Islamic Social Disclosure (ISCR) of Malaysian Public Listed Companies: Empirical Findings

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Abstract

The purpose of this paper is to propose an alternative Islamic social disclosure (ISCR) checklist specifically for *Shariah*-compliant companies (SCC) investors with the expectation that the existence of an additional layer of regulation, namely *Shariah (Islamic Law),* the disclosure of information in an Islamic context (ISCR) of Malaysian companies should be of a high standard and sufficiency. Eight themes were identified and included in the disclosure checklist used in this study. The themes are: underlying philosophy and values (UPV); *Shariah* Supervisory Board (SSB); products or services (PS); *Zakat (ZKT)*; employees (EYS); environment (NVRM); community (CTY); and Islamic terminology and values (ITV). A scoring sheet of 64 items was prepared and completed for 224 companies, of which 126 companies were identified as *Shariah*-compliant companies (SCCs), 65 companies were in the *Shariah* non-compliant (SNC) category, and 33 companies were categorised as Delisted and Listed (DLL). The empirical results indicated that there was no significant difference between the three groups; furthermore, certain ISCR themes were lacking. On average, the Product and Services theme scored the highest for disclosure (63%), followed by the Environment theme (55%), Community theme (39%), and Employees theme (27%). Items related to Underlying Philosophy and Values (UPV), *Zakat*, *Shariah* Supervisory Board (SSB) and Islamic Terminology and Values (ITV) themes were disclosed at the very minimum level. Disclosure in this study was restricted to social disclosure in the Islamic context and the type of disclosure provided in annual reports. Future research could examine other medium of communication such as additional reports, press releases, interim reports, and company websites to provide a more comprehensive and complete analysis. The findings from this study provides justifications for policy makers and regulators, especially those in the Securities Commission and in the *Shariah* Advisory Council, to initiate significant actions to further enhance the Listing requirements. The population studied in this research is unique. The empirical evidence presented in this paper could contribute to the literature related to non-financial information, and findings related to the ISCR are expected to further improve the delivery of information in future.

Keywords Islamic Capital Market, Shariah Compliant Companies, Islamic Social Disclosure

Introduction

The late 1990s witnessed remarkable progress in the Islamic financial services industry in Malaysia. The industry now offers a platform for investments that comply with religious and ethical underpinnings; in other words, they are companies that are *Shariah*-compliant (hereafter *Shariah*-compliant companies, or SCCs). SCCs are companies whose activities are in line with *Shariah* (Islamic Law) principles and they are accredited by the *Shariah* Advisory Council (SAC) under the Securities Commission, Malaysia. The SAC differentiates companies listed on Bursa Malaysia into *Shariah*-compliant companies and non-*Shariah*-compliant companies. Since, according to their religious beliefs, Islamic investors are permitted to deal only with investment activities that are in accordance with Islamic principles, those interested in investing in *Shariah*-compliant companies may do so by referring to the list issued in the Malaysian Islamic Capital Market (ICM) Bulletin prepared by the Securities Commission, Malaysia.

Subsequently, it is incumbent upon investors to understand the nature of the company in which they invest and they should keep themselves well informed of the detailed activities with which the company is involved. Moreover, as investors, and specifically as Islamic investors, they have an important role to ensure the company they invest in is capable of fulfilling all the *Shariah* requirements and that all the systems in place are working together to demonstrate company accountability towards God (*Allah*) and society. For this reason and to achieve this aim, various mediums of communication can be used for management to disseminate the information about their companies and for investors to obtain the information. One of many ways is through annual reports, where all the financial and non-financial information can be obtained (Day, 1986; Harahap, 2003; Ho & Wong, 2001; Lang & Lundholm, 1993; Most & Chang, 1979; Vergoossen, 1993).

Additionally, annual reports act as communication tools between companies and their stakeholders, help the best-performing firms to distinguish themselves from the poor performers, facilitate efficient resource allocations by stakeholders, and enable informed stewardship decisions (Healy and Wahlen, 1999, p.366). Comprehensive annual reports and complete financial statements could therefore assist investors in making economic-religious decisions.

The question arises as to how the stakeholders, specifically investors who seek investments that fulfil their specific needs, are able to differentiate between the companies. Which information characteristics are important? Is there any checklist or guidelines for SCC investors to refer to? Accordingly, this study seeks to develop a checklist, aimed at examining the level of Islamic Social Disclosure (ISCR) in the annual reports of Malaysian public listed companies, specifically on companies listed as *Shariah*-compliant companies (SCCs)**.**

The population studied in this research is unique; it included companies listed as *Shariah*-compliant companies at the Securities Commission, Malaysia, but excluded companies that are classified as banking and financial institutions. Therefore, the ISCR checklist used in this study could be used as an alternative checklist for SCC investors to examine the instruments in the annual reports of Malaysian companies. Additionally, empirical evidence presented in this paper could contribute to the literature related to non-financial information, and findings related to the ISCR are expected to further improve the delivery of information in future.

Although there is an extensive literature on disclosure studies, most of the studies on social disclosure in an Islamic context have been restricted to banking and financial institutions (Adnan & Abu Bakar, 2009; Baydoun & Willet, 2000; Haniffa & Hudaib, 2004; Maali et. al., 2006; Grais & Pellegrini, 2006) or to firms in Middle Eastern countries (Kamla, 2007) but have not investigated other sectors. Therefore, a study on the capital market in Malaysia and specifically on companies that are not classified as banking and financial institutions provides an opportunity to investigate a previously unexplored research setting.

