The Influence of Board Character and Institutional Ownership on Operational Risk Disclosure in Sharia Commercial Banks in Indonesia

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ABSTRACT

This research aims to determine the influence of board character as measured by the size of the Sharia supervisory board, the size of the board of commissioners, the size of the board of directors, and institutional ownership. The research was conducted using the Pooled Least Square (PLS) method involving 15 Sharia Commercial Banks in Indonesia in 2017-2021. The results of this study show that the size of the board of directors has a positive effect on operational risk disclosure. In contrast, the size of the sharia supervisory board, the size of the board of commissioners, and institutional ownership do not affect operational risk disclosure. These findings have implications for policymakers and regulators of Islamic commercial banks regarding the development and implementation of the influence of board characteristics and institutional ownership that can improve operational risk disclosure. This research contributes to meeting the needs and increasing understanding of the influence of board character and institutional ownership. This can help Islamic commercial banks engage in effective compliance when carrying out operational risk disclosures.

Keywords: ***Corporate governance, Dividend payout ratio, Company growth, Institutional ownership***

INTRODUCTION

The banking industry is one of the most influential financial institutions in a country's economy. Since 1992, a fairly rapid development has occurred in Islamic banking. On November 1, 1992, Bank Muamalat Indonesia (BMI) was established as the first Islamic bank to use a profit-sharing system. This is contrary to the interest rate system applied by conventional banks, as the growth of Bank Muamalat in Indonesia led to the emergence of Islamic Commercial Banks (BUS) and Islamic Business Units (UUS) in Indonesia. According to Bank Indonesia Regulation No. 9/7/PBI/2007, Sharia Commercial Banks are Islamic banks that, in their business activities, provide services in payment traffic. At the same time, the Sharia Business Unit is a work unit and head office of a conventional commercial bank that functions as the main office of the office or unit that carries out business activities based on Sharia principles.

Table 1.
Development of Sharia Commercial Banks in Indonesia

	2017	2018	2019	2020	2021
Total Institutions (BUS)	13	14	14	14	12

	2017	2018	2019	2020	2021
Number of Offices	1.825	1.875	1.919	2.034	2.035
Assets (Trillion Rp)	288.03	316.69	350.36	397.07	441.79
PYD (Triliun Rp)	185.62	202.30	225.15	246.53	256.22
DPK (Triliun Rp)	234.75	257.61	288.98	322.85	365.42

Source: Financial Services Authority, 2021

Table 1 shows that Islamic Commercial Banks in Indonesia are experiencing quite rapid development. In addition, Figure 1 also shows that the growth trend of market share in Islamic banking is increasing. This shows that Islamic banking has had positive growth from 2017 to 2021. However, in 2021, Indonesia experienced the COVID-19 Pandemic, which had a negative impact on economic growth. However, Islamic banking continues to perform well and offers a variety of products and services with a flexible and reliable financial system. It is hoped that its role in supporting the national economy will increase.

The global financial crisis in 2008 was caused by mistakes made by the United States in determining credit policies that have an impact on the whole world, especially on the banking industry; this is the background and results in slowing world economic growth and increasing demand for disclosure, so the regulations issued by the International Financial Reporting Standard (IFRS), regarding financial instruments. Risk disclosure in banking companies is an effective way to avoid banking crises (Barakat & Hussainey, 2013). Good risk disclosure by companies can facilitate the task of bank supervisors in detecting and following up on potential problems that can occur (Linsley & Shrives, 2005).

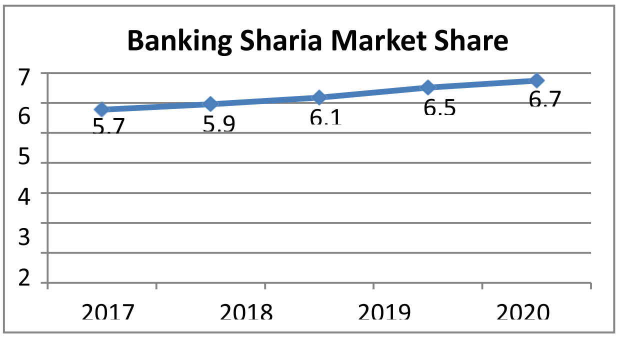

Figure 1
Growth of Islamic Banking Market Share
Source: Financial Services Authority (OJK), 2021

The banking industry has experienced rapid development over the years, but this has led to an increase in business complexity and risk-reward potential. This means that banks must have risk management in order to identify potential problems that will arise in the future that can harm the bank (Siswanti et al., 2020). So, it is not surprising that stakeholders such as investors, regulators, and financial analysts ask banks to be able to disclose risks to parties outside the company. This is because those inside the company know more information about risk in contrast to those outside the company who only know a little. This information imbalance causes management to be asked to disclose risks in the company's annual report.

Banking risk disclosure in Indonesia has been recognized since 1998 by the Basel Committee on Banking Supervision (BCBS). The BCBS is part of the Bank for International Settlements (BIS) and has the authority to set banking regulatory standards in cooperation with bank supervisors. The BCBS set the Basel I standards against the backdrop of the debt crisis in Latin America in the early 1980s. This crisis resulted in banks having to hold more capital to protect themselves from potential risks.

