



# Voluntary disclosure by *Shariah* approved companies: an exploratory study

Voluntary  
disclosure  
by *ShAC*

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## Abstract

**Purpose** – The purpose of this paper is to investigate the extent of voluntary disclosure (EVD) (i.e. overall, conventional, and Islamic disclosure) in the annual reports of *Shariah* Approved Companies (*ShAC*) listed on Bursa Malaysia.

**Design/methodology/approach** – A disclosure index was developed, which consists of 59 items (including items related to the *Shariah*, i.e. Islamic items), to measure the EVD in the annual reports of *ShAC*. Secondary data from annual reports were analyzed using descriptive statistics and *t*-test.

**Findings** – *ShAC* disclosed on average 19, 21 and 17 percent of overall, conventional, and Islamic items, respectively. The EVD of conventional items is comparable to prior studies, and higher than Islamic items.

**Research limitations/implications** – The paper only used one-year annual reports for the year 2003, but it provides a starting point for future research on the issue of voluntary disclosure by *ShAC*.

**Practical implications** – The findings provide evidence that *ShAC* still lack voluntary disclosure, especially, Islamic disclosure items. Such findings could be useful to regulation authorities in Malaysia for the improvement of overall disclosure practices by *ShAC*.

**Originality/value** – The paper is the first empirical study to investigate the EVD, both Islamic and conventional, in the annual reports of *ShAC*.

**Keywords** Disclosure, Islam, Financial reporting, Malaysia

**Paper type** Research paper

## 1. Introduction

The purpose of financial reporting is specified in the Financial Accounting Standards Board (FASB, 1978) Statement of Financial Accounting Concepts No. 1, which is to provide information that is useful to investors, creditors and other users in making investment, credit and similar decisions. The Malaysian Accounting Standards Board (MASB, 2006), in its Financial Reporting Standard (FRS) No. 1, reflects a similar idea on the purpose of financial reporting[1]. In order to be useful, sufficient financial and non-financial information should be provided to meet users' needs.

Disclosure practices can be categorized into mandatory or voluntary disclosure. Mandatory disclosures are items that companies must disclose because of statutory regulations (Cooke, 1992) therefore, it is the minimum level of information to be



disclosed in the annual reports. Meanwhile, voluntary disclosure is defined as that which is not mandated (Cooke, 1992), thus it constitutes information additional to statutory requirements. Usually, a company voluntarily discloses information to assure users that it is a good company.

In Malaysia, the Islamic Capital Market (ICM) was established, in which transactions and activities are based on *Shariah*[2] principles, and are free from non-permissible elements. The aims of setting up the ICM are to establish Malaysia as a centre for ICM internationally, and to enable Muslims to recognize and build confidence in *Shariah* compliant investments Securities Commission (SC, 2002). One of the components of the ICM is *Shariah* Approved Companies (*ShAC*), which are listed companies on Bursa Malaysia (i.e. Malaysian Stock Exchange), with core activities consistent with *Shariah* principles. As at July 20, 2004, 441 companies were classified as *ShAC*; which represents 46 percent of the total listed companies in 2004. Notably, the number of *ShAC* was only 272 as at 31 December 1998 (i.e. a few months prior to the launch of the *Shariah* Index (2004) by Bursa Malaysia), which represents 37 percent of the total listed companies (Bursa Malaysia, 2004). In the year 2009, *ShAC* consist of 88 percent (846 companies) of the total 960 companies (Bursa Malaysia, 2010). The rate of increase between the years 1998 and 2009 is 211 percent, thus indicating the importance of these companies as a component of the overall capital market and the ICM in Malaysia, consequently motivating this study.

Another motivating factor is the lack of literature on disclosure in the Malaysian context, particularly on *ShAC*, as prior studies have not considered voluntary disclosure of this sector. This gap in the literature needs to be explored and filled. Therefore, this paper aims to determine the extent of voluntary disclosure (EVD) (i.e. overall, conventional and Islamic disclosure items) in the annual reports of *ShAC*.

