (0.555)	1.826 (1.541)	ShGovGlobal	-0.326 (0.485)	0.310 (0.840)
EPS*ShGovGlobal		-8.027 (14.856)	BVPS*ShGovGlobal		0.112 (2.236)
CenShGov	-0.441** (0.203)	1.363 (0.903)	CenShGov	-0.129 (0.186)	1.106* (0.631)
EPS*CenShGov		-16.971** (8.636)	BVPS*CenShGov		-2.061 (1.396)
ShGovGlobal*CenShGov		-3.505 (2.211)	ShGovGlobal*CenShGov		-1.759 (1.452)
EPS*ShGovGlobal*CenShGov		28.279* (15.211)	BVPS*ShGov_Global*CenShGov		2.180 (2.073)
AAOIFI	-0.114 (0.230)	0.010 (0.896)	AAOIFI	0.050 (0.160)	0.478 (0.986)
EPS*AAOIFI		4.413 (12.596)	BVPS*AAOIFI		0.346 (1.746)
ShGovGlobal*AAOIFI		-1.085 (1.921)	ShGovGlobal*AAOIFI		-1.625 (1.720)
EPS*ShGovGlobal*AAOIFI		-0.679 (21.257)	BVPS*ShGovGlobal*AAOIFI		0.207 (2.604)
CenShGov*AAOIFI		-1.721 (1.149)	CenShGov*AAOIFI		-2.045 (1.370)
EPS*CenShGov*AAOIFI		9.138 (17.771)	BVPS*CenShGov*AAOIFI		1.994 (3.684)
ShGovGlobal*CenShGov*AAOIFI		4.120 (2.730)	ShGovGlobal*CenShGov*AAOIFI		5.335* (3.103)
EPS*ShGovGlobal*CenShGov*AAOIFI		-33.835 (33.141)	BVPS*ShGovGlobal*CenShGov*AAOIFI		-8.953 (7.421)
BOD	-0.016 (0.154)	0.003 (0.146)	BOD	-0.059 (0.121)	-0.037 (0.110)
TIER1	0.476 (1.082)	0.374 (1.089)	TIER1	-0.939 (0.802)	-0.679 (0.938)
ROA	-0.009 (0.016)	-0.006 (0.021)	ROA	-0.003 (0.019)	0.007 (0.020)
MV	0.275** (0.117)	0.281** (0.109)	MV	0.283*** (0.084)	0.347*** (0.087)
PIL3	0.426*** (0.160)	0.500*** (0.177)	PIL3	0.200 (0.150)	0.337* (0.196)
SNCI	-0.016 (0.011)	-0.012 (0.008)	SNCI	-0.005 (0.011)	-0.005 (0.008)
GDP	0.012 (0.010)	0.010 (0.011)	GDP	0.015 (0.011)	0.008 (0.012)
INFLT	0.013 (0.015)	0.008 (0.014)	INFLT	0.013 (0.017)	0.004 (0.014)
Constant			Constant	-1.319** (0.648)	-2.087*** (0.774)
Observations	320	320	Observations	320	320
Number of IBs	40	40	Number of IB	40	40
Year dummy	Yes	Yes	Year dummy	Yes	Yes
R2_o	0.701	0.710	R2_o	0.807	0.820
Wald Chi2	301.5***	706.5***	Wald Chi2	787.4***	1134.6***

Robust standard errors in parentheses

\*\*\* p<0.01, \*\* p<0.05, \* p<0.1