The BCBS also established the Basel II standards against the backdrop of the financial crisis that occurred in Southeast Asia and South Asia in 1997-1998. There are three main pillars of Basel II: Minimum Capital Requirement (Pillar 1), Supervisory Review Process (Pillar 2), and Market Discipline (Pillar 3). Under Basel II, banks are required to self-assess their risks and ensure that they have sufficient capital to cover their risks. Basel II also includes a calculation for "operational risk," which is a direct or indirect loss due to weaknesses and breakdowns in internal systems, human resources, external systems, and policies. Furthermore, the Basel III standards were motivated by the global financial crisis in 2007-2009. During this crisis, there was a lack of capital adequacy, high variation in Risk Weighted Assets (RWA) between banks, very high leverage, and a liquidity crisis that affected the calculations for operational risk disclosures.

Disclosure of financial and risk information is an important procedure in optimizing market efficiency in three ways. First, it serves as a procedure to monitor senior management behavior. Second, it reduces investor uncertainty about the company's future. This helps maintain investor confidence in the company's ability to generate cash flows in the future. Third, it supports the legitimacy and reputation of the company, thus maintaining the trust of various stakeholders (Barakat & Hussainey, 2013).

Disclosure of operational risk in banks in general and Islamic banks in particular is still rarely done (Barakat & Hussainey, 2013; Nahar et al., 2016). According to Elamer et al. (2019), Islamic banks may generally engage in comprehensive operational risk disclosure for a number of theoretical reasons. First, agency theory suggests effective and transparent operational risk disclosure can reduce agency costs and positively impact the performance of Islamic banks (Jensen & Meckling, 1976). Second, signaling theory predicts that Islamic banks communicate operational risk information to outsiders to signal to potential investors about the bank's clear operational risk management practices and performance (Connelly et al., 2011). Third, legitimacy theory predicts increased operational risk disclosure as a strategic way Islamic banks can legitimize their operations and gain acceptance in the wider community (Connelly et al., 2011). Fourth, resource dependence theory predicts that increased operational risk disclosure can help give Islamic banks access to important resources within the company (Elamer et al., 2019).

Weak operational risk management practices, disclosures, and corporate governance structures in the wake of the financial crisis have revived the debate on the importance of managing operational risk in the banking sector worldwide (Elamer et al., 2019). Failures in corporate reporting and corporate governance are caused by a lack of integrity and the presence of poor corporate governance. Thus, companies that apply Sharia principles need to practice effective corporate governance, such as separating duties between boards (Al-Maghzom et al., 2016; Elshandidy et al., 2013). The board of commissioners is an important part of ensuring good governance in a company. Handoko & Probohudono (2021) state that the size of the board of commissioners has a positive effect on operational risk disclosure.

The role of the board of directors is crucial in a good corporate governance structure. This helps ensure that the company is run responsibly and effectively (Alfraih, 2016). Research conducted by (Ameer, 2018; Elamer et al. 2019; Neifar & Jarboui, 2018), the independence of the board of directors has a positive effect on the disclosure of operational risk. The Sharia Supervisory Board provides direction and support to the Board of Directors and oversees bank activities to comply with Sharia principles. Research (Neifar & Jarboui, 2018; Utami et al., 2021) shows that the Sharia supervisory board has a negative effect on voluntary disclosure of operational risk in the annual report of Islamic banking. This is in contrast to the results of research (Elamer et al., 2019; Neifar & Jarboui, 2018), which show that the Sharia supervisory board has a positive effect on increasing operational risk disclosure.

Several studies have shown that good corporate governance, such as board character and ownership structure, can help companies disclose operational risks more effectively. According to Elamer et al. (2019), the Ownership structure has been proposed as the main driver of operational risk disclosure. Theoretically, the concentration of ownership in terms of institutional ownership could affect operational risk disclosure. Research (Al-Maghzom et al., 2016; Ashfaq et al., 2016; Neifar & Jarboui, 2018) proves concentrated ownership is positive for the disclosure of all risks. This means that increased concentration of ownership leads to more risk disclosure.

Based on the above, a conclusion can be drawn that every business operation can be exposed to various kinds of risks that cause potential loss or damage to property that, causes a decrease in investor confidence in the company (Probohudono et al., 2013). Because the disclosure of information is related to operational risks, supervision within the company is needed in order to disclose transparent disclosures that have an impact on the name of the company's image (Ousama & Fatima, 2010). Based on the explanation above, the formulation of the problem in this study is whether the character of the board affects the disclosure of rational risk in Islamic commercial banks in 2017-2021.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Stakeholder Theory

Stakeholder theory, also known as stakeholder, is based on the interaction between the company and stakeholders. This theory states that the company is not just an entity that operates for its interests but must also provide value to all stakeholders. One strategy to maintain relationships with stakeholders is to make disclosures; in other words, this theory prioritizes accountability over economic performance. Stakeholders have the right to know information regarding the company's activities that may have an impact on them. Research on disclosures by companies shows the role of stakeholders can influence decisions. According to Elamer et al. (2019), Islamic banking is required to be responsible to all stakeholders. It emphasizes that the company's objectives include more than just monetary value but also social value to the community.