In order for Malaysia to strengthen its ICM, it has to ensure that both local and foreign investors are willing to invest, including investment in *ShAC*. Therefore, *ShAC* must convince investors that it is a good investment through communicating qualitative and quantitative information, particularly voluntarily in addition to mandatory disclosure in their annual reports. Consequently, this paper hopes to contribute towards the understanding of the EVD in the annual reports of *ShAC*, hence assist in the strengthening of the Malaysian ICM. Another important contribution of the paper is the development of the disclosure index, which includes Islamic information items relevant to all *ShAC*. The paper also contributes towards extending the Malaysian literature on disclosure, and filling the gap of empirical studies on *ShAC* disclosure practices.

## 2. Background of ICM and *ShAC*

The ICM plays a similar role to that of the conventional capital market, except that it only deals with securities and transactions, which are permitted by the *Shariah*. Accordingly, on May 16, 1996, the SC established the *Shariah* Advisory Council (SAC). The SAC appoints Islamic scholars and jurists, to:

- ensure that the running of the ICM complies with *Shariah* principles;
- advise the SC on all *Shariah* matters related to the ICM; and
- function as a reference centre for issues related to the ICM (SC, 2002).

The SAC applies standard criteria in classifying the companies listed on Bursa Malaysia as approved and non-approved companies based on their core activities.

*ShAC* are companies with primary activities that are not contrary to the *Shariah* principles, whereas *Shariah* Non-Approved Companies (*ShNAC*) have core activities with elements deemed non-permissible according to the *Shariah*, for example: interest (*riba*), gambling (*maysir/qimar*), ambiguity (*gharar*) and manufacture or sell prohibited or related products (SC, 2004).

The SAC also considers the level of contribution of interest income received by the company from conventional fixed deposits or other interest-based financial instruments (SC, 2004). Qualified *Shariah* scholars set a benchmark of the acceptable level of mixed contributions from permissible and non-permissible activities towards turnover and profit before tax of a company (SC, 2004). If the contributions from non-permissible activities exceed the benchmark, the securities of the company will be classified as *ShNAC*.

On April 17, 1999, the *Shariah* Index (list of securities), which is approved by the SAC, was launched by Bursa Malaysia on its web site. Investment in *ShAC* was open to both Muslims and non-Muslims (SC, 2004).

### 3. Islamic perspective of disclosure

According to Sulaiman (2001), religion is generally considered a crucial part of some cultures. Particularly for Muslims, Islam affects the way Muslims conduct their lives, including in business activities. Hence, Islam's impact on accounting and economics is noticeable. Islam has more influence in accounting at the level of disclosure (financial reporting) rather than measurement, as the basic accounting measurement techniques are fundamentally similar to the conventional system[3] (Baydoun and Willett, 1997). Consequently, from an Islamic perspective, the emphasis will be on proper disclosure rather than the measurement techniques. The Islamic perspective of disclosure is based on two general requirements of Islamic accounting: the concept of social accountability and the full disclosure concept (Baydoun and Willett, 1997, 2000; Haniffa, 2002; Haniffa and Hudaib, 2002).

The concept of the unity of God is important in Islam. The belief that there is only one ultimate creator, leads to the notion that He has absolute ownership and human beings are merely trustees in this world. As trustees, man is responsible for God's other creations, and will be accountable for his actions in the hereafter (Baydoun and Willett, 1997; Maali *et al.*, 2006). Therefore, in Islam, man's accountability includes accountability to the community and the environment. Thus, in Islamic accounting, the companies are accountable to the society (Baydoun and Willett, 1997) hence they should disclose information, which can help discharge this accountability.

The social accountability concept in Islam has resulted in the concept of full disclosure, where the community has the right to know about the effects of the companies' activities and operations on their society (Baydoun and Willett, 1997; Maali *et al.*, 2006). Therefore, the concept of conservatism of information disclosure has no place in Islamic accounting (Alam, 1998). Baydoun and Willett (1997, 2000) argued that full disclosure does not mean to disclose information to the last detail, but to disclose everything that is of importance to users[4]. Similarly, Haniffa and Hudaib (2002) argued that the full disclosure of relevant and reliable information should assist external users in making both economic and religious decisions, in addition to assisting management in fulfilling their accountability to God and society. Based on the social accountability and full disclosure concepts, users of *ShAC*' annual reports may expect

voluntary disclosure of relevant information, particularly Islamic related information as discussed below. This information forms a basis for developing the Islamic items in the disclosure index.