The remainder of this paper is organised as follows. Second section summarises the recent empirical evidence. Third section describes the sample selection, data sources and the methodology used to develop the disclosure checklist. Fourth section presents and discusses empirical evidence concerning the depth of social disclosure in the Islamic context for Malaysian companies, and the final section draws conclusions from the study.

Literature Review

The intention of setting up the Islamic Capital Market (ICM) in Malaysia was to encourage Malaysian Muslims to invest. However, ICM nowadays attracts both national and international stakeholders, and meets the needs of both Muslim and non-Muslim investors. The inclusion of the elements of *Shariah* (Islamic Law) could be expected to have an effect on the management's behaviour when preparing and disseminating financial and non-financial information. Considering the moral imperatives of *Shariah* Law incumbent on SCCs, the depth of disclosure of information related to social commitment in the Islamic context could be expected to differ to that of companies not involved in the ICM.

Baydoun and Willett (2000) opined that the presence of the Islamic religion affects the way certain accounting measures are interpreted and the manner in which accounting information is disclosed (p. 71). They noted that in Islam business entities are enjoined to be socially responsible and accountable to God (*Allah*), the community and the environment. As *Shariah* requires, sufficient information that is rightfully given to the stakeholders should be shared equally in assisting the stakeholders in their economic-religious decision making.

Subsequently, Haniffa and Hudaib (2004) stated that it is the duty of information providers to disclose as much as possible to clear their consciences as trustees, and for users to filter the information and form their own opinions. In assisting users in making decisions, information disclosed should also be given an important consideration. Payment of *Zakat* to beneficiaries, *Saddaqa* (charities/gifts), *Riba*-free resources, *Halal* dealings, employees' welfare, environmental protection, attainment of the objectives of the business venture, and efficient and fair use of resources should be fully disclosed. Additionally, Haniffa, Hudaib and Mirza (2005) suggested that information related to firms' involvement in lawful business transactions, avoidance of usury activities, fulfilment of obligations and duties as prescribed by *Shariah Islamiyah*. Consistent with previous studies, previous researchers have revealed that dissemination of information about their companies by management is value-relevant and able to improve the judgments and decision making of users of financial statements (Byard and Shaw, 2003; Cole and Jones, 2004; Coram, 2010). It reduces the problem of information asymmetry between investors (Core, 2001; Iatridis, 2008) that could cause stakeholders to have difficulty in differentiating between efficient and less efficient firms (Leftwich, 1980, Watts and Zimmerman, 1986). It could also improve managers' credibility (Healy & Palepu, 1993) through voluntary disclosure of additional information in the annual reports such as articulation of the firm's long-term strategy, the firm's social commitments to community and employees' welfare, the firm's achievements in reducing pollution, other issues related to corporate governance, corporate social responsibilities, environmental reporting, and commitment to religious requirements (Abu-Baker and Naser, 2000; Botosan, 1997; Francis et al. 2008; Haniffa & Cooke, 2002; Kanagaretnam et al., 2007; Kristandl & Bontis, 2007; Palepu et al. 2004; Sevin et al. 2007). Firms providing satisfactory disclosure would overcome the problems encountered from traditional capital-market financial reporting, be subject to less volatility and less insider trading, and decrease the cost of equity capital (Botosan, 1997; Botosan & Plumlee 2002; Kristandl & Bontis, 2007).

With regard to the public's expectation about becoming involved in business, especially with a business entity that has claimed itself to be fulfilling *Shariah* principles, previous studies have suggested that market players preferred businesses that were Islamic and had impressive financial reputations, were able to offer high quality services, practiced good social responsibility, were convenient to deal with, and offered reasonable prices for the product (Dusuki & Abdullah 2007). Additionally, investors also looked for capital markets that were free from elements of speculation, chance, excessive risks, uncertainty with respect to subject matter, place, time of delivery, *Riba* or *Gharar*, and non-*Halal* or prohibited activities, as specified in the *Qur'an, Hadith, Qiyas* or *Ijma (*Al-Rimawi (2001)). Furthermore, the information provided by those business entities should enable investors to fulfil three interrelated dimensions of *Shariah Islamiyah*; that is, fulfilment of duties and obligations to *Allah*, to society and to oneself, respectively, and to demonstrate accountability (Haniffa & Hudaib, 2004).

Islamic social disclosure (ISCR) in this study refers to information provided by the management teams of the firms which, once disclosed, could enhance the ability of users to make sound economic and religious decisions and assist them to evaluate whether a firm's activities are operated in accordance with Islamic principles (Haniffa, Hudaib & Mirza, 2005) and particularly with *Shariah* Law. Since little research has been done on the *Shariah*-compliant companies (SCCs) in the Islamic Capital Market in Malaysia, this study incorporates themes and items derived from information available in bulletins of the Malaysian Islamic Capital Market (ICM), as well as from earlier studies, specifically research carried out by Adnan and Abu Bakar, 2009; Baydoun and Willet, 2000; Grais and Pellegrini, 2006; Haniffa and Hudaib 2007; Haniffa and Hudaib, 2002; Haniffa, Hudaib and Mirza, 2004; Kamla, 2007; Maali et al., 2003; Maali et al., 2006; Othman and Md Thani, 2010; and Othman et al., 2009.

Generally, the information disclosed includes the firm's long-term strategy, its products and/or services offered, the firm's social commitments to the community and employees welfare, its achievements in reducing pollution, as well as other issues related to corporate governance, corporate social responsibilities, environmental reporting, and commitment to religious requirements (Abu-Baker & Naser, 2000; Botosan, 1997; Francis et al., 2008; Haniffa & Cooke, 2002; Kanagaretnam et al., 2007; Kristandl & Bontis, 2007; Palepu et al. 2004; Sevin et al. 2007).