Agency Theory

Agency theory is a theory that examines conflicts of interest that exist between managers and shareholders. Jensen & Meckling (1976) define agency theory by examining the relationship between managers and shareholders as a contract between two parties, with shareholders acting as principals and managers acting as agents. Disclosure is considered a monitoring mechanism in agency theory. The manager discloses relevant information to help investors monitor the manager's actions in the performance of his duties and assess the manager's ability to manage the company's resources for his benefit as one way to mitigate agency issues. According to Linsley & Shrives (2005), the relationship between agency theory and risk disclosure is that managers' actions to disclose risk information are used to convince shareholders that the company has a risk management system. In addition, disclosure of information to third parties (shareholders) can help resolve conflicts and reduce information asymmetry.

Signaling Theory

Signaling theory was first put forward by Spece in 1973. This theory is based on the assumption that there is an information asymmetry between management and shareholders. Signal theory focuses on how managers signal information about a company. Such information can include successes and failures experienced by the company. Signal theory emphasizes the importance of communication as a means to reduce the spread of misinformation among two groups of managers and stakeholders.

Information regarding disclosure will hinder and influence stakeholders' decision-making. The Company shows its commitment by providing clear and timely disclosure of information so that all stakeholders understand the information provided. Finally, the purpose of these disclosures is to disseminate credible and relevant information, which then allows stakeholders to conduct socioeconomic assessments (Connelly et al., 2011).

Legitimacy Theory

Legitimacy theory is a theory of a company's management system that is oriented towards alignment with the community, government, individuals, and community groups (Gray et al., 1996). This shows that companies and communities have made social environment disclosures and entered into social contracts. According to legitimacy theory, disclosures made by companies will cause reactions in the environment. The banking system in Indonesia uses a *dual-banking system.* Where Islamic banks must be able to compete with conventional banks that already have very large assets, Islamic banking must really position itself to be accepted by the public. One way is to disclose information, one of which reveals information about operational risks. Increasing the disclosure of operational risks, including those related to Sharia compliance, is one of the strategies for Islamic banking to legitimize its operations and be accepted by the wider community (Elamer et al., 2019).

Operational Risk Disclosure

Operational risks in Islamic banking are becoming more complex due to increasing financial and technological complexity, large-scale acquisitions and mergers, new business activities, globalization, and regulation. *The Basel Committee on Banking Supervision (BCBS)* issued Basel II by requiring banks to measure, allocate, and disclose operational risks. In this regard, Basel II defines operational risk as "the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events". The third pillar (market discipline) of Basel II contains disclosure requirements to evaluate key operational risk information regarding application scope, risk exposure, risk appetite framework, risk assessment process, and operational risk capital adequacy (Barakat & Hussainey, 2013a).

Basel II proposes qualitative and quantitative disclosure of operational risk regarding the strategies, processes, structure, and nature of operational risk used by banks, in addition to operational risk methods that can be used to calculate minimum capital adequacy requirements. In principle, Basel II requires qualitative operational risk disclosure that contains (i) operational risk measurement approaches, (ii) operational risk management strategies and processes, (iii) operational risk management functional structures and organizations, and (iv) the scope and nature of operational risk reporting systems. Basel II also expects quantitative operational risk disclosures containing exposure to operational risks and the amount of regulatory capital for operational risks (Pillar 1 capital).

Currently, many Islamic banks are reconsidering operational risks and corporate governance practices (Izhar & Asutay, 2010). Thus, by analyzing the drivers of operational risk disclosure because Islamic banking has a substantial degree of freedom regarding operational risk disclosure, and due to the special nature of Islamic banking, risks in Islamic banking arguably emerge as operational risks, especially if Islamic banking operates in a manner that is not in accordance with Sharia law and, therefore, an inherent theoretical expectation arises that Islamic banking may be willing to disclose more information regarding operational risks associated with Islamic compliance activities compared to conventional banking (Safieddine, 2009). It can be argued that Islamic banking can create additional operational risks, such as the risk of non-compliance. Thus, the *Islamic Financial Services Board (IFSB)* defines operational risk in Islamic banks as "the risk of loss resulting from inadequate or failed internal processes, persons, and systems, or from external events, which include, but are not limited to, legal risk and risk of Shariah non-compliance".

Hypothesis Development

The Sharia Supervisory Board is an internal corporate governance program that functions to ensure Sharia compliance and adheres to Sharia principles and rules. Agency theory suggests that an effective Sharia supervisory board can reduce agency conflicts and information asymmetry between management and shareholders by supervising Shariacompliant products and operations (Safieddine, 2009).

Signal theory and legitimacy predict that an independently established Islamic supervisory board with extensive expertise and knowledge can help legitimize operations in Islamic banking by securing wider public approval through the encouragement of Islamic banking managers to engage in improved operational risk disclosure (Connelly et al., 2011). Resource dependency theory also predicts that Islamic supervisory boards can assist in providing Islamic banking access to critical resources by improving operational risk disclosure by Islamic banking management (Ntim et al., 2013).