### *3.1 Information about Shariah compliance and prohibited transactions/activities*

Shahul Hameed (2000) argued that the disclosure of *Shariah* compliance is one of the fundamental Islamic accounting objectives. Thus, this information should be disclosed voluntarily, even though it may not be required mandatorily. The information about *Shariah* compliance is similar to that in the *Shariah* Supervisory Board (SSB) report in the case of Islamic banks. However, since *ShAC* do not have SSBs, the information on *Shariah* compliance is based on Board of Director's declaration.

*ShAC* are presumed not involved in non-permissible activities or transactions. However, should *ShAC* be involved in prohibited activities, minimally (as allowed by the SAC), it is the company's responsibility, based on social accountability and full disclosure, to disclose information about these non-permissible elements. This can help users to understand how amounts generated from such activities are disposed, and monitor company's efforts to reduce involvement in such activities in the future.

### *3.2 Information about Zakat*

*Zakat*[5] is a religious obligation for all Muslims, however, there is a debate in the literature as to whether Islamic companies should pay it (Maali *et al.*, 2006). The Islamic *Fiqh* Academy, has concluded that companies are not required to pay *zakat*, except when there is a requirement made by law or agreed by the shareholders of the company (Maali *et al.*, 2006). In the case of *ShAC*, there is no requirement by law for companies to pay *zakat*. Thus, based on the above two concepts, companies are expected to disclose information to assist in calculating the amount of *zakat* that their individual shareholders should pay.

### *3.3 Information on P/S, environment, social activities, employees, and debtors*

In addition to *ShAC* not offering any products or services prohibited by the *Shariah*, all products and services (P/S) should be of good quality and condition. Thus, *ShAC* are expected to disclose information about the quality, usefulness and safety of their P/S to demonstrate their accountability and transparency to the society (Haniffa, 2002).

Islam instructs the upkeep and condemns destruction or exploitation of the environment[6] (Alam, 1998; Haniffa and Hudaib, 2002). Based on the concept of social accountability and full disclosure, *ShAC* are presumed to disclose information about activities undertaken which could be unfriendly to the environment, in addition to their environmental protection programmes which cultivate the environment.

Furthermore, companies, as corporate citizens, are encouraged to engage in charitable activities to help the poor and needy. Particularly companies with high profits should engage in activities towards enhancing the well being of the community. The society has the right to know about these activities (Maali *et al.*, 2006), thus this information is expected to be disclosed in the annual reports.

Islam has stressed that employees should be treated justly (Maali *et al.*, 2006). Accordingly, *ShAC* should disclose information about the employees (e.g. corporate policy on wages, allowances, and equal opportunities) in order to demonstrate their responsibility towards their employees. In addition, information on employees'

education and training, benevolent loans (*qard hasan*[7]) given to the employees, safety, and the working environment are important to be disclosed (Haniffa and Hudaib, 2002).

Moreover, Haniffa (2001) argued that Islam emphasizes the concept of beneficence (*ihsan*). Thus, in the context of full disclosure, companies are assumed to disclose their business relationship with their debtors, particularly about debts written off as charity (as stated in the Yusuf Ali (2000) (2:280)), since it has financial repercussions on the company.

### 3.4 Value-added information and current value balance sheet

The disclosure of the value-added statement (VAS) and current value balance sheet (CVBS) is based on the concepts of social accountability and full disclosure. The former shows how the value added by the company is shared between different groups in the society (i.e. shareholders, employees, government, etc.) (Baydoun and Willett, 2000), therefore, the VAS reflects the company's performance from a community perspective. Also, there is support for the CVBS from an Islamic perspective (Sulaiman, 2001, pp. 118-119). First, *zakat* is one of the characteristics of social accountability. Since *zakat* is calculated on the current value of assets, as practiced by Prophet Muhammad (P.B.U.H.)[8], the CVBS forms a basis for computing *zakat* (Baydoun and Willett, 2000). Second, the CVBS is prepared using current market values, which is more reflective of the company's wealth, thus making it more useful to users (Baydoun and Willett, 2000).

