*TANMEAH BASSMAH PRESS*
**International Journal of Digital Accounting and Fintech Sustainability (IJDAFS), Volume 2, Issue 1, 2025**
Journal Homepage: *https://tanmeah.com/international-journal-of-digital-accounting-and-fintech-sustainability/*

# The Moderating Effect of Family Ownership Concentration Between Board of Directors Effectiveness and Risk Management Disclosure in Palestine Stock Exchange

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C H R O N I C L E

Article history:
Received: September 19, 2024.

Received in revised format: January 30, 2025.

Accepted: March 14, 2025.
Available online: June 30, 2025.

***Keywords***:
Board of Directors effectiveness -Board Characteristics - Family Ownership Concentration - Risk Management Disclosure - Banks – Insurance.

**A B S T R A C T**

This study examines the impact of Board of Directors Effectiveness (BODE) on Risk Management Disclosure (RMD) in financial firms listed on the Palestine Stock Exchange (PSE). It also explores the moderating role of Family Ownership Concentration (FOC) in shaping the relationship between BODE and RMD. The study is based on a sample of 13 financial firms, including six banks and seven insurance firms, listed on the PSE from 2012 to 2023. Using panel data analysis, the research investigates how board characteristics contribute to RMD and how ownership concentration alters this relationship. Findings indicate a positive relationship between BODE and RMD, with larger board size, independent directors, board experience, gender diversity, and frequent board meetings enhancing disclosure. However, ethnic diversity did not show a significant impact on RMD. The results also highlight the moderating effect of FOC, where lower ownership concentration, coupled with strong board governance, leads to improved risk disclosure. These findings have important implications for stakeholders, policymakers, and regulatory bodies. Strengthening board effectiveness and balancing ownership structures can enhance transparency, reduce agency and financing costs, and improve investor confidence. This paper emphasizes the need for regulatory improvements, particularly in governance frameworks, to enhance risk disclosure practices in developing economies. This study contributes to the literature on accounting and corporate governance by highlighting the role of family ownership in influencing RMD. The insights provide a foundation for refining governance policies and optimizing board structures to improve risk transparency. The findings are particularly relevant for countries with similar socio-economic and regulatory conditions, such as Iraq, Syria, Lebanon, and Yemen.

***JEL Classification:*** *G32, G34, M41, & M48.*

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https://doi.org/10.70568/IJDAFS.25.2.1.1

## 1. Introduction

Technological advancements and evolving business environments necessitate a reevaluation of financial reporting models due to their inadequacies in transparency and clarity regarding risk management disclosures (RMD) related to both financial and non-financial risks faced by firms. The complexity of operations, financing structures, and increasing agency costs contribute to heightened information asymmetry and competition, prompting this reassessment according to Elrefae et al. (2024); Amer, (2019). Despite the critical nature of accounting information on financial statements, profitability, and cash flows, it remains insufficient for stakeholders and investors to make informed decisions. Financial Accounting Standards Board (FASB) has proposed improvements to the 2025 GAAP Financial Reporting Taxonomy. These changes aim to enhance the clarity of financial reporting by refining how elements are located and understood within the taxonomy. This is crucial as stakeholders increasingly demand better transparency in financial disclosures, particularly concerning risk management practices According to Taxonomies, S. (2024).

To maintain market viability, firms must identify and assess the various financial and non-financial risks they encounter while implementing effective policies and strategies aimed at mitigating these risks or avoiding them altogether. This process is known as risk management (RM) practices, as outlined by Elhenawy (2020). The significance of RM has gained traction in corporate discourse, especially given the diverse risks that impact decision-makers, stakeholders, and investors. The topic of RM has received a great deal of attention in the corporate world in light of the various risks that affect all decision makers, stakeholders, and investors. Therefore, we expect that the role of RM will not be limited to identifying and managing risks, but the need for management to disclose those risks will increase. Jamieson, S. (2023).

Despite the interest in the topic of voluntary disclosure, most previous studies in this field, for example (Abbas et al., 2021; Rahmawati and Prasetyo, 2020; Rahmawati and Harymawan, 2022), indicated that there is a variation in the level of RMDV processes among firms, because it depends on a number of determinants that have been addressed in previous studies, such as ownership structures. Although the application of RM in its modern concept is widespread in most firms in developed countries in a mandatory manner, its application is still optional and limited in most firms in developing countries, where the focus is only on financial RM (Ahmed & Alam, (2023); Al-Shaarawy, 2016), as it is left to the discretion of management in many countries within the framework of the principles and standards issued by accounting associations and bodies in these countries (Nagata and Nguyen, 2017). Therefore, the focus on the topic of voluntary disclosure has recently increased, especially RMD as a result of the interest of various parties in management's performance in RM. Given its repercussions on achieving the firm's goals in general and increasing the confidence of all stakeholders and reducing information consistency in management performance.

The increasing focus on voluntary disclosure, particularly RMD, can be attributed to heightened scrutiny from stakeholders regarding management performance in risk management. This scrutiny is essential for achieving broader organizational goals and fostering stakeholder confidence while mitigating inconsistencies in management performance reporting. Recent findings suggest that voluntary disclosures are driven by a desire to enhance corporate reputation and stakeholder trust, particularly in contexts where sustainability reporting is not mandated (Wagner and Strobl, 2022). Moreover, studies emphasize that higher ownership concentration can negatively impact voluntary disclosures, as major shareholders may resist sharing information that benefits minority stakeholders (Xue et al., 2023). Neifar and Jarboui, (2018); Fijałkowska and Hadro, (2022); indicated insufficient risk disclosure and management practices and the existence of a so-called “risk information” gap between financial statement preparers and users. Due to the benefits of RMD in reducing information asymmetry (Information gap between investors and management), this will help to provide sufficient information about the ability of RM to protect funds and remove uncertainty in decision making for investors and stakeholders according to (Seta and Setyaningrum,

2017).Thus, high-quality corporate RD contribute to enhancing financial stability by providing investors and other stakeholders with a better understanding of the firm's risk exposure and RM practices. Al-Ghamdi, (2012) confirmed that non-disclosure and transparency have a significant impact on assessing the stability of banks and the market. Based on the above, if bank owners, managers, stakeholders, investors, and other decision makers understand the factors that increase the RMD and its consequences, this could make the difference in determining whether the business is surviving and thriving or failing. So, there is a need to investigate the impact of CGE on RMD in Palestinian banks and moderating role of ownership concentration (Asmar & Ali, 2018; Hassan, 2016). The current study responds to a call for a better understanding of the role of accounting and its interactions with increased transparency and accountability through Corporate Governance (CG) in developing countries according to Hopper et al., (2017); Claessens & Yurtoglu, (2013). Therefore, the stability of the financial sector and the economy sustainability rely on the effectiveness of financial sector' CG (Mortlock, 2002). The weak CG in banks may lead to poor RMD, which aggravated the phenomenon of information asymmetry and the loss of investors' confidence, shareholders, and depositors in the banks and firm insurance ability to manage its assets and liabilities properly. Thus, this scenario may lead to a liquidity crisis followed by an economic crisis (Hasan et al., 2021; Baten & Amadi, 2020; Malik, et, al., 2020). The financial crisis can be, to an important extent, attributed to failures and weaknesses in CG arrangements, which did not serve their purpose to safeguard against excessive risk taking in several financial services firms (Kirkpatrick, 2009). Furthermore, financial firms such as Islamic and non-Islamic banks are not immune to global financial crises, as evidenced by the failures of many banks and financial institutions in the nineties and the first decade of the twenty-first century (Sadek et al., 2020). For instance, the closures of Ihlas Finance in Turkey and the Islamic investment banks of Egypt were due to weak CG and failure of internal controls (Shatnawi et al., 2021). At the same time, awareness and the need for appropriate RM techniques and structures within financial institutions have increased, necessitating the transformation of RM into the cornerstone of CG and business strategy and its full integration into executive and organizational decision structures and firm cultures (Al-Naimi & Al-amawi, 2015).