Research Design

Development of the Islamic Social Disclosure Checklist

In developing the Islamic Social Disclosure Checklist (ISDC), assistance from the ICM *Shariah* Advisory Committee was obtained and ICM Quarterly bulletins were referred to. This is an important step to ensure the reproducibility validity of the study. After an extensive review of the literature, eight themes were identified, as follows: underlying philosophy and values (UPV); *Shariah* Supervisory Board (SSB); products and/or services (PS); *Zakat* (ZKT); employees (EYS); environment (NVRM), community (CTY); and Islamic terminology and values (ITV).

Information to be disclosed under the category "underlying philosophy and values (UPV)" include management's commitments in providing returns in accordance to *Shariah* principles, particularly in ensuring that all investments, financing, and operations are permissible according to the definition stated in the *Qur'an, Hadith, Ijtihad and Qiyas.* Under this theme, as suggested by Haniffa and Hudaib (2002), members of the management are also expected to fulfil their contract via a contract *(Uqud)* statement. These commitments should be disclosed in the mission and vision statement to confirm to the Muslim stakeholders that everything related to the company is consistent with Islamic requirements. Indirectly, this disclosure may also assist the company to portray a good image to their stakeholders and prospective stakeholders.

In line with Haniffa and Hudaib (2004), it is a requirement that a *Shariah*-compliant Company (SCC) sets up a *Shariah* Supervisory Board (SSB) to ensure its business activities are in accordance to *Shariah* requirements. Thus, information on the *Shariah* Supervisory Board must be disclosed in the annual reports in order to keep the public informed of their commitment to ensuring that their business activities are in line with Islamic Law. Items highlighted in this category include names, photos and remuneration of members, number of meetings held, and actions taken by management to rectify defects in products.

The theme on products and services (PS) includes information on management's responsibilities towards ensuring product and service quality so that the stakeholders can determine whether the company complies with or contravenes the *Shariah*. According to Islamic principles, a company which intends to serve the Muslim community should be free from prohibited activities and elements such as *Riba* (interest), *Gharar* (ambiguity), *Maisir* (gambling) and non-*Halal* (prohibited) products, as well as immoral activities (Haniffa & Hudaib, 2002). In line with the Holy *Qur'an, Hadith, Ijtihad and Qiyas,* and guidelines by SAC under the SC (ICM guidelines), items highlighted in this theme include discussion on major types of product, improvement in product quality, approval by SAC for new products, and the use of the *Shariah* concept as the basis for approving new products.
Information on *Zakat* (ZKT) is included in the checklist to provide a better insight of the current practice of Malaysian companies regarding *Zakat* payment. Consistent with previous studies (Adnan & Abu Bakar, 2009; Haniffa & Hudaib, 2007; Haniffa & Hudaib, 2004; Maali et al., 2003 & 2006; and Othman et al., 2009), this study proposes that business entities that pay *Zakat* should disclose the amount of *Zakat* paid during the accounting year, the sources of *Zakat*, the balance of *Zakat* not distributed, and an assurance that the sources and uses of *Zakat* are in accordance with *Shariah*. Since the ownership structure of a business is already reported in the annual report, the disclosure of the amount of *Zakat* paid would help Muslim shareholders to compute how much they need to pay for the return they received from the investment (Maali, et al., 2006). This could also help them to determine whether the company in which they are investing is subject to the *Zakat* payment. Additionally, SCCs that do not pay *Zakat* should inform their shareholders through the companies' annual reports of the reasons behind the decision by the management not to pay *Zakat*.

Information to be disclosed about employees (EYS) should include management's appreciation towards employees, equal opportunity policies, employees' welfare, housing benefits, safety and health, training and education, and rewards, so that current and prospective employees as well as the community are able to evaluate the seriousness of a company in protecting its employees as well as providing a conducive environment in the workplace. In Islam, everyone should be treated in an appropriate way and with good manners because God has created all human beings as equals. The company should practise an equal opportunities policy, and management and employees should work together to ensure the success of their organisation. Employees are required to perform their duty to the best of their ability, as narrated by Rafi' ibn Khadij (quoted from Beekun 1997, p. 31): *"Allah's messenger (pbuh) was asked what type of earnings was best and he replied, 'A man's work with his hands, and every business transaction which is approved*' and the management should be fully concerned about their employees' wellbeing. Additionally, all mankind is also expected to act justly to others, as prophet Muhammad (pbuH) said: "*None of you is a true believer until and unless your love for your fellow man is as your love for yourself".*

In addition, environmental (NVRM) disclosure is a significant theme that should be disclosed in an organisation, specifically by SCCs, because it is an important element both for conventional and Islamic requirements. Items disclosed should include environmental policies and the level of management's commitment towards environmental activities. Kamla et al. (2006) argue that Islamic principles constitute a love of nature and of people, the self and others, and an awareness of the importance of balance and the need to take reasoned actions to preserve this balance (p. 262). Apart from employees, management should also be aware of their commitment towards the environment.

Under the theme "community" (CTY), information to be disclosed should include business entities' engagement in social activities with the community such as job opportunities, participation and sponsoring of community activities, and the presence of a women's branch. Apart from paying *Zakat* (obligatory payment to Muslim individuals), business entities are also expected to contribute in terms of donations, charity, or contributions as means of sharing their wealth with the community. In order to create a conducive environment as well as showing their concern for a better life of the surroundings, Sayed Kotb argued that *"if any person spends the night hungry, the blame is shared by the community because it did not attempt to take care of him"* (quoted from Beekun, 1997, p. 55). From the Islamic perspective, the distribution of wealth by business entities is seen as an added value to the economy and in accordance with the *Shariah.*

It could be anticipated, therefore, that Annual reports of the SCC might be different from those of other companies (Haniffa & Hudaib, 2004; Kamla, 2007) in that such companies could be expected to incorporate Islamic terminology and values (ITV) such as quotes from the *Qur'an*, greetings in Islam, thanks to *Allah,* and mentions of the grace of *Allah* in their reports if they wanted to be recognised as companies that are seriously committed to fulfilling the needs of the Muslim community.