## 4. Research method

### 4.1 Sample selection

The *ShAC* were identified using the *Shariah* Index as at February 27, 2004 on the Bursa Malaysia web site. The largest 50 *ShAC* were selected based on market capitalization ranking from the (Kuala Lumpur Stock Exchange, 2004 January), due to the following: first, large companies have resources to disclose information voluntarily. Small companies may not have the same resources, even though they may have the willingness to disclose more information. Second, large companies can be considered as industry leaders and trendsetters. Thus, they are expected to disclose more information voluntarily to set a good example for other companies in the industry. Hence, they are at the front line of financial reporting development (Marston and Robson, 1997). Thirdly, using a sample of large companies is supported by previous studies (Barrett, 1976; Marston and Robson, 1997) due to similar reasons as stated above.

The sample is considered large if its size exceeds 30, and the approximation becomes more accurate as the sample size increases (Mann, 1998); hence justifying this study's sample of 50. Consistent with prior studies (Hossain *et al.*, 1995; Ho and Mathews, 2002), financial services companies have been excluded from the sample because their business activities are different from other companies. Furthermore, their disclosure requirements comply with Banking and Financial Institution Act (1989), which differs from the disclosure requirements of companies from other industries.

### 4.2 Data collection

The data were gathered from the 2003 annual reports (English language version) of the selected companies, which were available through the Bursa Malaysia web site. These annual reports were the latest source of information, for the entire sample, at the time of the study. Furthermore, it was inappropriate to choose earlier years (1999-2002)

as the *Shariah* Index was launched in 1999, thus the *ShAC* were in their development stage and disclosure practices of Islamic information would be limited.

#### 4.3 Development of the disclosure index

The primary task is to develop a disclosure index, which is a disclosure checklist of different disclosure items (Arvidsson, 2003). In considering disclosure, Willett and Sulaiman (2001) argued that companies should voluntarily disclose Islamic items in addition to the existing items in their financial reporting system[9] as one way of developing the Islamic corporate report. Also, *ShAC* operate in a non-fully Islamic economic system, as they are listed companies in Bursa Malaysia where the conventional reporting system still affects them[10]. Furthermore, the investments in the *ShAC* can be made by Muslims and non-Muslims. Hence, as argued by Haniffa and Hudaib (2002) information disclosure should assist Muslim users in making religious and economic decisions, as well as non-Muslim users in making economic decisions. Therefore, the disclosure index includes Islamic items in addition to conventional items. The following steps were taken to develop the disclosure index in this study:

- (1) Adopting the disclosure indices of Mohd Shatari *et al.* (2004) and Hossain *et al.* (1994) since these studies were conducted in the Malaysian environment. (The adoption of disclosure indices among studies is a common practice in voluntary disclosure studies). A primary list of 78 voluntary disclosure items was developed.
- (2) Some modifications were made to the disclosure index developed in step no. 1 based on:
  - Adding other voluntary indices from other studies (Cooke, 1989b; Hossain *et al.*, 1995; Meek *et al.*, 1995; Raffournier, 1995; Craig and Diga, 1998; Azhar, 2001) to obtain a more comprehensive list.
  - Removing mandatory items based on the Companies Act (1965), Financial Reporting Act, 1997, FRS standards approved by MASB, and listing requirements of Bursa Malaysia, to ensure that only voluntary disclosure items remain.
  - Adding voluntary items from the Islamic perspective, based on the theoretical framework proposed by Baydoun and Willett (2000), Shahul Hameed (2000), Haniffa (2001, 2002), Haniffa and Hudaib (2002) and Maali *et al.* (2006).
- (3) Reviewed the index with three academics at the Department of Accounting, International Islamic University Malaysia, as they specialize in the area of disclosure and financial reporting.
- (4) Finally, a list of 59 voluntary disclosure items was developed[11].

Approximately, 45 of the disclosure items are similar to items in the adopted indices, whereas 14 items are newly developed. The disclosure index comprises 28 items considered as information in line with the Islamic perspective, thus termed "Islamic information." About 14 of the 28 items are purely developed in this study from the Islamic perspective whereas the remaining 14 items, which are also Islamic information, have been included in the disclosure indices of prior studies. The remaining 31 items in



the disclosure index are considered as other than Islamic information, and are termed “conventional information.”

#### 4.4 Measurement of the EVD

The study used the unweighted approach for scoring the disclosure index where each item in the disclosure index is considered equally important (Cooke, 1989a; Hossain *et al.*, 1994). The preference for using the unweighted approach is to avoid the subjectivity involved in assigning the weights of importance to items by different user groups (Cooke, 1991; Hossain *et al.*, 1994, 1995; Raffournier, 1995). In addition, empirical findings (Robbins and Austin, 1986; Chow and Wong-Boren, 1987) provide evidence that the results using weighted or unweighted approach is similar.