Cia.al et al (2009) study revealed that firms face the problem of information asymmetry because they are less monitored by their boards of directors. While Abdullatif and Al-Khadash, (2010) confirmed that high FOC leads to ineffective CG. Wang and Shailer (2015) indicated that high FOC in firms affects the level of RMD, with an inverse relationship between ownership concentration exceeding 25% and the level of RMD. In the Palestinian context, Ahmed Joda's study (2022) confirmed that the FOC in Palestinian firms reached 53%. In addition, PSE suffers from the phenomenon of information asymmetry, as the average margin of supply and demand reached 54.76% according to the study (Alia and Awwad, 2020). On the other hand, there were attempts to reform governance in the financial sector during 2014 and 2017, but the financial sector has not yet achieved satisfactory performance. Therefore, this scenario may negatively affect the level of RMD in Palestinian financial firms.

In contrast, board effectiveness can help reduce agency problems associated with FOC by diminishing information asymmetry between internal and external CG mechanisms. This reduction, in turn, protects shareholder interests and enhances firm performance (Schmalz, 2018). Consequently, this research investigates Corporate Governance Effectiveness (CGE) as the most significant determinant of RMD. This argument is grounded in the Sarbanes-Oxley standards, which stipulate that corporate governance is responsible for the RMD and for ensuring compliance, as noted by Wagner and Helbok (2006). Adnyana & Adwishanti (2020) found that CGE and board size positively influence RMD. These findings suggest that board size is a critical factor. In addition, Oktaviana & Puspitasari (2022) demonstrated that board size, significantly impact the implementation of Enterprise Risk Management (ERM). This perspective contrasts with the research conducted by Muhamad Muslih (2023), Tieka Trikartika Gustyana & Putri (2022), which indicates that the BOD negatively influences RMD firm. Furthermore, Gustyana & Fakhira (2023) revealed that the institutional ownership structure variable affects RMD individually. Additionally, research by Oktavia Fajar Utami (2023) indicates that board size significantly positively affects RM firm. In a study

conducted by Aena Sasanti Cahyono (2023), it was found that an independent board influences RMD firm; however, board size has an insignificant negative effect on RMD. This may be attributed to potential increases in internal conflicts within larger boards of commissioners, which can hinder their ability to supervise and optimally implement RMD within the firm. Although the CG has significantly developed over the past few decades, the literature addressing RMD is scarce. This study was motivated by the theoretical debate and the existing gap. To date, it appears that no empirical study has examined how BODE and FOC impact RMD. Thus, the objective of this study is to contribute to the extant CG and RMD literature and to provide useful insights for practitioners and regulatory authorities. More specifically, the current study will investigate the impact of BODE on RMD in financial firms and moderating role of FOC. The financial sector was chosen as a sample due to its importance in the sustainability of other sectors, and it also represents firms with more disciplined rules compared to other sectors, especially with regard to the application of governance. Therefore, this research is motivated to prove the effectiveness of these regulations on how Palestinian financial firms report their RMD. Because this will make a big difference to investors and users of financial reports from all relevant parties, BOD, the Palestinian Capital Market Authority, and regulatory bodies of the financial market as a whole when knowing the level of RMD and its determinants. The rest of this study is structured as follows. Section II which will discuss the literature review and hypothesis development. Section III will discuss the research methodology followed. Section IV will present the findings; and finally, Section V will provide a summary of this paper.

## Research Model

This study examines the relationship between BODE and RMD in Palestinian financial firms, through independent variables namely, board of directors (BOD) and dependent variable risk management disclosure (RMD) and Family Ownership Concentration (FOC) as Moderating. Finally, it will Control variables namely Firm size, Profitability, Liquidity, Leverage and Firm Type.

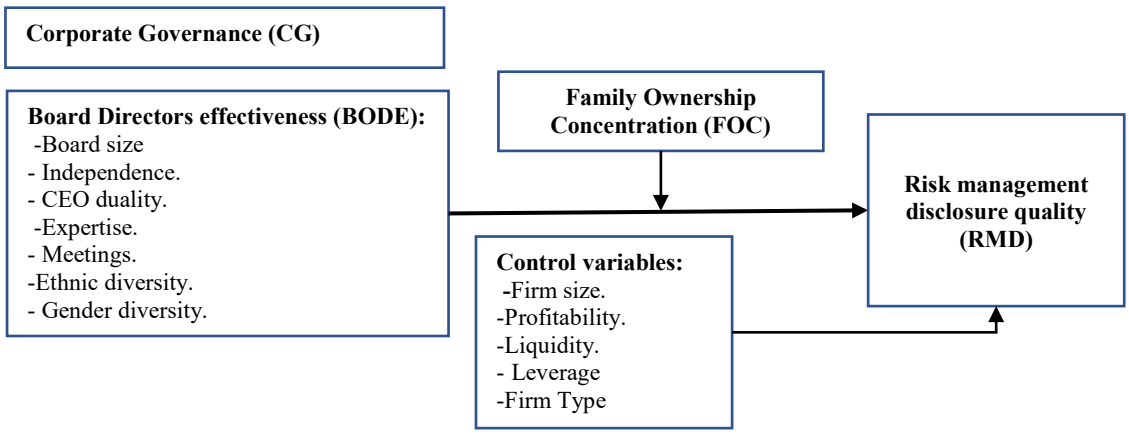


Fig. 1. Proposed Conceptual Framework.

## 2. Equations

Equations and formulae should be typed in Mathtype, and numbered consecutively with Arabic numerals in parentheses on the right-hand side of the page (if referred to explicitly in the text). They should also be separated from the surrounding text by one space. To test our research hypotheses, we use the following regression model

4.1 Model specifications (1): (Direct effect at the individual level of the independent variable with the dependent variable). Model (1) measures the effect of board effectiveness (BODE) on risk management disclosure (RMD) through the first to eighth hypothesis using the following regression analysis equation:

1. $RMD = \beta 0 + \beta 1\ BI\ it + \beta 2\ BS\ it + \beta 3\ CEO\ Duality\ it + \beta 4\ BM\ it + \beta 5\ BGD\ it + \beta 6\ BED\ it + \beta 7\ BFE\ it + \beta 8\ FS + \beta 9\ LG + \beta 10\ PR + \beta 11\ FLQ + + \beta 12\ FTP + uit.$

4.2 Model Specifications (2) Measuring the Moderating Effect of Family Ownership Concentration (FOC): Model (2) measures the moderating effect of family ownership concentration on the relationship between (Board of Directors Effectiveness (BODE_SCORE) at the composite level) with risk management disclosure (RMD). This is done through the ninth hypothesis using the following regression analysis equation:

2. $RMD = \alpha + \beta 1\ BDE\_SCORE\ it + \beta 2\ FOC\ it + \beta 3\ BDE\_SCORE\ it * FOC\ it + \beta 4\ FS + \beta 5\ LG + \beta 7\ PR + \beta 7\ FLQ + \beta 8\ FTP + uit.$

## 1. Literature Review and Hypotheses Development

### *1.1. Theoretical framework*

Accounting literature has confirmed that CG practices are considered the cornerstone and main driver of risk management and disclosure, and therefore weak CG practices can lead to weak implementation of risk management and disclosure it according to (Martin, 2013). CG stresses the importance of protecting shareholders' rights to obtain accurate, correct and timely information and demonstrates the firm's commitment to disclosing accurate and transparent financial information (Nyoman et al.,2006). The BODE is being highlighted as an important internal CG mechanism responsible for supervising and monitoring managers and providing business resources (Nasrallah and El Khoury, 2021a, 2021b). The theoretical basis of the monitoring function of the board is derived from the agency theory, according to which conflicts of interests and agency costs arise from the separation between management and ownership (Jensen and Meckling, 1976). Thus, firms should establish control mechanisms to monitor managers' behavior and to protect the rights of stakeholders and Investors. As agency theory indicates that the RMD acts as a mechanism to reduce information asymmetry between board members and stakeholders, reduce agency problems, and improve the control and supervision function (Jensen and Meckling, 1976). Moreover, RMD reduces the cost of financing and estimates the market value of the firms (Abraham and Shrives, 2014; Elshaday and Neri, 2015). While, signal theory indicates that the main motivations for firms to move towards RMD are to send positive signals to investors and various stakeholders from all users of financial reports about the firm's ability to manage and deal with these risks in order to maximize shareholders' wealth, protect their investments and create value for them compared to other firms. (Rujiin and Sukriman, 2020; Ardianto and Rivandi, 2018; Arifa and Wirajaya, 2018).