Furthermore, to ensure the accuracy of the checklist, a specific classification procedure and scoring guide was developed. The process of developing and testing the coding scheme was consistent in order to control the problem of judgment error. Following Krippendorff (2004), to fulfil the requirements of construct validity, all the possible themes and their extended items were listed. As the procedure requires, they were measured and correlated with the proposed measure, and finally they were examined to determine whether each correlation supports what a theory predicts. Items were excluded in the checklist if they are relevant only to Islamic financial institutions or items that have already undergone thorough analysis by the *Shariah* Advisory Committee (SAC) of the Securities Commission, Malaysia. Finally, 64 items were included in the checklist.

Content Analysis and Scoring

Similar to the method used by Chen and Jaggi (2000); Cooke (1998); Ho and Wong (2001); and Wallace and Naser (1995), content analysis was considered to be the most appropriate way to capture the items identified in the checklist. To ensure that the data were relevant and unbiased, each full annual report for 2007 was read before making any decision (Cooke, 1998). The full reading was limited to one year because, according to Botosan (1997), firms' disclosure policies remain relatively constant over time; therefore one year can be considered representative of a firm's policy. Additionally, to ensure consistency and stability, the disclosure checklists were completed by a single evaluator (the first author) (Haniffa & Cooke, 2002; Krippendorff 2004; Weber, 1990).

Protocols used in the study carried out by Haniffa and Cooke (2002), which is essentially based on dichotomies, were adopted for the purpose of scoring disclosure items and establishing the disclosure index. In this scheme, an item is scored as "one" if it is disclosed and "zero" if it is not disclosed. The scores for each category were then added and a final score for each company was derived.

Finally, the ISCR index (ISCR) for each company was calculated as follows:

$$\mathrm{ISCR}_j = \frac{\sum_{i=1}^{nj} \mathbf{X}_{ij}}{\mathbf{n}_j}$$

where:
$\mathbf{n}_j$ = number of items expected for j^{th} firm,
$\mathbf{X}_{ij}$ = 1 if i^{th} item disclosed, 0 if i^{th} item not disclosed, so that $0 \leq \mathrm{ISCR}_{\boldsymbol{j}} \leq 1$.

Sample Selection and Data Sources

The population of this study was drawn from public listed companies listed on the Malaysian Main Board of Bursa Malaysia for the period 1999 to 2007. The annual report for the year 2007 was chosen for examining ISCR because a number of important events took place prior to 2007 as well as in 2007 itself that offered many benefits to companies listed as *Shariah*-compliant companies. For example, in August 2006, the Malaysian International Islamic Financial Centre (MIFC) was launched; several new tax incentives were announced to support the industry in the 2007 budget; and the Islamic Fund in 2007 consisted of 134 companies compared to only 2 companies in 1993. Furthermore, on 14 December 2006, Bursa Malaysia Securities Bhd imposed a new obligation on corporations to disclose corporate social activities in their annual reports on or after 31 December 2007.

Samples of this study were selected using a multi-stage cluster sample. The companies were further divided into three groups: *Shariah*-compliant companies (SCC), that is, companies with core activities that are not contrary to *Shariah* principles and which fulfilled the criteria set by the *Shariah* Advisory Committee (SAC); *Shariah* Non-compliant companies (SNC), that is, companies involved in activities not permitted according to *Shariah*; and, thirdly, companies that were listed but later de-listed as SCC companies or vice versa (DLL) throughout the period of study. Companies in the finance and banking industries were excluded from the sample due to a lack of comparability and/or differences in financial reporting regulations (Abdul Rahman & Mohamed Ali 2006; Abd-Elsalam & Weetman 2003; Ball & Shivakumar 2008; Burgstahler & Dichev 1997; Chan et al. 2006; Elsayed & Hoque 2010; Hassan et al. 2009). After excluding companies with different rules and regulations, and companies that did not have complete financial and non-financial data, only 224 companies fulfilled the criteria set for inclusion in the study. Table 1 provides a summary of the number of companies included in the final study.

Table 1: Sample Selection

Selection Criteria	Total
Companies listed as SCC companies from 1999 to 2007	149
Companies never listed as SCC (also known as SNC) from 1999 to 2007	85
Companies listed and de-listed as SCC companies from 1999 to 2007	48
Total	**282**
Less: companies whose annual reports were not available in the databases from 1999 to 2008	58
Total number of companies available for further analysis	**224**

In addition, the companies examined in the study were distinguished in respect of industry characteristics as well as by the status of the companies as SCC, SNC or DLL (see Table 2 below). Information about the names, industry classification, and listing of SCC, SNC, and DLL were extracted from the Bursa Malaysia listing statistics and from Securities Commission (SC) press releases on the updated list of Approved Securities by SC's *Shariah* Advisory Council (from year 1999 to year 2007).