The study used a dichotomous procedure where 1 is assigned when an item in the disclosure index is disclosed in the annual report and 0 otherwise. Most previous disclosure studies (Cooke, 1991; Hossain *et al.*, 1994; Azhar, 2001; Ho and Mathews, 2002) used this method. Consequently, the measurement of the EVD takes three steps. The first step is to calculate the total actual disclosure score ( $T_j$ ) for a company  $j$ :

$$T_j = \sum_{i=1}^m d_i$$

where  $d_i$  scores 1 if item  $i$  is disclosed and 0 otherwise; and  $m$  is the number of relevant disclosure items ( $m \leq n = 59$  items).

The second step is to measure the maximum score expected to be disclosed by the company so as not to penalize companies for not disclosing items that are irrelevant to them. A modified dichotomous procedure (Cooke, 1992) was used, where an item is considered irrelevant to a company if this item is not mentioned anywhere in the annual report, thus this item is excluded from the index ( $m < 59$ ). The assumption made here is that an item is not stated anywhere in the annual report because such a transaction does not occur in the company, hence is not disclosed. However, an item is considered relevant to a company if this item is mentioned in the annual report, then if the company does not disclose information about this item; it scores 0. However, it is worthy to note that the modified dichotomous procedure only applies to the conventional disclosure items in the index because all Islamic items in the disclosure index are relevant to all *ShAC*. Thus, the maximum score ( $MS_j$ ) of the company  $j$  can be calculated as follows:

$$MS_j = \sum_{i=1}^n d_i$$

where  $d_i$  is an expected relevant disclosure item; and  $n$  is the number of relevant disclosure items ( $n \leq 59$ ).

The third step is to calculate the EVD in the annual report for the company ( $j$ ):

$$EVD_j = \frac{T_j}{MS_j}$$

## 5. Empirical results and discussion

Table I reports the descriptive statistics of the overall, conventional, and Islamic disclosure index, respectively.

Considering the overall disclosure index, the average voluntary disclosure of *ShAC* is 19 percent (11/59 items). More specifically, the mean voluntary disclosure for the conventional items was 21 percent (7/31 items), which is higher than the Islamic items, which was 17 percent (5/28 items). These percentages of disclosure are considered low as about 80 percent of the items that could be voluntarily disclosed remain undisclosed.

The EVD of the conventional items of this study was compared against Hossain *et al.* (1994) and Mohd Shatari *et al.*'s (2004) findings because the current study has adopted their disclosure indices and most of the items are similar. The EVD in the present study was higher (21 percent) than companies in Hossain *et al.*'s (1994) study, where the average disclosure is 16 percent. The higher disclosure in this study could be because Hossain *et al.*'s (1994) study was conducted in 1991, when companies only complied with minimum disclosure requirements. Furthermore, it could be that the authorities and the public encouraged and pressured for more disclosure after the financial crisis in 1997. On the other hand, in Mohd Shatari *et al.*'s (2004) study, average disclosure was 21 and 24 percent in 1999 and 2000, respectively. Therefore, this study's results are comparable to those of Mohd Shatari *et al.*'s (2004) study. The slight difference may be because a few items were removed from the current study for becoming mandatory disclosure (e.g. information about directors which has become Bursa Malaysia's listing requirement). However, comparison cannot be made for the EVD of Islamic information, as these items have not been measured exclusively by prior studies.

Furthermore, Table I presents the minimum and maximum percentages of the disclosure items. Table I shows that the minimum disclosure was 5 percent (3/59 items) for the overall disclosure items. On the other hand, the maximum disclosure was 46 percent (27/59 items). The minimum and maximum disclosures for the conventional items were 4 percent (1/31 items) and 52 percent (16/31 items), respectively. Whereas the minimum and maximum disclosures for the Islamic items were 4 percent (1/28 items) and 50 percent (14/28 items), respectively. Therefore, on average, *ShAC* voluntarily disclosed a higher percentage of conventional items than Islamic items. This could be because:

- According to Most (1977) as cited in Sulaiman (2001), the contemporary reporting practices are governed by the information needs of users; conventional items satisfy all users' needs but Islamic items are only required by specific groups of users.
- Companies were only classified as *ShAC* in Bursa Malaysia in 1999, thus being a relatively new listing status, Islamic information reporting has not been properly incorporated into their disclosure practices.