### *2.2 Hypothesis Development*

Based on the above agency theory, signaling theory and prior literatures we developed hypotheses as shown below:

#### *2.2.1. Board Size (BS)*

According to the agency theory, having a larger number of board members has the advantage of increasing the ability to monitor the level of disclosure; as a result, RMD is expected to enhancing (Ikhsan and Neliana, 2024). In addition, having a large BOD prevents management from dominating the firms and allows it to perform its functions effectively. For its part, the study Permata Sari et al., (2022) showed that the larger the size of BOD, the stricter the control over management, which encourages management to RMD. This was

confirmed by both the study (Ibrahim & Rasyid, 2022; Kumalasari in Humaira & Dinaroe, 2023; Yulianto et al., 2021) where they showed positive results indicating that there is a positive effect of BOD size ion RMD. The study (Evana, and San-José, 2023) indicated that the BOD size is positively and significantly associated with RMD. The variable of BOD size was also used as a determinant of risk disclosure and management in previous studies such as (Al- Shammari, 2014; Elshandidy and Neri, 2015 Mokhtar and Mellett, 2013), where most of them agreed that increasing the size of BOD leads to an increase in the level of RMD for firms. Many researchers also indicated such as (Alkurd, Hussainey and Aladwan, 2019; Elgammal and Ahmed, 2018; Saggar, and Singh, 2017), that the size of the board of directors has a significant positive effect on corporate RD. Supporters of the stakeholder theory also confirm that a larger BOD size would reduce the problem of information asymmetry. Thus, it enhances the level of RMD. Conversely, Jensen (1993) argues that small BOD is preferable because the costs of skill become lower and that "packed" BOD are less effective. Although previous studies that examined the relationship between BOD size and RMD reached conflicting results, i.e. inconclusive. Accordingly, the following hypothesis was put forward:

*H1: There is a positive relationship between BOD size and RMD of financial firms listed in PSE.*

### *2.2.2 Board Independence (BI)*

Board accountability is one of the most important issues in a corporate agenda, as the board of directors acts as an agent of shareholders. Over recent years, the literature has placed great emphasis on different matters related to board of directors such as board independence (Higgs, 2003). According to Young et al., (2008) argue that the presence of independent directors on BOD will enhance BODE in monitoring management and exercising oversight on behalf of shareholders. Ardianto and Rivandi, (2018) showed that the more IB on BOD, the more efficiently and effectively can carry out its oversight duties and advise managers. As agency theory indicates, BOD ability to act as an effective oversight mechanism depends on its independence from management; Therefore, IBOD have a greater ability to limit managerial opportunism and reduce management's ability to withhold information (Allegrini and Greco, 2013; Kelton and Yang, 2008). Therefore, it is expected that the more IBOD is, the more effective and effective its role in monitoring management's work, thus enhancing the level of RMD. For its part, Alkurdi et al., 2019; Neifar and Jarboui, 2018; and Al-Maghzom et al., 2016). IBOD plays an important role in monitoring and controlling the level of RM. However, previous studies that examined the relationship between BOD and RM have provided mixed results: Elamer and Pyke, 2019; Schnittearly and DeVaughn, 2019 confirmed a strong relationship between BOD and the level of RMD. Alkurd Hussai and Aladwan (2019) also found that IBOD is statistically significant and positively associated with mandatory risk disclosure and voluntary risk disclosure (VRD). Conversely, Yulianto et al., (2021) found that IBOD does not affect the level of RMD. While Rachdi and Ameur (2011) found that risks were not significantly affected by IBOD on the board. Therefore, this paper explains that increasing IBOD is likely to contribute to improving the level of RMD. To examine this relationship, the following hypothesis was put forward: H2: There is a positive relationship between IBOD and RMD of financial firms listed in PSE.

### *2.2.3 Non- CEO Duality*

CEO duality is a key tool of board control structure, as it is commonly believed that the BOD oversight power is reduced if the CEO is the same as the chairman of the firm (Gulzar and Wang, 2011). In addition, both stakeholder theory and agency theory suggest different perspectives on CEO duality (Fama and Jensen, 1983). Separating the roles of chairman and CEO reduces opportunistic management practices and supports transparency in RD (Moumen et al., 2016). Conversely, merging the roles of chairman and CEO into one individual is likely to constrain the board's ability to manage the firm and increase agency costs (Neifar and Jarboui, 2018; Elzahar and Hussainey, 2012). In addition, role duality leads to centralization of the decision-making process, which increases the likelihood that CEOs will dominate the board and engage in opportunistic behavior by denying shareholders access to relevant risk information (Al-Shammari, 2014). This leads to lower RD (Neifar, Salhi and Jarboui, 2020). Furthermore, previous studies examining the

relationship between board role duality and corporate RD and management have found conflicting results: Honey and Sadiq (2019) found a positive association between role duality and RD (Elshandidy and Neri, 2015) while previous studies such as Sultana, et al. (2020); Ntim et al. (2013), Elzahar and Hussainey (2012); and Rachdi and Ameur (2011) found that the relationship between role duality and corporate RD and management was insignificant. In contrast, previous studies such as Alkurdi et al. (2019), Ibrahim et al. (2019); Neifar and Jarboui (2018), Elgammal and Ahmed (2018) confirmed that the presence of non-executive board members in firms' BOD improves the level of RD and methods of managing them in firms. The researcher believes that the risk increases in the event of disrupting BODE role in monitoring and supervising executive management practices, since the chairman of BOD is the CEO himself and cannot monitor himself. A study conducted in Palestine also confirmed that the duality of the role can lead to a domineering CEO, which leads to BODE not oversight role (Musallam, 2020). The current study expects that according to the agency theory and the stakeholder theory, the separation of the CEO and the chairman of the board of directors is likely to improve the level of RMD in Palestinian firms, thus reducing the information gap and enhancing confidence in the firm's ability to protect the rights of shareholders and investors. Which results in an increase in the trading volume and as a result, the following hypothesis was put forward:

*H3: There is a positive relationship between the Non- CEO Duality and RMD of financial firms listed in PSE.*

### *2.2.4 Board Meetings (BM)*

BM are one of the variable features of BOD that influence its effectiveness (Ronald and Yaari, 2008), and they are the primary means by which BOD obtain vital information required to carry out their functions (Das & Dey, 2016). In addition, BM can be used as a means of effective oversight of the decisions made by the firm according to (Eluyela et al, 2018). In addition, BM puts more pressure on management to disclose additional information (Barros et al, 2013). According to signaling theory, BM enable to communicate more information, and are viewed as an obligation to share information more frequently between management and shareholders (Brick and Chidambaran, 2010). According to agency, signaling, and legitimacy theory, boards that hold more frequent meetings perform their duties of advising and monitoring management more effectively (Ntim and Osei, 2011). Corporate performance will increase along with BM. Improved corporate performance will encourage more disclosure, including RMD. Based on agency theory, CG effectiveness mechanism is determined by BM. The more frequently the board of commissioners holds meetings, the more BODE will be in managing so that information is not concealed on RMD. Studies conducted by (Sulistyaningsih and Gunawan, 2016; (Syaifurakhman & Laksito, 2016) show a positive effect between BM and RMD. Therefore, based on the above explanation, BM is likely to have a positive effect in increasing CGE through supervision and control of RMD levels in Palestine. Accordingly, this paper will investigate the relationship between BM and the level of RMD. The following hypothesis was formulated: H4: There is a positive association between BM and RMD of financial firms listed in PSE.

