ABSTRACT

This study investigates the effect of governance monitoring mechanisms on operational risk disclosure (ORD) in Indonesian Islamic banks. ORD has become a critical issue in the Islamic banking industry because of the complexity of the risks involved, which extend beyond conventional operational risks to include those associated with compliance with Sharia principles. In this context, effective corporate governance is expected to enhance transparency and improve the quality of risk disclosure.

The study adopts a quantitative approach using secondary data drawn from the annual reports of Islamic commercial banks in Indonesia covering the period from 2014 to 2024. The independent variables capture the structural, process, and resource-related attributes of the Sharia Supervisory Board (SSB), the audit committee, the risk monitoring committee, and the external auditor. The hypotheses are tested using panel data regression to assess the effect of each governance mechanism on ORD.

The findings reveal that not all governance monitoring mechanisms significantly influence ORD. The frequency of SSB meetings, SSB cross-membership, and auditor tenure have a positive effect, whereas SSB size and auditor industry specialization have a significant negative effect. By contrast, the size and meeting frequency of both the audit committee and the risk monitoring committee have no significant effect, nor do the academic qualifications of the SSB and audit firm size.

These results suggest that ORD is shaped more by the effectiveness of governance processes, particularly monitoring activities and governance expertise, than by formal structural attributes alone. The study contributes to the corporate governance and risk disclosure literature by demonstrating that operational risk disclosure is shaped not only by formal governance structures but also by governance processes and resource-related attributes, thereby providing a more comprehensive explanation of risk transparency. The findings also provide practical implications for regulators and the Islamic banking industry by highlighting the importance of governance policies that emphasize the quality of governance processes and the effectiveness of oversight.