Table 2: Companies Included in the Study by Industry and Status

Status / Industry	***Shariah*-compliant (SCC)**	***Shariah* Non-Compliant (SNC)**	**Listed & De-Listed (DLL)**	**TOTAL**
Consumer Products	18	8	5	**31**
Construction	11	7	3	**21**
Industrial Products	47	20	5	**72**
Plantation	12	4	2	**18**
Properties	15	4	12	**31**
Trading & Services	20	16	3	**39**
Others	3	6	3	**12**
TOTAL	**126**	**65**	**33**	**224**

Legend:
SCC is defined as companies with core activities that are not contrary to *Shariah* principles and which fulfilled the criteria set by the *Shariah* Advisory Committee (SAC); SNC is defined as companies involved in activities non-permitted according to *Shariah*; DLL is defined as companies that were listed but later de-listed as SCC companies or vice versa throughout the period of study;

Empirical Findings and Discussion on the Extent of ISCR

As stated earlier, this study applied the methods of content analysis to examine the items relevant to Islamic social disclosure. The following section discusses the key findings of each theme; it provides details of the score obtained for each item for the three different categories of companies, namely SCC, SNC, and DLL.

Underlying Philosophy and Values (UPV)

Under this theme, it can be seen in Table 3 that more than 30 per cent of the companies under SCC and SNC stated their commitment to focus on maximising shareholders' return in their vision and mission statement. On the contrary, only 18 per cent of companies from the DLL group mentioned this commitment. Of 126 companies listed as SCC, only 2 companies stated their commitments to operating within *Shariah* principles; 1 company stated its commitment to providing returns within *Shariah* principles and the current and future directions identified to serve the needs of the Muslim community. The results also revealed that none of the companies, including the SCC, stated their commitment to engage only in permissible investment and financing activities. Similarly, no company committed to fulfil the contract via the *Uqud* item. One possible reason for this situation is that companies in Malaysia are not set up to cater for the needs of the Muslim community only. Because Malaysia is a multicultural country with various ethnicities, Malaysian companies tend to state in their mission and vision statement that their commitment is to manage business for the benefit of all Malaysians.

Table 3: The ISCR Score: Underlying Philosophy and Values

Items of Disclosure	Status of Company						TOTAL
	SCC (n=126)		SNC (n= 65)		DLL (n=33)		n = 224
	n	%	n	%	n	%	%
Underlying philosophy and values (vision and mission statement)							
Commitments in operating within *Shariah* principles/ideals	**2**	**1.59**	0	0.00	0	0.00	**0.89**
Commitments in providing returns within *Shariah* principles	**1**	**0.79**	0	0.00	0	0.00	**0.45**
Focus on maximising shareholders returns	**41**	**32.54**	**22**	**33.85**	**6**	**18.18**	**30.80**
Current directions in serving the needs of Muslim community	**1**	**0.79**	0	0.00	0	0.00	**0.45**
Future directions in serving the needs of Muslim community	**1**	**0.79**	0	0.00	0	0.00	**0.45**
Commitments to engage only in permissible investment activities	0	0.00	0	0.00	0	0.00	**0.00**
Commitments to engage only in permissible financing activities	0	0.00	0	0.00	0	0.00	**0.00**
Commitments to fulfil contract via contract (*Uqud*) statement	0	0.00	0	0.00	0	0.00	**0.00**

Shariah Supervisory Board (SSB)

Perhaps surprisingly, out of 126 companies listed as SCC, only one company had set up and reported the existence of a SSB within the company, and none of the companies disclosed any other items under this theme. The result suggests that SCC companies are still not aware of the importance of incorporating a SBB in their organisations.

Products and/or Services (PS)

As shown in Table 4, almost all companies (regardless of their status) discussed their major types of products (95%); had pictures of their products (70%); stated their commitment to improving product quality (69%), to improving customer service (63%) and to improving marketing strategy (78%). This suggests that the management was fully aware of the importance of this information being shared with stakeholders. However, not many provided a glossary or defined their products/services (29%), and only 38% of the companies introduced new products/services during the year 2007. However, none of the companies stated anything about the approval of SAC/SSB for new products or services based on *Shariah*. These findings are consistent with the SSB theme, where it was seen that only one Malaysian company had set up a SSB in its organisation and therefore, under this theme, it is evident that firms could not engage the SSB team to approve the newly introduced products and/or services because they did not have such a team.

Table 4: The ISCR Score: Product and/or Services (PS)

Items of Disclosure	**Status of Company**						**TOTAL**
	SCC (n=126)		**SNC (n= 65)**		**DLL (n=33)**		**n = 224**
	n	**%**	**n**	**%**	**n**	**%**	**%**
Product and/or Services (PS):							
Discussion of major types of product	119	94.44	63	96.92	31	93.94	**95.09**
Glossary/definition of products	33	26.19	22	33.85	9	27.27	**28.57**
Pictures of major types of product	93	73.81	42	64.62	22	66.67	**70.09**
Improvement in product quality	88	69.84	43	66.15	24	72.73	**69.20**
Improvement in customer service	83	65.87	40	61.54	19	57.58	**63.39**
Distribution of marketing	100	79.37	51	78.46	23	69.70	**77.68**
Introduced new products	50	39.68	25	38.46	11	33.33	**38.39**
Approval *ex ante* by SAC for new products	0	0.00	0	0.00	0	0.00	**0.00**
Basis of *Shariah* concept in approving new products	0	0.00	0	0.00	0	0.00	**0.00**

Zakat (ZKT)