### *2.2.5 Board Financial Experience (BFE)*

The primary purpose of BOD is to supervise management in order to protect the interests of shareholders, and BFE characteristic is expected to enhancing the level of RMD. From an agency theory perspective, the ability of the board to act as a monitoring mechanism depends on BFE who join the board (Davidson et al., 2003). BOD is expected to perform their monitoring, duties well when they are composed of individuals with the necessary expertise. (Boivie, et al. 2021; Herchenbach et al. 2023), which may help improve RMD according to (Malik and Buckby, 2020; and Williams and O'Reilly, 1998). Having BOD have sufficient skill and understanding in areas such as accounting, finance, auditing, technology, risk management, etc. can reduce agency costs, according to Fama and (Jensen (1983). When the board has strong oversight skills, opportunistic behavior of management will be reduced (Anderson et al, 2004). Due to the increased level of board oversight according to (Allini et al., 2016). In this regard, GarcíaSánche and CuadradoBallesteros (2017); Agrawal, (2005) Chadha found that BOD who have a great deal of experience in accounting and

finance will have a higher ability to prepare financial reports, monitor and control the level of RMD. In contrast, Sultana and Rahman (2020) found that the level of risk disclosure is not affected by the BFE. In light of the above, we find that the results of previous studies were inconclusive. Therefore, according to the agency theory and previous empirical results, the decision-making process in BOD can be enhancing through the knowledge and skills, especially in the fields of accounting and finance, of BOD to monitor and control the level of RMD. Therefore, the following hypothesis was put forward:

*H6: There is a positive relationship between BFE and RMD of financial firms listed in PSE.*

### *2.2.6 Board Gender Diversity (BGD)*

BGD within the board is an important dimension of board diversity. Women differ from men in terms of personality, educational background, professional experience, and communication style (Buss, 2005).

Women's characteristics and competence on the BOD enable them to play their role in monitoring the BODE (Adams and Ferreira, 2009). Women are perceived to have a collegial leadership style and are more participatory and democratic on the board (Eagly et al., 2003), which in turn leads to improved disclosure and reporting quality of corporate practices (Gul et al., 2011), improved board discussions, and thus enhanced decision-making (Carter et al., 2003). Furthermore, women directors are more likely to be concerned about reputational loss and litigation (Srinidhi et al., 2011). In addition, Rosner (2003) argues that boards with a large number of women tend to have stronger CG and respond to a broader range of stakeholder issues. Therefore, decisions made by women directors tend to be more sensitive to diverse stakeholder issues and less business-oriented (Bear et al., 2010; Rao and Tilt, 2016).

Signaling theory suggests that BGD in boards may act as an incentive to RMD in order to improve firm performance and reputation (Bufarwa et al., 2020; and Saggar and Singh, 2017), while improved performance encourages corporate management to RMD. In addition, agency theory suggests that firms can improve their performance and board independence through BGD on BOD (Ntim et al., 2013; Elzahar and Hussainey, 2012). Karavitis et al. (2021) study also confirms that BGD in the BOD positively affects accounting practices that can reduce the benefits of bank loans. This may be a motivation for management to disclose the application of best sound RM practices. Fan et al. (2019); Cardillo et al., (2020) argue that BGD reduces the likelihood of earnings management. Thus, BGD in BOD allows for improving the board's ability to adequately monitor management practices (Wahid, 2019). In line with stakeholder theory, BGD meets the needs of different stakeholders (Adams and Funk, 2012; Tarus, 2015). This can enhance RMD. To examine the relationship between BGD in the board and the level of RMD, the following hypothesis was proposed:

*H7: There is a positive association between BGD of board members and RMD of financial firms listed in PSE.*

### *2.2.7 Board Ethnic Diversity (BED)*

Ethnic diversity or diversity of nationality of BOD is one of the crucial factors in dealing with stakeholders in the firms, foreign members having a high level of personal competence may affect the quality of board decisions (Estelyiova and Nisar, 2012). Tarus (2015) argued that the presence of foreign members on the BOD can facilitate access to international networks and provide competitive advantages for the firms. Thus, ED leads to improved disclosure. In addition, ED can contribute to increasing the BODE, as ED leads to greater diversity in knowledge and experience and brings new cultures that provide a better view of potential challenges and provide more solutions to the firm (2010) Ismail and Yusof. Accordingly, the firm is likely to RMD in order to send signals to stakeholders that it is able to protect their rights. On the other hand, RMD is a monitoring tool for management practices and CGE; Thus, it limits opportunistic behavior and achieves the interests of all shareholders fairly. On the contrary, Upadhyay and Zeng (2014) show that ED can reduce the disclosure and transparency of corporate information. In contrast, Guest, P, (2019) found no association between ED and BODE. However, agency theory suggests that firms can improve their managerial control

as well as board independence by having ED on their boards (Ntem et al., 2013; Elzahar and Hussainey, 2012). On the other hand, capital flows to firms in emerging markets are often from foreign sources, given ED on their boards. However, the relationship between ED and RMD is still rarely investigated by accounting researchers (Al-Maghzom, 2016) although many studies have not used ED in RMD but rather used ED in the disclosure of corporate risks only. In addition, previous studies have used agency theory as a basis in the field of governance and disclosure, and have not shed light on the theory of upper echelons. Therefore, this paper will provide a new perspective on this interaction in the context of Palestine. Therefore, it is expected that ED will bring new cultures, experiences and expertise that enhance the effectiveness of the board of directors in improving RMD. Based on this, the following hypothesis was put forward:

*H8: There is a positive relationship between ED of board members and RMD of financial firms listed in PSE.*

### *2.2.8 Board of Directors effectiveness (BODE)*

BOD is one of the most important mechanisms of internal CG, which aims to reduce agency problems between shareholders and management and ensure that firm managers do not achieve their interests at the expense of shareholders (Aljifri and Moustafa, 2007; Fama and Jensen, 1983). In addition, one of its most important responsibilities is to ensure that RMD and to determine the necessary plans to deal with them (Beekes et al., 2004). Thus, when the BODE, it is able to understand the risks facing the firms and the impact they can have on its value. However, the BODE oversight role depends on its characteristics (Gogovie, 2019). In addition, the agency theory indicates that the role of the BOD is to control the level of disclosure and protect the interests of shareholders (Fama and Jensen, 1983). BODE can also contribute to improving investor decision-making, reducing information asymmetry among market participants, and enhancing public confidence. This is proven in previous studies such as (Alkurdi et al., 2017; Al-Maghzom, 2016; Linsley and Shrives, 2006). Therefore, the current study seeks to identify the relationship between BODE and its characteristics, namely BOD size, independence, CEO, meetings frequency, gender diversity, experience, and ethnic diversity. This research argues that more BOD is likely to lead to enhancing RMD of financial firms listed in the PSE. Accordingly, the following hypothesis was put forward:

*H1: There is a positive relationship between BODE and RMD of financial firms listed in PSE.*

### *2.2.9 The moderating role Family Ownership Concentration (FOC) relationship between Board of Directors Effectiveness (BODE) and risk management disclosure (RMD)*

FOC is one of the most important factors determining the BODE and RMD. It has been well established that board effectiveness is critical to governance and the level of RMD (Ishak and Al-Ebel, 2013; Ruth et al, 2011). For its part, ownership structure has been described as an important mechanism in determining the CGE, especially when legal protection for investors is low (Alhababsah, 2019). In contrast, Abdeljawad and Saleh, 2020) confirmed that the CGE decreases in light of the FOC in Palestinian firms. Accordingly, effective boards are more able to improve their level of RMD, and thus mitigate the potential exploitation of minority shareholders' rights compared to ineffective boards. BODE may lead to more corporate disclosures (Dong and Zhang, 2008; Zureigat, 2011). In addition, Velte (2017) confirmed that FOC is a major factor leading to low BODE in emerging markets. Nizar Dwaikat and Queiri (2014) argue that FOC is a major factor in explaining differences in risk disclosure and management practices. Accordingly, FOC increases when a small number of shareholders from one family control a large percentage of ownership (Abed et al., 2016; Alwshah, 2009). Directors and board members are responsible for controlling the effectiveness and level of disclosure and therefore directors may be interested in enhancing their personal wealth and reputation (Alves, 2012). While stakeholders are interested in maximizing corporate value (Abdel Samad et al., 2018). As a result, the BODE in defending the interests of shareholders and stakeholders will decline due to the disruption of the oversight mechanism exercised by the board. (Schulze et al., 2003). Several researchers have investigated the relationship between board ownership and RMD in emerging countries and have reported diverse findings on BODE. For example, (Abbas and Yazid, 2021;