Further analysis was conducted to test the significant differences (using paired-samples *t*-test) in the disclosure means of conventional and Islamic disclosure indices, as shown in Table II.

**Table I.**  
Descriptive statistics  
of the disclosure index

	Mean	Median	SD	Min.	Max.
Overall items	0.19	0.18	0.10	0.05	0.46
Conventional items	0.21	0.19	0.11	0.04	0.52
Islamic items	0.17	0.14	0.11	0.04	0.50



The difference in the EVD of the conventional and Islamic items of *ShAC* was statistically significant at the 0.01 level ( $p = 0.002$ ), indicating that *ShAC* disclosed, on average, significantly more conventional information in their annual reports compared to Islamic information, hence supporting the results in Table I.

A further analysis was carried out based on the descriptive statistics of the subsections of the disclosure index, as presented in Table III. On average, about 15 percent of general and strategic information is voluntarily disclosed by *ShAC*, compared to about 21 percent of financial and non-financial information. A possible reason could be because companies are generally cautious about disclosing strategic information (i.e. future prospects, research and development (R&D), acquisitions and disposals information) voluntarily because of possible competitive disadvantages.

Considering the subsections under the general and strategic information group, the highest mean (24 percent) is for the general corporate information. Logically, *ShAC* prefer to voluntarily disclose general corporate information (i.e. the organizational structure and general objectives) compared to strategic information, as disclosing the latter is perhaps competitively disadvantageous. However, the minimum disclosure under this section was 0, which reveals that there are still some companies, which did not disclose any item for this section. In contrast, the maximum disclosure was 60 percent (3/5 items). Upon further analysis, it was found that none of the companies disclosed their financial strategy, marketing strategy and objective.

	Mean		Mean diff.	SD error mean	<i>t</i> -statistic	Sig. <i>t</i>
	DF	Conventional	Islamic			
Conventional – Islamic items	49	0.21	0.17	0.04	0.014	3.295 0.002

**Table II.**  
Paired-samples *t*-test  
of the conventional and  
Islamic items

	Mean	Median	SD	Min.	Max.
<i>1. General and strategic information</i>	0.15	0.12	0.11	0.00	0.41
1-1 General corporate information	0.24	0.20	0.21	0.00	0.60
1-2 Future prospect information	0.13	0.00	0.16	0.00	0.43
1-3 Research and development	0.07	0.00	0.16	0.00	0.67
1-4 Acquisitions and disposals information	0.14	0.00	0.25	0.00	1.00
<i>2. Financial and non-financial information</i>	0.21	0.19	0.10	0.07	0.48
2-1 Financial overview	0.30	0.30	0.13	0.10	0.70
2-2 Capital market information	0.29	0.25	0.32	0.00	1.00
2-3 Employee information	0.13	0.11	0.14	0.00	0.44
2-4 Current value BS	0.00	0.00	0.00	0.00	0.00
2-5 Value-added information	0.08	0.00	0.27	0.00	1.00
2-6 Information on <i>Shariah</i> compliance	0.01	0.00	0.05	0.00	0.33
2-7 Information about prohibited transactions/ activities	0.25	0.25	0.04	0.00	0.25
2-8 Information about <i>zakat</i>	0.00	0.00	0.00	0.00	0.00
2-9 Information about P/S	0.39	0.33	0.39	0.00	1.00
2-10 Environment information	0.15	0.00	0.20	0.00	1.00
2-11 Social and other information	0.31	0.25	0.34	0.00	1.00

**Table III.**  
Descriptive statistics  
of subsections of the  
disclosure index

Additionally, the lowest mean disclosure under this group is R&D information, which was 7 percent, with the minimum and maximum disclosures of 0 and 67 percent (2/3 items), respectively. However, R&D expenses forecast was not disclosed by any company.