Research by Elamer et al. (2019) and Jarboui (2018) found that sharia supervisory boards have a positive effect on operational risk disclosure. This shows that Islamic banking with a high-quality Sharia supervisory board can improve operational risk disclosure. While the results of Neifar & Jarboui (2018) are different, they show that the presence of DPS negatively affects operational risk disclosure. The results of Neifar & Jarboui's (2018) research are also supported by research by Utami et al. (2021), which shows that the size of the Sharia supervisory board negatively affects the disclosure of risk management by Islamic commercial banks in ASEAN. With the increase in the number of supervisory boards, the risk is getting lower, so some aspects are not disclosed. Therefore, this study establishes the following hypotheses:

H1: The size of the Sharia supervisory board positively affects operational risk disclosure

According to agency theory, the board of commissioners is the primary internal mechanism for controlling management opportunism and helping to align the interests of shareholders and managers (Jensen & Meckling, 1976). According to Nasution & Setiawan (2007), the board of commissioners has a supervisory role. It is responsible for ensuring the quality of information presented in the company's annual report, including disclosure of the company's risk management. The Board of Commissioners is an important part of corporate governance, with the task of overseeing management in the implementation of company activities (FCGI, 2001).

According to research by Alkurdi et al. (2019), the independence of the board of commissioners has a positive effect on risk disclosure. The greater the independence of a commissioner, the better they are at dealing with stakeholder demands and improving the quality of risk disclosure. Research by Handoko & Probohudono (2021) found that the size of the board of commissioners has a positive effect on operational risk disclosure. This means that the Board of Commissioners has an important role as a supervisor and is responsible for reporting information submitted in the report, including disclosure of the company's operational risks. Therefore, this study establishes the following hypotheses:

H2: The size of the board of commissioners positively affects operational risk disclosure.

The Board of Directors has an important role in reviewing and approving operational risk management objectives, policies, strategies, and processes that are consistent with the risk culture and risk tolerance of Islamic banking and with sound operational risk principles. According to Fama & Jensen (1985), a strong board of directors can increase company value by increasing operational risk disclosure. Signal theory, legitimacy, and resource dependency theory expect that larger, independent boards can improve operational risk disclosure to send signals to the external environment about bank performance and thus secure critical resources as well as legitimize their operations by gaining public trust.

Research conducted by (Elamer et al., 2019; Neifar & Jarboui, 2018) found a positive relationship between independent directors on the board and operational risk disclosure. The study confirms that an increase in the number of independent directors on the board will be able to provide a higher quality of corporate decisions and influence the disclosure of risk information. This research is in line with the research. However, (Al-Maghzom et al., 2016; Mohammad et al., 2021) showed an insignificant association with voluntary risk disclosure. Thus, we assume that there is a positive relationship between the independence of directors and operational risk disclosure. Therefore, this study establishes the following hypotheses:

H3: The size of the board of directors has a positive influence on operational risk disclosure.

Ownership structure has been proposed as a key driver of operational risk disclosure (Elamer et al., 2019). Theoretically, the concentration of ownership in terms of institutional ownership could affect operational risk disclosure in two ways. On the one hand, agency theory predicts that institutional shareholders face fewer agency conflicts, as they can gain direct access to important company information, resulting in less disclosure of operational risk in Islamic banking with high levels of institutional shareholding. In contrast, signaling, legitimacy, and resource dependence theories expect that institutional shareholders can increase operational risk disclosure to send signals to the external environment about a bank's high-risk management practices as a way to secure critical resources, as well as legitimize its operations, and thus gain public trust.

The results of research by Boumediene et al. (2022) show that institutional ownership negatively affects operational risk disclosure. Based on the results of this study, companies have a high proportion of institutional ownership; they have a vested interest in reducing the level of risk reported in their company's annual report. This implies that institutional investors have sufficient information about the risks. Given their importance within the company, they can use their power to hide some risk information. However, the results of this study are different from the research conducted by (Elamer et al., 2019; Neifar & Jarboui, 2018) found that ownership concentration has a positive influence on operational risk disclosure. Therefore, this study establishes the following hypotheses:

H4: Institutional ownership has a positive influence on operational risk disclosure.

RESEARCH METHODS

Data Types and Sources

This type of research is quantitative research and uses panel data, a combination of *time series* data, and *cross-section data*. This study used secondary data sources. The data used in this study is the annual financial statements of Sharia Commercial Banks in Indonesia in 2017-2021, which are accessed through the official website of the Financial Services Authority or Otoritas Jasa Keuangan (www.ojk.go.id) and the official website of each bank.

Population and Sample

The population of this study is Sharia Commercial Banks in Indonesia in 2017-2020. The sample selection technique in this study used the purposive sampling method. The purposive sampling method is a sample selection method where information is collected based on specific criteria that have been identified and have a strong relationship with the population (Sekaran, 2003). The sample in this study was determined based on the following criteria:

1. Sharia Commercial Bank registered in Indonesia in 2017-2021.
2. Sharia Commercial Bank that publishes annual reports for 2017-2021.
3. Sharia Commercial Banks that have complete data as needed in this study.