Anderson and Reeb, 2003; Devi and Badera, 2017; Silva and Majluf, 2008; Wardhany et al., 2012) found that the presence of family members on the board has little effect on their willingness to share information through voluntary disclosure. Similarly, Srairi (2013) found an inverse association between FOC and banking risk in MENA countries. Anderson and Reeb (2012) confirmed that FOC leads to increased agency costs, exploitation of minority rights, and decreased management efficiency and effectiveness. Several studies such as (Mohamad and Sulong, 2010; Silva and Majluf, 2008) have indicated that firms with a family-centric ownership pattern are not willing to disclose more than what is required by law. Based on this empirical evidence provided by previous studies, this study expects that the relationship between BODE and the level of RMD is moderated by FOC in listed Palestinian banks and insurance firms. The testable hypothesis is:

*H14: FOC will moderate the relationship between BODE and RMD for financial firms listed in the PSE.*

## 2. Methodology

2.1 Research Design and Methodology

This study adopts (panel Data) a cross-sectional time series design for 13 financial firms listed in the PSE for a period of 12 years from 2012-2023. It is useful to measure changes over time when using cross-sectional time series models (Panal Data) for twelve consecutive years with the same study sample during the study period (Cavana et al, 2001). This may help in providing comparisons and interpretations between sectors over a period of time that includes several events. This study chose the financial firms as a sample and it was represented by all financial firms listed in the PSE, which numbered thirteen financial firms that included two important sectors: banks and insurance firms. Al-Rafah Bank was excluded due to its recent listing in 2016. Other firms that do not operate in the financial industry such as firms in the industrial, service, and investment sectors were also excluded from the sample due to the nature of their businesses (Beretta and Bozzolan, 2004 and Linsley and Shrives, 2006) and because these firms are governed by different regulations (Osama Awad, 2020). Data on board characteristics and RMD, which included (credit risk, liquidity risk, market risk, operational risk, and legal and compliance risk), were collected from the annual financial reports available in the PSE website. Information was extracted using content analysis. While quantitative analysis was used to examine the relationship between the study variables

### *2.2 Measurement of study variables*

This section explains the methodology used to measure the study variables according to a review of previous studies related to the study topic. This study includes four types of variables: The independent variable, the dependent variable, Moderating and the control variables. Table (1 and 2) also shows all the variables used in the study, how they are measured, and the potential impact of each variable. Accordingly, the current study consists of the Board of Directors Effectiveness (BODE) as an independent variable, Risk Management Disclosure (RMD) as Dependent variable and Family Ownership Concentration (FOC) as Moderating in addition to the firm size, profitability, liquidity, and financial leverage as control variables that help in explaining the study model.

Table 1: Measurement of Risk Management Disclosure (RMD) as dependent variable.

| Previous studies | Method of measurement |
|---|---|

| | |
|---|---|
| Ahmed et al. (2004) Baumann and Nier (2004), COSO (2009), Jizi, (2013), and Jizi and Dixon, (2017), and Linsley et al. (2006)<br><br>**RMD (dependent variable).**<br><br>**Effect (+)** | Content analysis was used for each of the five types of risks in the current research and they were assigned scores from 1 to 5 according to the following scale:<br>- If the firm disclosed the definition and scope of risks and discussed how they occurred (takes one score).<br>- If the discussion was extended and included the policies, frameworks and methods used, such as (value at risk - portfolio classification - net portfolio valuation - revenue forecasting) ، and risk exposure assessment, and discussed the results of the tests that were conducted (takes another score).<br>- If the assumptions were employed and understood when applying a specific framework and there was a justification for choosing the testing method in general (takes another score).<br>- In the case of discussions supported by numerical disclosure (takes another score).<br>- In the case of discussion and comparison of numerical data with the data of the previous year or target numbers (takes another score). So that the maximum is (5) scores for each type of risk management and (25) scores for all types. Disclosure score = the total scores given to each firm or bank in all types of risks that it disclosed as mentioned in this scale. |

Table 2: Measurement of independent, Moderating and control variables.

| Previous studies | Effect | Method of measurement | Variables | |
|---|---|---|---|---|
| Alkurdi and Aladwan, (2019); Elamer and Abdou, (2020) | + | Total number of Board members end the year. | BS | BODE (Independent variable) |
| Alkurdi and Aladwan, (2019); Neifar and Jarboui, (2018); | + | It is measured by the number of independent non-executive directors to the total number of board members. | BI | |
| Al-Maghzom and Hussainey,(2016); Idris, Siam and Nassar,( 2018) | + | Measured using a dummy variable with a value of one (1) if the CEO is not the chairman of the board, and zero (0) otherwise. | Non-CEO Duality | |
| Waseem & Arif, 2017; Siti & Ghazali, 2012; Elijah & Ayemere, 2015; Saleh et al., 2007; Van der Zahn & Tower, 2004 | + | The number of AC meetings held during the year | BM | |
| Elamer and Abdou, (2020); Garcaí-Sánchez et al., (2017) | + | It is measured by the ratio of the number of female directors on the board of directors divided by the total number of board members. | BGD | |
| (Alshirah et al, (2020) and Khan, et al. (2019) | + | Measured by the ratio of the number of board members with financial and accounting experience to the total number of board members. | BFE | |
| (Maghzom, Hussainey, and Aly, (2016); Mokhtar and | + | It is measured by the percentage of the number of foreign board members on the board divided by the total number of board members. | BED | |
| Al-Najjar, 2021; Al Qadasi and Abidin, 2018; Al-Saidi and Al-Shammari, 2015; Idris and Nassar, 2018; Saleh et al., 2018 | -<br>+ | Family ownership concentration is measured by the proportion of shares owned by major shareholders who belong to a single family and who own at least 5% of the share ownership. | FOC | Moderating variable |
| Ibrahim and Hussainey, (2019); Habtoor and Aljadba, (2019) | + | The natural logarithm of a firm's total assets at the end of the year. | Firm's Size | Control variables |
| Haj-Salem and Hussainey, (2021; Al-Maghzom and Hussainey, (2016) | + | The ratio of total net income to total assets of a firms at the end of the year. | Profitability | |
| Ibrahim and Hussainey, (2019); Al-Maghzom and Hussainey, (2016). | + | Total debt divided by the firm's total assets at the end of the year. | Leverage | |
| Haj-Salem and Hussainey, (2021); Al-Maghzom and Hussainey, (2016) | + | Current assets divided by current liabilities of the firms at the end of the year. | Liquidity | |

## 3. Findings

This section is expected to present the results of the study and the procedures that is deployed to come up with the result.

## 3.1 Descriptive statistics

### *3.1.1 Dependent variables:*

Table 3 illustrates the descriptive statistics for the degree of disclosure regarding risk management as a primary dependent variable in this study, based on 154 annual reports from Palestinian companies between 2012 and 2023. All provisions related to risk management disclosure are classified into one of six risk categories: credit risk, liquidity risk, market risk, operational risk, legal risk, and compliance risk. These are calculated as detailed in Table 1. Figure 1 represents the method for calculating the degree of risk management disclosure on a single scale. The statistical data indicate significant variability in disclosure practices, with disclosure levels ranging from 0.163 to 0.554, an average of 0.346, and a standard deviation of 0.15391. This suggests that some companies adhere to robust disclosure practices while others lack even minimal disclosure. The substantial importance of this variable is reflected in its direct impact on investor and stakeholder confidence. Companies that provide high-quality disclosures demonstrate a clear commitment to their stakeholders. In the banking sector, the average level of disclosure was 0.531 with a standard deviation of 0.13072, indicating a higher commitment to disclosure standards compared to insurance companies, which exhibited a lower average disclosure level of 0.17 with a standard deviation of 0.12550. This heightened commitment among banks can be attributed to the stringent regulatory framework imposed by the Palestinian Monetary Authority, whereas insurance companies suffer from weaker regulatory requirements. The findings reveal a clear gap in disclosure practices between banks and insurance companies. A potential reason for this gap may be that the disclosure requirements in Palestine, as an emerging state, do not adequately address the latter types of disclosures and instead rely on voluntary disclosures. Similarly, Omran et al. (2009) found that these categories were disclosed at low levels in Malaysia, and Alshirah et al., (2020) reported comparable findings in Jordan. This necessitates the enhancement of disclosure practices in the latter sector to meet stakeholder expectations and improve transparency and governance levels. These results underscore the importance of ongoing efforts to bolster disclosures in both sectors, contributing to improved information quality and enhanced trust in the Palestinian financial system.