The descriptive statistics show that only four companies listed as SCC and two companies under DLL disclosed information related to the *Zakat* payment in year 2007. All other items under this theme were not reported by the firms. The possible reasons for these findings are: a) management was aware that *Zakat* is not a compulsory payment to be made by a company (they could refer to a court case , i.e. BIMB vs. Adnan bin Omar (1994) to convince the shareholders of their action. In the case of Bank Islam Malaysia Berhad (BIMB) v. Adnan bin Omar (1994), the court held that BIMB is a corporate institution created by statue and it is therefore subject to the principle of separate legal entity as originated by Salomon vs Salomon & Co. Ltd (1897). A company is considered as an artificial person or juridical person and therefore is not subject to *Zakat* because *Shariah* requirements are only obligations and rights imposed on a real person (al-Bazdawi, 483H; al-Nawawi, 676H, quoted from Zuryati et al., 2009); b) the shareholders had decided in the annual general meeting that *Zakat* obligations should be the responsibility of individual stakeholders once they receive the dividend or return; and c) to avoid unfavourable consequences to the Muslim community as a whole due to the misconception of the definition, recognition, and measurement of corporate *Zakat.* However, the two companies that paid *Zakat* disclosed the information in order to help their Muslim shareholders compute the obligatory amount they needed to pay individually.

Employees (EYS)

As highlighted in Table 5, a number of companies disclosed their commitment towards their employees' welfare (53%), employees' training (54%), and employees' safety and health (50%). Some disclosed their appreciation towards employees (37%); rewards for employees (26%); and equal opportunity policies (20%). However, the results also make it clear that in terms of employees' appreciation, equal opportunity policies, employees' welfare, and employees' safety and health, SNC companies disclosed information to a slightly lower extent than the average values. Nevertheless, the results also reveal that one company in the SNC group had provided training related to *Shariah* awareness for its employees. Items such as training related to monetary and housing benefits appeared to be less important to the sample firms.

Table 5: The ISCR Score: Employees (EYS)

Items of Disclosure	**Status of Company**						**TOTAL**
	SCC (n=126)		**SNC (n= 65)**		**DLL (n=33)**		**n = 224**
	n	**%**	**n**	**%**	**n**	**%**	**%**
Employees:							
Employees' appreciation	49	38.89	21	32.31	12	36.36	**36.61**
Equal opportunity policies	28	22.22	10	15.38	6	18.18	**19.64**
Employees' welfare	71	56.35	29	44.62	18	54.55	**52.68**
Training: *Shariah* awareness	0	0.00	1	1.54	0	0.00	**0.45**
Training: other	66	52.38	35	53.85	19	57.58	**53.57**

Training: monetary	1	0.79	0	0.00	1	3.03	**0.89**
Reward for employees	35	27.78	15	23.08	7	21.21	**25.45**
Employees' Safety & Health	62	49.21	31	47.69	18	54.55	**49.55**
Housing	8	6.35	5	7.69	3	9.09	**7.14**

Environment (NVRM)

From the findings in Table 6 it can be seen that, on average, most firms disclosed their commitment towards protecting the environment through environmental policies (54%), and commitment towards environmental activities (57%). However, the Table shows that SNC and DLL companies had slightly lower levels of disclosure than SCC and the average value.

Table 6: The ISCR Score: Environment (NVRM)

Items of Disclosure	**Status of Company**						**TOTAL**
	SCC (n=126)		**SNC (n= 65)**		**DLL (n=33)**		**n = 224**
	n	**%**	**n**	**%**	**n**	**%**	**%**
Environment:							
Environmental policies	74	58.73	32	49.23	16	48.48	**54.46**
Commitment towards environmental activities	76	60.32	34	52.31	17	51.52	**56.70**

Community (CTY)

The results shown in Table 7 demonstrate that, in most instances, the sample firms were concerned with items such as the commitment of their companies to providing benefits to society (63%); participating in government social activities (49%); sponsoring community activities (62%); commitment to social roles (71%); and other charity activities (60%). Creating job opportunities and student/recruitment schemes were of less concern. Results also revealed that companies rarely disclosed items related to creating a women's branch or contributing to conferences related to Islamic economics.

Table 7: The ISCR Score: Community (CTY)

Items of Disclosure	**Status of Company**						**TOTAL**
	SCC (n=126)		**SNC (n= 65)**		**DLL (n=33)**		**n = 224**
	n	**%**	**n**	**%**	**n**	**%**	**%**
Community							
Women's branch	0	0.00	1	1.54	0	0.00	**0.45**
Creating job opportunities	29	23.02	16	24.62	8	24.24	**23.66**

Support for organisation that provide benefits to society	81	64.29	37	56.92	23	69.70	**62.95**
Participation in govt. social activities	62	49.21	32	49.23	15	45.45	**48.66**
Sponsor community activities	78	61.90	40	61.54	20	60.61	**61.61**
Commitment to social role	91	72.22	46	70.77	23	69.70	**71.43**
Conferences on Islamic economics	3	2.38	1	1.54	2	6.06	**2.68**
Uses of charity	76	60.32	37	56.92	21	63.64	**59.82**
Student/recruitment scheme	23	18.25	11	16.92	6	18.18	**17.86**

Islamic Terminology and Values (ITV)

In general, items under this theme could not be found in the companies' annual reports, with the exception of greetings (*Salam*) which were found in the reports of two companies. Haniffa and Hudaib (2004) and Kamla (2007) suggested that the insertion of ITV could differentiate SCC from other companies. However, from the findings, it is evident that the annual reports of SCC companies in Malaysia were not much different than those of their counterparts. Possible explanations could be related to the persons responsible for preparing the annual reports, in that a) they prepare the annual reports based on a standard format; and b) it is likely that most of them are non-Muslims.