Based on the criteria outlined above, 67 sample data were obtained. The following is the calculation of the number of samples in this study:

Table 2.
Number of Sample Data

Year	Number of Banks
2017	13
2018	14

Year	Number of Banks
2019	14
2020	14
2021	12
Number of Sample Data	**67**

Source: Shariah Banking Statistics

Table 3.
Research Samples

No	Bank Name
1	PT. Bank Aceh Syariah
2	PT. Bank Muamalat Indonesia
3	PT. Bank Victoria Syariah
4	PT. Bank BRISyariah
5	PT. Bank Jabar Banten Syariah
6	PT. Bank BNI Syariah
7	PT. Bank Syariah Mandiri
8	PT. Bank Mega Syariah
9	PT. Bank Panin Syariah
10	PT. Bank Syariah Bukopin
11	PT. Bank BCA Syariah
12	PT. Mybank Syariah Indonesia
13	PT. Bank Tabungan Pensiunan Nasional Syariah
14	PT. Bank Nusa Tenggara Barat Syariah
15	PT. Bank Syariah Indonesia

Source: Financial Services Authority

Research Model

To test the hypothesis used multiple linear regression models as follows:

$$\mathbf{ORDit = \alpha + \beta 1DPSit + \beta 2UDit + \beta 3UDKit + \beta 4KPIit + \beta 5ROAit + \beta 6SIZEit + \varepsilon it}$$

Information:

ORD = Operational Risk Disclosure
α = Constanta
β1 – β6 = Coeficient Regression
DPS = Shariah Supervisory Board
UD = Size Board of Directors
UDK = Size Board of Commissioners
KPI = Institutional Ownership
ROA = Profitability
SIZE = Size
i = Company

t = Standard/ year
ε = Standard error

Operational Variables

In this study, the dependent variable is the disclosure of operational risk. Operational risk disclosure is measured using the operational risk disclosure index. The operational risk disclosure index used in this study is based on the research of Elamer et al. (2019), which consists of 22 indices with an assessment procedure of 0 for undisclosed operational risk items. 1 for disclosed operational risk items. The operational risk disclosure index in this study is as follows:

Table 4.
Operational Risk Disclosure Index

No	Operational Risk Disclosure Index
1	Total regulatory capital for operational risk (Pillar 1 capital).
2	Regulatory capital for operational risk measurement approaches.
3	Operational risk management strategies and processes.
4	Structure and organization of operational risk management functions.
5	The scope and nature of the operational risk reporting system.
6	Operational risk transfer/mitigation/hedging techniques.
7	Operational value at risk.
8	Internal audit function/internal control system.
9	Key risk indicators (KRI)/early warning systems (EWS).
10	Self-assessment techniques (SA).
11	Stress test/scorecard model/scenario analysis.
12	Database of operational risk events (internal/external).
13	Legal risk.
14	Additional information about exposure and risk management (e.g., cumulative amounts of historical operating losses classified by event and business type).
15	Information technology/technology.
16	Sharia compliance.
17	Marketing/customer satisfaction/boycott.
18	Competition/ownership/copyright.
19	Personnel (human error, labor disputes, loss/hiring of employees)
20	Integrity/management and employee fraud.
21	Business ethics/corruption.
22	Disclosures to help users understand operational risks.

According to Elamer et al. 2019, the results of the index assessment are scaled to values between 0% and 100%, so it can be formulated as follows:

$$\text{OperationalRiskDisclosureIndeks}(ORD) = \frac{Number\ of\ items\ disclosed}{Total\ opertional\ risk\ disclosure\ items} \times 100\%$$

The Sharia Supervisory Board is the first independent variable in this study; the Sharia Supervisory Board provides direction and support to the Board of Directors and supervises bank activities in accordance with Sharia principles. This ensures that the products and services provided by banks are in line with the principles of Sharia law (Nurkhin et al., 2018). The Sharia Supervisory Board is an independent body tasked with directing, assessing, and supervising the activities of Islamic banks to ensure their compliance with established Sharia principles. This task is carried out at least once a month. According to Elamer et al. (2019), the Sharia supervisory board is determined by the number of members of the Sharia supervisory board and the number of regular meetings held by the Sharia supervisory board, which can later improve the quality of management mechanisms in Sharia banking. Then, it can be formulated as follows:

Shariah Supervisory Board (DPS) = Total Syariah Supervisory

Shariah Supervisory Board (DPS) = Total Syariah Supervisory Board

The second independent variable in this study is the board of commissioners. The Board of Commissioners is an important part of ensuring good governance in a company. They are responsible for carrying out supervisory functions and ensuring the fulfillment of shareholder interests. Handoko & Probohudono (2021) stated that the larger the size of the board of commissioners, the more effective the supervisory function, meaning that the more boards of commissioners in a company, the more important the role as a supervisor and the greater responsibility for reporting information submitted in the annual report, including in the disclosure of operational risks. Based on research by Handoko & Probohudono (2021), the size of the board of commissioners can be measured by the number of boards of commissioners in a company. Then, it can be formulated as follows:

Size Board of Commissioners = Number of Board of Commissioners

The third independent variable in this study is the directors. The Board of Directors is the main organ responsible for managing the company for the benefit of the bank. Authorized and fully responsible to carry out these responsibilities in accordance with the aims and objectives of the bank. As the center of corporate governance, directors are tasked with being assigned by shareholders to supervise, provide input to company management, and ensure the quality of financial reporting (Hashim & Devi, 2008).