**Table 3: Descriptive Information for Risk Management Disclosure**

| Dependent variable | Number of observations (N) | Minimum | Maximum | Mean | Standard deviation |
|---|---|---|---|---|---|
| **Risk Management Disclosure (RMD)** | 156 | 0.163 | 0.554 | 0.346 | 0.15391 |
| **Disclosure of risk management in banks** | 72 | 0.33 | 0.554 | 0.531 | 0.13072 |
| **Disclosure of risk management in insurance firms** | 84 | 0.163 | 0.48 | 0.170 | 0.12550 |

## 3.2 Diagnostic Tests.

To verify the adequacy of the data panel, numerous tests must be conducted. Multicollinearity is tested through the correlation matrix and the variance inflation factor (VIF). Pearson correlation coefficients between the independent variables are presented in Table 5. All variables have a correlation of less than 0.69, indicating that there is no multicollinearity since none of the variables correlate more than 0.9. Therefore, the problem of multicollinearity is not present in this model. As shown in Table 6, the VIF, which ranges from 1.293 to 4.194, is much less than 10, and the average VIF for the independent variables in one regression is only 2.477. This indicates that there is no multicollinearity problem because the VIFs are less

than 10 (Kline, 2005; Silver, 1997).

Regression analysis was performed using lagged values of the variables, and then the Breusch–Pagan–Godfrey/Cook–Weisberg test was implemented to test for the presence of heteroscedasticity. Additionally, Wooldridge's test was conducted to detect whether there is an autocorrelation problem. As shown in Table 7, the Breusch–Pagan–Godfrey/Cook–Weisberg test shows a non-significant p-value (0.1603 > 0.05). Therefore, the problem of heteroscedasticity is not present in the study's data. The result of Wooldridge's test also shows a non-significant p-value (0.6704 > 0.05), indicating that the problem of autocorrelation is not present in the study's data. To determine the appropriate model for the study, researchers suggest testing the most suitable model for data analysis between the Random Effect Model (REM) and the Fixed Effect Model (FEM). To determine the appropriate model, the Hausman test must be performed. First, the Fixed Effect Model is implemented, followed by the Random Effect Model. Accordingly, the models were compared using the dependent variable RMD in this study. Table 4.13 illustrates the results of the Hausman test. In all statistical models, the Random Effect Model was not suitable, and the null hypothesis was rejected because the p-value (sig) was less than 0.05. Therefore, it can be concluded that the Fixed Effect Model was chosen and run for data analysis.

## 3.3 Correlation Matrix

The second method for examining multicollinearity is using a correlation matrix, which displays the pairwise relationship between variables. According to Hair et al. (2010), an acceptable correlation between two independent variables should be less than 0.85. If the correlation value exceeds this threshold, it indicates a multicollinearity problem, and to address this situation, one of the correlated variables should be removed. However, in this study, the correlation matrix in Table (4)shows that all correlation values between variables are less than 0.85, indicating no multicollinearity issues among the independent variables.

To verify the adequacy of the data panel, numerous tests must be conducted. Multicollinearity is tested through the correlation matrix and the variance inflation factor (VIF). Pearson correlation coefficients between the independent variables are presented in Table 5. All variables have a correlation of less than 0.69, indicating that there is no multicollinearity since none of the variables correlate more than 0.9. Therefore, the problem of multicollinearity is not present in this model. As shown in Table 6, the VIF, which ranges from 1.293 to 4.194, is much less than 10, and the average VIF for the independent variables in one regression is only 2.477. This indicates that there is no multicollinearity problem because the VIFs are less than 10 (Kline, 2005; Silver, 1997). Regression analysis was performed using lagged values of the variables, and then the Breusch–Pagan–Godfrey/Cook–Weisberg test was implemented to test for the presence of heteroscedasticity. Additionally, Wooldridge's test was conducted to detect whether there is an autocorrelation problem. As shown in Table (6), the Breusch–Pagan–Godfrey/Cook–Weisberg test shows a non-significant p-value (0.1603 > 0.05). Therefore, the problem of heteroscedasticity is not present in the study's data. The result of Wooldridge's test also shows a non-significant p-value (0.6704 > 0.05), indicating that the problem of autocorrelation is not present in the study's data. To determine the appropriate model for the study, researchers suggest testing the most suitable model for data analysis between the Random Effect Model (REM) and the Fixed Effect Model (FEM). To determine the appropriate model, the Hausman test must be performed. First, the Fixed Effect Model is implemented, followed by the Random Effect Model. Accordingly, the models were compared using the dependent variable RMD in this study. Table (7) illustrates the results of the Hausman test. In all statistical models, the Random Effect Model was not suitable, and the null hypothesis was rejected because the p-value (sig) was less than 0.05. Therefore, it can be concluded that the Fixed Effect Model was chosen and run for data analysis.

Table 4: Linear Correlation

| variable | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **BGD** | 1 | | | | | | | | | | | | | | | |
| **Board_Size** | 0.17** | 1 | | | | | | | | | | | | | | |
| **Board_Meet~g** | 0.24** | 0.50** | 1 | | | | | | | | | | | | | |
| **Board_expe~e** | 0.01 | 0.02 | -0.04 | 1 | | | | | | | | | | | | |

| | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Board_inde~t** | 0.21** | 0.44** | 0.50** | 0.04 | 1 | | | | | | | | | | | |
| **Ethnicity** | 0.01 | -0.22** | -0.19* | 0.02 | -0.08 | 1 | | | | | | | | | | |
| **Non-CEO_Duality** | 0.05 | 0.37** | 0.10* | -0.08 | 0.12* | -0.43 | 1 | | | | | | | | | |
| **Risk_disco~e** | 0.36** | 0.60** | 0.23** | 0.25** | 0.52** | -0.12 | 0.31** | 1 | | | | | | | | |
| **Onwership_~n** | 0.04 | 0.06 | -0.22** | 0.26** | -0.18* | 0.17 | -0.14* | 0.04 | 1 | | | | | | | |
| **LN_Trade_~me** | 0.38** | 0.41** | 0.23** | 0.12* | 0.29* | -0.05 | -0.03 | 0.40** | 0.03** | 1 | | | | | | |
| **LN_Trade_~ue** | 0.35** | 0.51** | 0.34** | 0.13* | 0.39** | -0.11 | 0.08 | 0.48** | 0.01 | 0.62* | 1 | | | | | |
| **LN_Firm_size** | 0.47** | 0.69** | 0.52** | -0.08 | 0.57** | -0.21 | 0.24* | 0.61** | -0.07 | 0.64** | 0.66** | 1 | | | | |
| **Leverage** | 0.08 | -0.22* | -0.20** | 0.12* | 0.19* | 0.07 | -0.21* | 0.10* | 0.37** | 0.01 | -0.02 | -0.07 | 1 | | | |
| **Profitabil~y** | 0.24 | 0.09 | 0.19* | -0.10* | 0.19* | 0.02 | 0.02 | 0.14* | -0.04 | -0.01 | -0.01 | 0.09 | -0.1 | 1 | | |
| **Liqudiity** | 0.08 | 0.15 | 0.13* | -0.15* | -0.02 | -0.15 | 0.16* | 0.14* | -0.24* | 0.20** | 0.18* | 0.24* | -0.2 | -0.03 | 1 | |
| **Firm_Type** | -0.27 | 0.07 | 0.09 | -0.24** | -0.03 | -0.3 | 0.29** | -0.01 | -0.52** | 0.01 | 0.03 | 0.07 | -0.57** | -0.09 | 0.30** | 1 |

Table 5. Standard test on VIF results

| Variable | Tolerance | VIF |
|---|---|---|
| Board_Size | 0.302 | 3.31 |
| Board_independent | 0.238 | 4.194 |
| Non-CEO_Duality | 0.426 | 2.346 |
| Board_expertise | 0.574 | 1.744 |
| Board_Meeting | 0.382 | 2.615 |
| BGD | 0.311 | 3.214 |
| Ethnicity | 0.548 | 1.826 |
| Ownership_Concentration | 0.472 | 2.12 |
| LN_Firm_size | 0.27 | 3.881 |
| Leverage | 0.399 | 2.509 |
| Profitability | 0.64 | 1.564 |
| Liquidity | 0.773 | 1.293 |
| Firms type | 0.65 | 1.591 |
| MeanVIF | 2.477 | |

Table 6: Results of the Random Variance Test

| Dependent Variable | Chi2(1) | Prob > chi2 |
|---|---|---|
| logRMD | 0.18 | 0.674 |
| Breusch-Godfrey LM | 1.971 | 0.1603 |
| Hausman test | 38.93 | 0.0002 |

Table 7: Results of the Random Variance Test

| Tests of Endogeneity | (Independent variables) Exogenous( Ho) |
|---|---|
| Durbin (score) chi2(1) | = 39.3057 (p = 0.0000) |
| Wu-Hausman F (1,680) | = 41.4582 (p = 0.0000) |

## 3.4 Hypothesis Testing

In this study, a set of hypotheses has been proposed based on the relevant literature. The study included hypotheses regarding both direct and indirect effects. This section discusses the impact of independent variables on risk management disclosure, as well as the moderating effect of ownership concentration.