The mean disclosure of future prospect information was 13 percent. Most of the information disclosed under this subsection was in terms of qualitative forecast information within the chairman's statement. Meanwhile, quantitative forecast information was not disclosed by any of the companies, perhaps because companies are generally wary of not being able to achieve their forecasts (Tong *et al.*, 1990). Moreover, the minimum and maximum disclosures under this subsection were 0 (no items disclosed) and 43 percent (3/7 items), respectively. The mean disclosure of acquisitions and disposals information was 14 percent. The information disclosed in this subsection was, basically, reasons for acquisitions, which were mostly disclosed under the chairman's statement. The possible reason for such disclosure is to raise capital in the market (Ibrahim *et al.*, 2000). The minimum and maximum disclosures were 0 and 100 percent, respectively. This indicates that some companies did not disclose any item, whereas others disclosed all items under this subsection.

Under the financial and non-financial group, the mean of financial overview section was 30 percent, which is relatively high when compared to the voluntary disclosure of other information (e.g. information about employees, *Shariah* compliance, prohibited transactions, and the environment). A possible reason is that *ShAC* may like to reflect their performance; similar to Indonesian companies' disclosure practices in Ibrahim *et al.*'s (2000) findings. The minimum and maximum disclosures under this section were 10 percent (1/10 items) and 70 percent (7/10 items), respectively. Interestingly, further scrutiny revealed that qualitative information on debts written off was not disclosed by any company.

The mean disclosure for the capital market information (CMI) subsection was 29 percent, which is still considered high compared to other subsections under this group. CMI may be disclosed to attract new shareholders (Ibrahim *et al.*, 2000). However, the minimum and maximum disclosures were 0 and 100 percent, respectively. Next, the employee information's mean disclosure was 13 percent, with minimum and maximum disclosures of 0 and 44 percent, respectively. These results indicate that *ShAC* voluntarily disclosed less information about their employees compared to the financial overview, CMI and P/S subsections. However, upon further analysis, it was discovered that information such as corporate policy on wages, allowances, amounts of *qard hasan* for the employee, and information on accidents were not disclosed by any of the companies.

In addition, *ShAC* did not disclose the CVBS and only four companies (8 percent) disclosed the VAS, perhaps because they are perceived not to be useful to users (Sulaiman, 1998 and 2001). Furthermore, CVBS is costly to prepare albeit more appropriate for the calculation of *zakat*. Also, possibly *ShAC* are still unaware of reporting VAS in order to fulfil their social accountability, as encouraged by Islam.

Surprisingly, although the sample comprises *ShAC*, only 1 of the 50 companies in the sample disclosed that its activities are in accordance with the *Shariah* principles, which is extremely low disclosure. *ShAC* should not take it for granted that since they are categorized as *ShAC* by the SAC they need not confirm their activities' compliance to the *Shariah* to users. This confirmation is fundamental as *Shariah* compliance is the essence of *ShAC*.

The mean disclosure of the subsection on information about prohibited transactions was 25 percent. Basically, the companies disclosed the amounts of expenses/revenues from *riba* transactions. In contrast, qualitative information about the prohibited activities, amounts of profits/losses from the prohibited activities other than *riba* and information about how such amounts were disposed, were not disclosed. Therefore, it would seem that detailed and meaningful disclosure of this subsection was avoided by *ShAC*. Also, none of the *ShAC* disclosed information about *zakat*, possibly because even *ShAC* consider *zakat* to be a personal religious obligation for Muslim shareholders and not the company's obligation.

The highest (39 percent) mean disclosure of all the subsections was information about P/S. This indicates that *ShAC* prefer to disclose information on P/S; similar to Kin's (1990) findings on corporate social responsibility disclosure in Malaysia. Kin (1990) found P/S disclosure highest in Malaysian companies probably because these companies want to promote the quality, usefulness and safety of their P/S. Moreover, companies want to disclose on the technological development that enabled them to continually improve their P/S (Kin, 1990). Nevertheless, the minimum and maximum disclosures of this subsection were 0 and 100 percent, respectively, indicating that some companies did not disclose any items whereas others disclosed all three items.

Mean environmental information disclosure of *ShAC* was 15 percent, which is relatively low in comparison to other subsections. Most of the information disclosed was in terms of qualitative information on environmental protection activities undertaken, perhaps to demonstrate their environmental awareness (Ibrahim *et al.*, 2000). In contrast, there was no disclosure on the number of environmental protection programmes or activities, which could be unfriendly to the environment. Furthermore, the minimum and maximum disclosures were 0 and 100 percent (three items), respectively.