From the findings above, not all items listed on the ISCR checklist were applicable for the companies selected in this study. For the purpose of detailed analyses, consistent with Suphakasem (2007, p. 89), items not applicable to any of the three groups have been excluded from further analysis unless any one is important to be included as a benchmark or can be used as part of a general framework for Islamic social disclosure studies. This was necessary to ensure that no company was penalised for not disclosing information which was irrelevant to them. However, items such as *Zakat,* SSB, and ITV are included in the scoring because they are important items acting as a benchmark for the whole construct of ISCR. Therefore, of the 64 items initially identified, in this study the ISCR considered only 35 items that had been reported by at least one company.

Accordingly, Table 8 below reports the descriptive statistics for each theme after excluding the irrelevant items. It was found that, on average, the Product and Services theme scored the highest for disclosure (63%), followed by the Environment theme (55%), Community theme (39%), and Employees theme (27%). Not many disclosed items related to UPV (6.7%) and *Zakat* (3%), and hardly any disclosed SSB (0.5%) and ITV (0.9%) themes. The findings indicate that the items related to UPV, *Zakat*, SSB, and ITV themes were disclosed at the most minimal level.

Referring to the 'minimum' and 'maximum' columns in the table below, the presence of a "zero" (0) value in the 'minimum' column indicates that some companies did not disclose any information under the respective category. On the other hand, as indicated by the presence of a "one" (1) value in the 'maximum' column, there were also companies that disclosed all the items under SSB, PS, ZKT, NVRM and ITV themes.

Table 8: Descriptive Statistics for Continuous Variables of Categories in ISCR

Variable	Labels	n	Mean	Median	Std Deviation	Min	Max
Islamic Social Disclosure Score	ISCR	224	0.340	0.355	0.184	0.00	0.74
Underlying Philosophy & Value	UPV	224	0.067	0.007	0.110	0.00	0.80
Shariah Supervisory Board	SSB	224	0.005	0.000	0.067	0.00	1.00
Product & Services	PS	224	0.631	0.710	0.274	0.00	1.00
Zakat	ZKT	224	0.027	0.000	0.162	0.00	1.00
Employees	EYS	224	0.273	0.220	0.251	0.00	0.78
Environment	NVRM	224	0.556	1.000	0.488	0.00	1.00
Community	CTY	224	0.390	0.440	0.288	0.00	0.89
Islamic Terminology & Value	ITV	224	0.009	0.000	0.094	0.00	1.00

In addition to the above results, the following table (Table 9 Panel A and B) reports results generated from the correlation analysis between ISCR and the eight themes. Panel A presents the Pearson correlation results, and Panel B presents the output from Spearman's *rho* correlation analysis. The aim here was to assess the reliability of the index. Both parametric and non-parametric correlation analyses suggest the same results with regards to the direction of the relationship as well as the strength of the relationships.

Table 9 demonstrates that the all the 8 themes correlate positively with ISCR. However, only 6 themes are found to be highly significantly correlated with ISCR, namely: Underlying Philosophy and Values (UPV), Products and/or Services, *Zakat* (ZKT), Employees (EYS), Environment (NVRM) and Community (CTY).

On the other hand, even though the findings are statistically insignificant, the results suggest that SSB has a negative relationship with ZKT, NVRM and ITV; and ZKT has a negative association with ITV. From the table, the findings also suggest that ISCR has a strong relationship with PS, NVRM, EYS and CTY; a medium relationship with UPV; a weak correlation with ZKT; and an insignificant relationship with SSB and ITV. Overall, the results show that the level of disclosure of each theme varies and therefore is worthy of analysis. It also supports the ability of the index to measure the level of ISCR across the sample.

Conclusion

As stated in *FRS101: Presentation of Financial Statements in Financial Reporting Standards for Malaysia* (Lazar, Choo and Arshad, 2006), sufficient information should be provided to the users for them to appreciate the position and performance of companies as well as an evidence of the management's demeanour in managing firms' resources. It was assumed that when the Malaysian capital market introduced a platform for socially responsible and ethical investments, stakeholders involved in those kinds of investments could expect that the information provided by the *Shariah*-compliant companies (SCCs) would be able to assist them in making economic-religious decisions.

However, the results obtained from the analyses demonstrate that Islamic social disclosure (ISCR) in the annual reports of Malaysian public listed companies is still relatively under-developed. The results are consistent with previous studies (Haniffa & Hudaib 2007; Maali et al., 2006; Othman & Md Thani, 2010). Out of 64 possible items identified at the initial stage, (that is, identified in Islamic social disclosure studies carried out in other research settings) a total of only 35 items could be included in the final analyses in the present study. A comparison of the scores of the different groups of companies (SCC, SNC and DLL) for different themes of disclosure showed that disclosure of items related to Islamic social disclosure tended to be similar across the three samples, and items related to some more obvious Islamic themes, such as Underlying Philosophy and Values (UPV), *Zakat* (ZKT), *Shariah* Supervisory Board (SSB), and Islamic Terminology and Value (ITV), were disclosed only at a very minimal level.

These findings are in congruence with those of Bao and Bao (2004): they suggested that the focus of accountants in developing countries such as Malaysia is more towards uniformity and statutory control, or detailed legal requirements. This practice contrasts to practices of accountants in Anglo countries (U.K, U.S and Canada) and Nordic countries (such as Finland, Netherlands, and Sweden), where the focus is on consistency, comparability, as well as flexibility.

In year 2006, Bursa Malaysia was able to propose changes in the Listing Requirements requiring companies to disclose information related to corporate social responsibilities; therefore, the findings from this study provides justifications for policy makers and regulators, especially those in the Securities Commission and in the *Shariah* Advisory Council, to initiate significant actions to further enhance the Listing requirements. In addition, a guideline on best disclosure practices from the Islamic perspective should be prepared and issued by the *Shariah* Advisory Council at the Securities Commission to request management teams of companies listed as SCCs to disclose more information on the ISCR themes and items. This step could be seen as a relevant and important action to enhance disclosure practices, specifically on the disclosure of information in the Islamic context so that stakeholders and, in particular, shareholders, could make economic and religious decisions with more complete information. Furthermore, they could have a better understanding of elements of socially responsible and ethical investments and the disclosures could assist them to identify companies that actually complied with Islamic principles.