### 3.4.1 Direct impact

This section analyzes the direct impact of independent variables on risk management disclosure. The relationship between the independent variables and control variables with risk management disclosure is presented in Table (8), The model was statistically significant, with an F-value of (16, 123) and a probability value (P-value or Prob>F) of 0.000. The coefficient of determination (R-square) was 0.509, indicating that 50.9% of the variance in risk management disclosure can be explained by the variables used in this study.

The study demonstrated a statistically significant positive impact of board size (H1) on the level of

risk management disclosure in Palestinian banks and insurance companies listed on the Palestine Stock Exchange, with an effect size of 0.15 and P = 0.003 P=0.003. An increase in board size provides diverse insights, enhances oversight and disclosure, and represents a broader range of stakeholders, supporting stakeholder, agency, upper echelons, and signaling theories. This aligns with the findings of Permata Sari et al. (2022) and Ikhsan and Neliana (2024). Similarly, a statistically significant positive effect was found for the independence of board members (H2) with an effect size of 0.3 and P = 0.003 P=0.003, as well as for the non-duality of the CEO's role (H3), which had an effect size of 0.06 and P = 0.048 P=0.048. These factors improve oversight and reduce managerial opportunism, thereby supporting agency and stakeholder theories, consistent with the Palestinian Governance Code (2017) and Musallam's study (2020). In terms of board member independence, it is reinforced by agency and stakeholder theories, reducing conflicts of interest while improving decision-making quality and disclosures, which is in agreement with the studies by Al-Hanawi and Al-Sayed Mahmoud (2020) and the Palestinian Governance Code (2017). The study also confirmed a positive and statistically significant impact of financial expertise among board members (H4) on disclosure levels, with an effect size of 0.2 and P = 0.004 P=0.004. This reduces agency costs and enhances monitoring, consistent with agency theory and previous studies such as Boivie et al. (2021), Herchenbach et al. (2023), and the Palestinian Governance Code (2017), although it contrasts with Sultana and Rahman's findings (2020). Furthermore, the frequency of board meetings (H5) showed a positive and significant effect with an effect size of 0.12 and P = 0.003 P=0.003, enhancing interaction and improving discussions on risk management disclosures. This result supports both agency and signaling theories, aligning with studies by Eluyela et al. (2018), Barros et al. (2013), Ntim and Osei (2011), as well as the Palestinian Governance Code (2017). Gender diversity on boards (H6) also exhibited a positive significant impact with an effect size of 0.41 and P < 0.001 P<0.001; women's participation brings different perspectives that enhance risk management disclosures, supporting stakeholder theory and consistent with Adams and Ferreira's study (2009), the Palestinian Companies Law (2021), and upper echelons theory. Conversely, ethnic diversity (H7) did not show a significant effect with an effect size of 0.04 and P = 0.401 P=0.401, which aligns with previous studies like Guest (2019) and Upadhyay & Zeng (2014), lacking support from the Palestinian firms Law (2021) or the Palestinian Governance Code (2017). Overall, the study highlights the importance of several factors in enhancing risk management disclosure in Palestinian companies, noting variations in impact strength while largely agreeing with previous research findings, albeit showing limited differences compared to studies in other contexts.

Table No. (8) Results of hypothesis tests

| RMD | Coefficient | Standard Error | value (t) | P>t (P-value) | Hypothesis |
|---|---|---|---|---|---|
| **Board_Size** | 0.15 | 0.052 | 2.89 | 0.003 | H1.1 Supported (Accepted) |
| **Board_independent** | 0.3 | 0.1 | 3.09 | 0.003 | H1.2 Supported (Accepted) |
| **Non-CEO_Duality** | 0.06 | 0.025 | 2.19 | 0.048 | H1.3 Supported (Accepted) |
| **Board_expertise** | 0.2 | 0.067 | 2.99 | 0.004 | H1.4 Supported (Accepted) |
| **Board_Meeting** | 0.12 | 0.04 | 3.11 | 0.003 | H1.5 Supported (Accepted) |
| **BGD** | 0.41 | 0.11 | 3.99 | 0.001 | H1.6 Supported (Accepted) |
| **Ethnicity** | 0.04 | 0.045 | 0.91 | 0.401 | H1.7 Supported (Rejected) |
| **LN_Firm_size** | 0.13 | 0.051 | 2.41 | 0.001 | |
| **Leverage** | -0.091 | 0.031 | -3.13 | 0.003 | |
| **Profitability** | 0.03 | 0.052 | 0.48 | 0.539 | |
| **Liquidity** | 0.07 | 0.029 | 2.31 | 0.041 | |
| **Firm type** | 0.06 | 0.05 | 1.05 | 0.201 | |
| **cons** | 0.5 | 0.095 | 5.41 | 0.001 | |

| | |
|---|---|
| **R-square** | 0.509 |
| **F (16,123)** | 6.64 |
| **Prob>F** | 0.000 |

### *3.4.2 The effect of the moderating variable, FOC*

The text presents the findings from Table (9), which illustrates the results of the ownership concentration role as a moderating variable between board effectiveness and risk management disclosure levels. The results indicate that board effectiveness (BODE) has a statistically significant positive impact on the level of risk management disclosure (coefficient = 0.1456, p-value = 0.000), supporting the role of board effectiveness in enhancing risk management disclosure levels. In terms of the interaction between family ownership concentration and board effectiveness (BODE * FOC), the results reveal a statistically significant negative effect (coefficient = -0.1147, p-value = 0.007), suggesting that family ownership concentration weakens the effectiveness of the board in disclosing risk management information. This finding supports hypothesis H9. Furthermore, the results demonstrate that logarithmic firm size has a strong positive and significant effect on risk management disclosure, with a coefficient of 0.0634 and a p-value of 0.000. This suggests that larger companies are more likely to improve their risk management disclosures. This can be interpreted as larger firms possessing greater resources and facing stricter regulatory requirements from oversight bodies and investors, thereby compelling them to enhance stakeholder requirements through disclosing risk management information pertaining to their investments.

Additionally, financial leverage exhibited a negative and significant impact on risk management disclosure, with a coefficient of -0.1622 and a p-value of 0.008. This indicates that companies with high debt ratios negatively affect their value and are less inclined to disclose risk management information. A potential reason for this could be that such companies may fear that disclosing their level of risk management could highlight violations of shareholder rights and burden the firm with debts that erode net returns to shareholders due to inadequate risk management practices in safeguarding firm assets and adding value. This outcome underscores the importance of disclosure as a monitoring tool for adherence to sound risk management practices and safeguarding investor funds along with all stakeholders' interests. Conversely, profitability demonstrated a positive and significant effect on risk management disclosure, with a coefficient of 0.2285 and a p-value of 0.004, indicating that more profitable companies tend to be more transparent in their disclosures related to risk management. This can be explained by the notion that strong financial performance provides greater confidence for companies to disclose their risk management practices while enhancing their ability to comply with regulatory standards. Moreover, liquidity showed a strong positive effect on risk management disclosure, with a coefficient of 0.176 and a p-value of 0.002. Companies with high liquidity are better equipped to handle financial and non-financial risks, making them more willing to disclose their strategies for managing risks. This reflects that liquidity is a fundamental factor supporting both internal and external confidence in disclosures. In contrast, the type of activity or industry (Islamic and non-Islamic) did not show a significant effect on risk management disclosure, with a coefficient of 0.0121 and a p-value of 0.412. This suggests that the nature of an organization's activity or industry does not significantly influence decisions regarding risk management disclosures, implying that other factors such as governance, firm characteristics, and internal policies play a more substantial role. The model's explanatory power (R-squared) indicates that 50.06% of the variance in the level of risk management disclosure can be explained by the variables included in the model. Additionally, the F-test value of 7.66 with an associated p-value ($p < 0.000$) supports the overall significance of the model, suggesting it reliably explains the relationships among key variables involved.