The size of directors in a company is very important because it affects the supervisory function. According to agency theory, the larger the board of directors, the more types of business expertise it has and the more effective its supervisory role will be. Consequently, they tend to disclose more risks (Al-Shammari, 2014). The measurement of the size of the board of directors in this study refers to the research of Elamer et al. (2019), where the total number of board of directors measures the size of the board of directors. Then, it can be formulated as follows:

Size Board of Directors = Number of All Directors

Institutional ownership was the fourth independent variable in the study. Institutional ownership is company shares owned by the government, financial institutions, legal entities, foreign institutions, and others (Pratiwi et al., 2016). According to Jensen & Meckling (1976), institutional ownership can reduce agency problems because large institutional ownership increases the mechanism of oversight of corporate work. The general meeting of shareholders (GMS) can be used to oversee institutional ownership. According to research by Handoko & Probohudono (2021), the share ownership structure is measured by the percentage of ordinary shares owned by all institutions against all outstanding shares, so it can be formulated as follows:

$$Institutional\ Ownership\ = \frac{Number\ of\ Institutional\ Shares}{Number\ of\ Shares\ Outstanding} \times 100\%$$

The control variable in this study was the size of the company. According to agency theory, large companies have higher agency costs, and they tend to disclose more information to reduce those costs. Second, stakeholder theory assumes that large companies have a greater impact on stakeholders, so the larger a company is, the more stakeholders it has. Third, signal theory and legitimacy assume that large companies will be required to increase the transparency of their disclosures, which will generate positive reactions in the stakeholder environment, increase the company's legitimacy, and continue to survive in the long run.

Large companies will generally disclose more information than smaller companies due to the high agency costs incurred due to the principal's supervision of the agent's performance as a company manager. The amount of money that must be spent is to keep both parties trusting each other and ensure that neither party violates its rights and obligations due to differences in interests. The company's disclosure efforts are intended to reduce these costs by meeting the information needs of all stakeholders so that disclosure of information is a form of corporate management's responsibility to stakeholders for company management (Pradnyani & Sisdyani, 2015). Studies continue to show consistent results, with a positive relationship between company size and operational risk disclosure using natural logs (Ashfaq et al., 2016; Elamer et al., 2019; Elshandidy et al., 2013). Then, it can be formulated as follows:

Company Size (SIZE) = Ln Total Company Assets

RESULT AND ANALYSIS

Description Variable

Table 5 provides an overview of descriptive statistics from the results of the study, with a total of 67 observations. The number of observations was obtained from 15 Islamic commercial banks for five years. The test results above show the average, maximum, minimum, and standard deviation values for each variable. The operational risk disclosure variable (ORD) has a standard deviation value of 8.994805, which is smaller than the average value of 70.14925. This shows that operational risk disclosure variables in Islamic commercial banks are homogeneous or less diverse. In comparison, the maximum value and minimum value for ORD variables are 86.36364 and 45.45455.

Table 5.
Descriptive Statistics

	ORD	DPS	UDK	UD	KPI	SIZE
Mean	70.14925	2.253731	3.701493	4.402985	93.97306	21.98727
Median	72.72727	2.000000	3.000000	4.000000	100.0000	22.71611
Maximum	86.36364	5.000000	9.000000	10.00000	100.0000	30.96931
Minimum	45.45455	2.000000	2.000000	3.000000	50.58341	13.40289
Std. Dev.	8.994805	0.559851	1.243345	1.487928	11.35448	5.191048

The variable size of the Sharia Supervisory Board (DPS) has a standard deviation value of 0.559851, which is smaller than the average value of 2.253731. This shows that the variable size of the Sharia supervisory board in Islamic commercial banks is homogeneous or less diverse. At the same time, the maximum value and minimum value for DPS variables are 5.000000 and 2.000000.

The variable size of the board of commissioners (UDK) has a standard deviation value of 1.243345, where this value is smaller than the average value of 3.701493. This shows that the variable size of the board of commissioners in Islamic commercial banks is homogeneous or less diverse. At the same time, the maximum and minimum values for UDK variables are 9.000000 and 3.000000.

The variable size of directors (UD) has a standard deviation value of 1.487928, where this value is smaller than the average value of 4.402985. This shows that the variable size of the board of directors in Islamic commercial banks is homogeneous or less diverse. At the same time, the maximum and minimum values for UD variables are 10.00000 and 3.000000.

The institutional ownership variable (KPI) has a standard deviation value of 11.35448, which is smaller than the average value of 93.97306. This shows that the variable size of the board of directors in Islamic commercial banks is homogeneous or less diverse. Meanwhile, the maximum value and minimum value for KPI variables are 100.0000 and 50.58341.

The company size variable (SIZE) has a standard deviation value of 5.191048, which is smaller than the average value of 21.98727. This shows that the variable size of companies in Islamic commercial banks is homogeneous or less diverse. Meanwhile, the maximum and minimum values for the SIZE variable are 30.96931 and 13.40289.

Hypothesis Test

Before conducting a hypothesis test, a panel data regression model selection test has been carried out. Based on the Chow test, Hausman test, and Lagrange multiplier test, the best model used to estimate is the Random Effect Model (REM). The data in this study have also passed the classical assumption test. The results of the regression test can be seen in Table 6.