In summary, this study takes the view that if management, and specifically the management of SCCs, wish to differentiate their firms from others, disclosure of items related to ZKT, SSB, UPV and ITV themes, could be very useful. Social information disclosed in the Islamic context would be very relevant to stakeholders who wish to demonstrate their accountability towards God (*Allah*) and society. Sufficient information would help shareholders to pay *Zakat* and to ensure that their investments in are in accordance with the *Shariah* principles. Nevertheless, the disclosure of themes related to the Product and Services (63%); Environment (55%), Community (39%), and Employees (27%); should also be of concern because the descriptive statistics showed that attention to these items could be further improved to show management's social commitment.

Despite strenuous efforts to ensure comprehensive data collection, this study suffers from several limitations. First, in evaluating Islamic social disclosure, this study referred only to the companies' annual reports. There are additional mediums of communication that could be referred to, such as additional reports, press releases, interim reports, and company websites. Future research could examine this additional information to provide a more comprehensive and complete analysis. Analyses of different mediums of communication could investigate in detail the impact of cultural factors on the items listed under the Products or Services, *Zakat*, and Islamic Terminology and Value (ITV) themes.

Second, in 2006 there had been some changes in the listing requirements of Bursa Malaysia. For example, a new obligation was imposed on corporations to disclose their corporate social activities in their annual report on or after 31 December 2007. Therefore, future research could consider extending the disclosure analysis back to the annual reports for year 2006, specifically for companies which had December 2007 year-ends. In this way it would be possible to examine whether the items disclosed by companies in the year ending 31 December 2007 had also been disclosed by those companies in 2006.

Third, it was found that only one company had set up an in-house SSB. This study, therefore, was unable to further examine issues related to SSBs. Hence, future research may consider undertaking another methodological approach, such as using a questionnaire survey or carrying out interviews to understand the perceptions of various stakeholders regarding the importance of SSBs for SCCs.

Table 9: Correlation Analysis between ISCR and the 8 Categories of ISCR
Panel A: Pearson Correlation between the 8 categories of ISCR and ISCR

	ISCR	UPV	SSB	PS	ZKT	EYS	NVRM	CTY	ITV
ISCR	1								
UPV **Sig (2-tailed)**	**.391**** **.000**	1							
SSB **Sig (2-tailed)**	.084 .211	**.324**** **.000**	1						
PS **Sig (2-tailed)**	**.713**** **.000**	**.295**** **.000**	.056 .405	1					
ZKT **Sig (2-tailed)**	**.197**** **.003**	**.150*** **.025**	-.011 .869	.079 .239	1				
EYS **Sig (2-tailed)**	**.832**** **.000**	**.247**** **.000**	.015 .821	**.385**** **.000**	**.164*** **.014**	1			
NVRM **Sig (2-tailed)**	**.680**** **.000**	.097 .148	-.076 .254	**.307**** **.000**	.095 .158	**.576**** **.000**	1		
CTY **Sig (2-tailed)**	**.893**** **.000**	**.278**** **.000**	.091 .176	**.522**** **.000**	**.161*** **.016**	**.643**** **0.000**	**.568**** **.000**	1	
ITV **Sig (2-tailed)**	.096 .154	.028 .672	-.006 .925	.079 .237	-.016 .815	.023 .728	.087 .196	.092 .168	1

Panel B: Spearman's *rho* Correlation between the 8 categories of ISCR and ISCR

	ISCR	UPV	SSB	PS	ZKT	EYS	NVRM	CTY	ITV
ISCR	1								
UPV **Sig (2-tailed)**	**.382**** **.000**	1							
SSB **Sig (2-tailed)**	.089 .184	**.142**** **.033**	1						
PS **Sig (2-tailed)**	**.692**** **.000**	**.302**** **.000**	.060 .372	1					
ZKT **Sig (2-**	**.201**** **.003**	**.183****	-.011 .869	.077 .249	1				

tailed)		**.006**							
EYS **Sig (2-tailed)**	**.844**** **.000**	**.238**** **.000**	.020 .771	**.380**** **.000**	**.143*** **.033**	1			
NVRM **Sig (2-tailed)**	**.671**** **.000**	.109 .105	-.076 .257	**.293**** **.000**	.095 .155	**.596**** **.000**	1		
CTY **Sig (2-tailed)**	**.894**** **.000**	**.274**** **.000**	.101 .130	**.506**** **.000**	**.172**** **.010**	**.670**** **.000**	**.555**** **.000**	1	
ITV **Sig (2-tailed)**	.105 .117	.037 .578	-.006 .925	.085 .206	-.016 .815	.033 .619	.087 .195	.096 .153	1

** Correlation is significant at the 0.01 level; * Correlation is significant at the 0.05 level

Legend:
ISCR represents level of disclosure based on Islamic Perspective Accounting Information.
UPV represents the level of disclosure based on underlying Philosophy and Value information.
SSB represents the existence of a *Shariah* Supervisory Board.
PS represents level of disclosure on Product or Service information.
ZKT represents level of disclosure on *Zakat* information.
EYS represents level of disclosure on Employees' information.
NVRM represents level of disclosure on Environmental information.
CTY represents level of disclosure on Community Activities information.
ITV represents level of disclosure on Islamic Terminology & Value information.

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