Table No. (9) The effect of the moderating variable, FOC

| RMD | Coefficient | Standard Error | value (t) | P>t (P-value) | Hypothesis |
|---|---|---|---|---|---|
| **BODE** | 0.1456 | 0.0476 | 3.31 | 0.000 | H8 |
| **BDE*FOC** | -0.1147 | 0.0487 | -2.85 | 0.007 | H9 |
| **LN_Firm_size** | 0.0634 | 0.0146 | 4.36 | 0.000 | |

| | | | | |
|---|---|---|---|---|
| **Leverage** | -0.1622 | 0.0605 | -2.68 | 0.008 |
| **Profitability** | 0.2285 | 0.0779 | 2.93 | 0.004 |
| **Liquidity** | 0.176 | 0.046 | 4.65 | 0.002 |
| **Firm -Type** | 0.0121 | 0.009 | 1.01 | 0.412 |
| **cons** | 0.5598 | 0.1748 | 3.58 | 0,000 |
| **R-square** | 0.5006 | | | |
| **F (8,131)** | 7.66 | | | |
| **Prob>F** | 0.000 | | | |

## 4. Theoretical and practical implications

The current paper is theoretically significant as its findings provide a deeper theoretical understanding of the relationships between the BOD and the quantity of information related to RMD. The results further support agency theory, signaling theory, and stakeholder theory in explaining why firms engage in varying levels of RMD practices within the context of Palestine. While many studies have focused on institutional disclosure to mitigate agency problems, limited research has directed attention to RMD. By addressing this gap, the current study contributes to the body of knowledge in this field by presenting evidence of the critical role that RMD information plays in reducing agency problems and mitigating information asymmetry in Palestine as a developing country. Specifically, this study conducted a comprehensive investigation into RMD practices in Palestine by measuring and identifying the level of reporting on overall risk management and examining potential factors that may influence the presentation of risk-related information and its management in the annual reports of listed firms in Palestine. Furthermore, FOC is prevalent within the markets of developing countries, indicating that agency conflicts are more complex. Therefore, the current study explores the impact of family ownership as a variable moderating the relationship between internal governance and RMD. This study also has practical implications as it provides an initial understanding of the level of RMD practices among Palestinian firms, as well as identifying which sectors RMD such as (credit, liquidity, market, operational, legal, and compliance risks) more than others. In this regard, risk management disclosure practices in Palestine remain at an early stage. Moreover, the findings are likely to be beneficial for various stakeholders including researchers, authorities, investors, financial analysts, and other stakeholders in understanding the importance of risk management disclosure in Palestine while highlighting the significance of the board of directors in controlling management and overseeing financial reporting processes. Additionally, although Palestinian firms appear to comply with CG requirements such as board size and meeting frequency, they have proven ineffective in enhancing RMD practices as required under Basel III. Importantly, the results can assist regulatory bodies and stock exchanges in reconsidering the efficiency of these requirements and encouraging them to adopt accounting standards to provide greater integrity and transparency for risk management information through disclosures that enhance financial reporting quality. As family ownership is associated with board ineffectiveness regarding oversight of RMD practices, Palestinian regulations and the Palestine Stock Exchange need to incentivize firms to diversify their ownership structure. Policymakers and investors alike should recognize that ownership concentration in family hands has weakened family firms' performance and led to a lack of disclosure and transparency. Consequently, minority shareholders in family-owned firms receive less information about levels of risks and their management. To protect minority shareholder rights, accounting bodies, the Palestinian Monetary Authority, and the PSE should exert more pressure on family-controlled listed firms to impose stricter regulations for increased RMD.

## 5. Conclusion

This paper investigated empirically how board of directors' characteristics, namely size, Independence, Non-CEO duality and board expertise, board meetings, gender diversity, ethnic diversity in board contribute to the level of RMD. The current paper provides contributions to the literature of RMD to understand the

behavior of management regarding RMD in several aspects by studying the RMD practices in the annual reporting of the Palestine -listed firms because previous studies have paid little attention to this topic in Palestine. In addition, given very few studies have taken further steps to investigate the factors that might hinder the CGE in improving the level of RMD, the paper updates the existent knowledge by going a further step than prior risk disclosure literature by examining the moderating role of FOC on the relationship between BODE and RMD level, which to date has been ignored. To the best of the researcher's knowledge, this paper is the first to examine this effect that was previously unexplored. A sample of 13 Palestinian-listed firms' annual reports in the Twelve years period from 2012 to 2023 was examined. The content analysis method was used to construct an index to measure the level or degree of disclosure of risk management in Palestine. Fixed effects was used for the empirical analysis. The main finding of this study shows a positive association between BODE and RMD. More specifically, boards with a high presence of independent, female directors, larger the board size, independent directors, experience, meeting and gender diversity positively contribute to RMD of firms. While a positive but insignificant association was found for ethnic diversity. Another interesting finding is related to the positive moderating effect of FOC on the relationship between BODE and RMD. This result indicates that a low level of FOC combined with a high level of board effectiveness improve RMD. The study reveals a significant positive correlation between Board of Directors' Effectiveness (BODE) and Risk Management Disclosure (RMD). Specifically, boards characterized by a higher number of independent and female directors, greater overall size, and enhanced diversity contribute positively to corporate risk management practices. A larger board size fosters a variety of perspectives and expertise, which enhances discussions surrounding risk management and transparency. This diversity not only facilitates comprehensive stakeholder representation but also ensures that disclosures adequately reflect the firm's risks and challenges. However, it is crucial that any increase in board size is strategic, maintaining a balance among professional competence, independence, and diversity rather than merely increasing numbers. Board independence plays a critical role in mitigating conflicts of interest between shareholders and management, thereby enhancing transparency and stakeholder confidence. Moreover, separating the roles of CEO and Chair can protect minority rights, potentially leading to improved risk management practices. Experienced board members bring strong supervisory skills that can reduce management's opportunistic behaviors and enhance the quality of risk disclosures. Regular board meetings are essential for fostering interaction among members, which leads to more informed insights into the firm's challenges. It is advisable for firms to schedule periodic meetings focused on risk management with clear agendas. Such practices demonstrate a commitment to open communication between management and shareholders. While, Women on boards often introduce distinct analytical viewpoints that can enhance decision-making regarding disclosures. s that prioritize gender diversity tend to exhibit stronger commitments to governance, transparency, and stakeholder trust. Additionally, no significant association was found for ethnic diversity. However, it is noted that ethnic diversity alone may not significantly impact disclosure unless supported by effective governance practices, suggesting the need for further research in this area. Interestingly, the study found that low levels of Fear of Conflict (FOC) combined with high board effectiveness positively influence the relationship between BODE and RMD, suggesting that effective governance structures can improve risk management outcomes. The paper has several limitations that suggest new avenues for future research. First, the paper is limited to some CG variables, whereby it ignored other variables. In other words, other variables potentially affect the level of RMD. Moreover, further research could be conducted to investigate the consequences of RMD (e.g. Cost of obtaining financing, investor confidence, analyst expectations, and the volume and value of trading of shares of financial firms listed on the PSE). This paper focused on the effect of the CGE on RMD in a single country; therefore, the result of this paper could not be applicable to other countries. Accordingly, further future cross-country studies on RMD are being stimulated to improve our understanding of the corporate RMD practices in different nations and explore the differences of results. Additionally, this study utilized annual reports as the primary data source; however, it overlooked other potential data sources such as interim reports, websites, prospectuses, and press releases, which could provide valuable insights for decision-makers. Furthermore, employing a computerized analysis approach to annual reporting may be more suitable when dealing with

a larger sample size. This version maintains the original meaning while enhancing clarity and formality.

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