Table 6
Model Regression Test Results

Variable	Coefficient	t-Statistic	Prob.
C	82.66709	8.467395	0.0000
DPS	-1.039879	-0.626857	0.5331
UDK	-0.384383	-0.406689	0.6857
UD	2.154285	2.577838	0.0124
KPI	-0.049320	-0.737940	0.4634
SIZE	-0.615400	-1.863498	0.0672
F-statistic			3.047012
Prob(F-statistic)			0.016094
R-squared			0.199843
Adjusted R-squared			0.134257

Hypothesis 1: The effect of the size of the Sharia Supervisory Board on operational risk disclosure

Based on the results of the regression test, it can be seen that the probability value of the DPS variable is 0.5331, which is greater than the significance level of 0.05, so the hypothesis is rejected. This means that the variable size of the sharia supervisory board does not significantly affect the disclosure of operational risks. The negative value of the DPS variable coefficient of -1.039879 shows a negative relationship between the size of the Sharia supervisory board and operational risk disclosure. This value means that every 1% increase in the size of the sharia supervisory board will reduce operational risk disclosure by 1,039%.

Based on the results of the regression test, H1 was rejected. Namely, the size of the Sharia supervisory board does not affect operational risk disclosure. The results of this study contradict previous studies conducted by (Elamer et al., 2019 Neifar & Jarboui, 2018; and Utami et al., 2021), who found that the size of the Sharia supervisory board has a positive effect on operational risk disclosure. They stated that Islamic banking with a high-quality Islamic supervisory board can improve operational risk disclosure.

The results of the study support previous research conducted by (Putri & Dian, 2021 Saufanny & Khomsatun, 2019). They stated that the size of the Sharia supervisory board does not affect the disclosure of operational risks. This is due to the size of the Sharia supervisory board, which tends to be the same in every Islamic banking. While companies still must disclose the size of the Sharia supervisory board, Islamic commercial banks will continue to disclose operational risks to maintain the credibility and legitimacy of operational risk management practices.

Hypothesis 2: The effect of the size of the board of commissioners on operational risk disclosure

Based on the results of the regression test, it can be seen that the probability value of the UDK variable is 0.6857, which is greater than the significance level of 0.05, so the hypothesis is rejected. This means that the variable size of the board of commissioners does not significantly affect operational risk disclosure. The negative value of the UDK variable coefficient of -0.384383 shows a negative relationship between the size of the board of commissioners and operational risk disclosure. This value means that every 1% increase in the size of the board of commissioners will reduce operational risk disclosure by 0.384%.

Based on the results of the regression test, H2 is rejected; that is, the size of the board of commissioners does not affect operational risk disclosure. The results of this study contradict the research conducted by (Alkurdi et al., 2019 and Handoko & Probohudono, 2021); they found that the size of the board of commissioners has a positive effect on operational risk disclosure. They stated that the larger the size of the Board of

Commissioners, the better it is in dealing with stakeholder demands and improving the quality of annual report information and operational risk disclosure in the company.

The results of this study are similar to the results of research conducted by (Anantha &; Simatupang, 2022; Joeswanto & Malelak, 2015), who found that the size of the board of commissioners did not influence the company's risk disclosure. They stated that the size of the board of commissioners does not affect the company's risk disclosure. (Joeswanto &; Malelak, 2015) The phenomena that occur in the banking industry are mentioned, one of which is that the board of commissioners does not have direct involvement in influencing decisions to fulfill risk information disclosure in the company's annual report.

Hypothesis 3: The effect of board size on operational risk disclosure

Based on the results of the regression test, it can be seen that the probability value of the UD variable is 0.0124; this value is smaller than the significance level of 0.05, so the hypothesis is accepted. This means that the variable size of the board of directors has a significant effect on operational risk disclosure. The positive value of the UD variable coefficient of 2.154285 shows a positive relationship between the size of the board of directors and operational risk disclosure. This value means that every 1% increase in the size of the board of directors will increase operational risk disclosure by 2.154%. Based on the results of the regression test, H3 is accepted; namely, the size of the board of directors affects the disclosure of operational risks.

The Board of Directors has an important role in reviewing and approving operational risk management objectives, policies, strategies, and processes that are consistent with the risk culture and risk tolerance of Islamic banking and with sound operational risk principles. This research is in line with agency theory, which states that larger, independent directors with in-depth knowledge can improve managerial monitoring and reduce information asymmetry by improving operational risk disclosure.

Signal theory and legitimacy also state that larger, independent directors can increase disclosure to send signals to the external environment about bank performance. Thus, they secure critical resources and legitimize their operations by gaining public trust. The results of this study are also supported by research (Elamer et al., 2019; Neifar & Jarboui, 2018; Ntim et al., 2013), which found a significant positive relationship between the size of directors and the level of operational risk disclosure. They state that a large board size can increase a company's value by improving operational risk disclosure.

Hypothesis 4: The effect of institutional ownership on operational risk disclosure

Based on the results of the regression test, it can be seen that the probability value of the KPI variable is 0.4634; this value is greater than the significance level of 0.05, so the hypothesis is rejected. This means that institutional ownership variables do not significantly affect operational risk disclosure. A negative value of the KPI variable coefficient of -0.049320 indicates a negative relationship between institutional ownership and operational risk disclosure. This value means that every 1% increase in the size of the board of commissioners will reduce operational risk disclosure by 0.049%.