The second highest mean (31 percent) disclosure was for social and other information. This result indicates that *ShAC* disclose more information on social and community involvement issues voluntarily compared to the other information in the disclosure index, so as to portray their image as good corporate citizens. Moreover, companies' increasing awareness of their responsibility to society may encourage them to disclose more social information voluntarily (Kin, 1990). However, the minimum and maximum disclosures under this subsection were 0 and 100 percent, indicating that some companies did not disclose any item, whereas others disclosed all four items. The main findings discussed above are reiterated in the conclusion along with some implications.

## 6. Conclusion

Based on the descriptive statistics of the disclosure index, it can be concluded that the EVD in the annual reports of *ShAC* is considered low for the three categories (i.e. overall, conventional, and Islamic) as about 80 percent of the items remain undisclosed. Although considered low, the EVD of the conventional items are comparable to other Malaysian studies. However, the results on overall and Islamic disclosures are unexpected since *ShAC* are generally expected to disclose more information voluntarily, particularly for Islamic items, to fulfil their responsibility towards stakeholders. Islamic information is especially of importance to Muslims and Islamic institutions, who are likely to invest in *ShAC*.

The findings that *ShAC* still lack voluntary disclosure, especially on Islamic information could be useful to regulatory authorities in Malaysia (e.g. the SAC, MASB, and Bursa Malaysia) in improving the disclosure practices of *ShAC*. Consequently, some voluntary disclosure items should be made mandatory, particularly in terms of *ShAC* disclosing that their main activities comply with the *Shariah*. Only then would investors, specifically those that hold Islamic portfolios be assured of investing in these companies.

Although the current study has provided some contributions on the EVD of *ShAC*, it has some limitations. First, the study only uses annual reports to measure the EVD practices of *ShAC*. Therefore, future research could include other forms of disclosures such as interim reports, press releases, stock market announcements, and internet financial reporting. Second, the data dates back to 2003, which is not considered recent. Future research should study later years for updated EVD practices of *ShAC*. Nevertheless, this study provides useful insights to users, regulators, and researchers, as a disclosure index specifically designed for *ShAC*, which includes Islamic items, is developed. These Islamic items are particularly relevant to *ShAC*. Therefore, future research could use this disclosure index and should study whether EVD of *ShAC*, particularly Islamic information, has improved since 2003.

#### Notes

1. The term used by FRS No. 1 is more specific as it refers directly to “financial statements.” Financial statements are only a subset of financial reporting, thus the reference to FASBs SFAC No. 1 is considered more appropriate here.
2. The *Shariah* is “the Islamic law of human conduct, which regulates all matters of the lives of Muslims. It is based on God’s (*Allah*’s (S.W.T.)) holy word in the *Al-Quran*, the deeds and sayings of the prophet Mohammed (P.B.U.H.), and the consensus of Islamic religious scholars” (Maali *et al.*, 2006, pp. 1-2).
3. They have given the example of interests and debts, where they have the same value of measurement in the Islamic accounting or conventional accounting systems (for more detail, please refer to Baydoun and Willett (1997, p. 15).
4. Users from an Islamic perspective can include owners/shareholders, management, employees, investors, *zakat* beneficiaries, *zakat* payers, creditors/suppliers, government, and the community (Ousama, 2003).
5. *Zakat* “is a levy on Muslims whose wealth exceeds a certain specified minimum” (Sulaiman, 1998, p. 28).
6. Stated in the *Quran* in chapter (*Sura*) 2 verses (*Aya*) 205 and 206.
7. *Qard hasan* is “a non-interest-bearing loan made for charitable objectives” (Baydoun and Willett, 2000, p. 77).
8. According to Sulaiman (1998, p. 29) “Clarke *et al.* (1996) argued that support for the use of current values in Islam may be discerned from the common monetary denominator used in the Prophet’s (P.B.U.H.) time to establish the *nisab* (the minimum threshold of wealth above which *zakat* is payable) for various assets that are subject to *zakat*.”
9. Their suggestion is in terms of the inclusion of the VAS and CVBS.
10. This same fact holds true for the Islamic banks according to Maali *et al.* (2006).
11. The disclosure index is available upon request from the first author.

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