Based on the results of the regression test, H4 is rejected; that is, institutional ownership does not affect operational risk disclosure. The results of this study contradict previous studies conducted by (Elamer et al., 2019; Neifar & Jarboui, 2018), who found that institutional ownership has a positive effect on operational risk disclosure. They stated that Islamic banks that have large institutional holdings can disclose more operational risks.

Research results (Boumediene et al., 2022; Ntim et al., 2013) found that institutional ownership negatively affects operational risk disclosure. Based on the results of this study, companies have a high proportion of institutional ownership; they have a vested interest in reducing the level of risk reported in their company's annual report. This implies that institutional investors have sufficient information about the risks. Given their importance within the company, they can use their power to hide some risk information.

The results of this study are supported by research (Handoko & Probohudono, 2021; Sullivan et al., 2008), who found that institutional ownership did not influence operational risk disclosure. This is because institutional shareholders do not make disclosure activities the main focus; the main focus is in the form of company profits that will directly affect the *returns* obtained. Institutional shareholders will benefit from their investment activities in the company.

Control Variables Discussion

The effect of company size on the disclosure of company operational risks

Based on the results of the regression test, it can be seen that the probability value of the SIZE variable is 0.0672; this value is greater than the significance level of 0.05, so the hypothesis is rejected. This means that the variable size of the company does not have a significant effect on operational risk disclosure. The negative value of the SIZE variable coefficient of -0.615400 indicates a negative relationship between company size and operational risk disclosure. This value means that every 1% increase in company size will decrease operational risk disclosure by 0.615%.

The results of this study contradict previous research conducted by (Ashfaq et al., 2016 Elamer et al., 2019 Elshandidy et al., 2013 Putri & Dian, 2021); they found that company size positively affects operational risk disclosure. They stated that large companies will generally disclose more information than smaller companies due to the high agency costs incurred due to the principal's oversight of the agent's performance as a company manager.

The results of this study are supported by previous research conducted by Almilia, 2013 and Rousilita Suhendah, 2019); they found that the size of the company does not affect the company's risk disclosure. This is because management takes into account the high agency costs incurred in providing information regarding the disclosure of company risks to outside parties. Based on the tests that have been carried out, the prob value. F (Statistical) of 0.016094 < 0.05, so it can be concluded that the estimated regression model is feasible to use to explain the effect of board character and institutional ownership on operational risk disclosure.

Based on the tests that have been carried out, the value of the coefficient of determination can be seen at the Adjusted R-squared value of 0.134257 or 13.42%. Operational risk disclosure can be explained by 13.42% by the size of the Sharia supervisory board, the size of the board of commissioners, the size of the board of directors, and institutional ownership. At the same time, the remaining 86.58% (100-13.42%) is influenced by other variables that are not in the regression model.

CONCLUSION

This research aims to determine how the influence of board character and institutional ownership on operational risk disclosure. The object studied is Sharia Commercial Banks registered in Indonesia in the period 2017 to 2021. The character of the board is measured by the size of the Sharia supervisory board, the size of the board of commissioners, the size of the board of directors, and institutional ownership. The total number of samples obtained based on purposive sampling techniques is as many as 15 Islamic commercial banks that have passed certain criteria, so the total final observation is 67.

Based on the explanation of the previous chapter, the size of the board of directors has a positive effect on operational risk disclosure. The large size of the board of directors can increase operational risk disclosure at Islamic commercial banks for the 2017-2021 period. Meanwhile, the size of the sharia supervisory board, the size of the board of commissioners and institutional ownership do not affect operational risk disclosure. The size of the company as a control variable has no bearing on the disclosure of operational risks. The large size of the company does not affect the disclosure of operational risks at Islamic commercial banks for the 2017-2021 period.

This study has some limitations in that the sample used in this study is only Islamic commercial banks registered in Indonesia, so there may be different results for companies in other sectors and other countries because each sector and country has different characteristics. The measurement of the independent variables studied, namely corporate governance, is only limited to the size of the Sharia supervisory board, the size of the board of commissioners, the size of directors, and institutional ownership. Many other indicators can explain corporate governance variables that can affect operational risk disclosure. The collection of operational risk disclosure data is done manually, maybe for researchers to further use software. However, there is a disadvantage because there are subjective factors in data collection.

Based on the results of research on the influence of board character and institutional ownership on operational risk disclosure in Islamic commercial banks for the 2017-2021 period. There are several suggestions that researchers want to convey: Researchers can further expand the object of research by adding other sectors, not only in the financial sector but also in the non-financial sector. Further researchers can also use objects outside Indonesia. Further research can add variables related to corporate governance mechanisms, such as audit committees, risk committees, and other board variables that can affect operational risk disclosure practices. This research uses structure to define corporate governance. Sharia Commercial Banks generally have a homogeneous structure, so no influence is found on the variable size of the Sharia supervisory board or the size of the board of commissioners. We recommend that the next researcher use a process or index to measure the structure of corporate governance.

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