Determinants of Islamic Social Reporting Among Top *Shariah*-Approved Companies in Bursa Malaysia

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Abstract

Islamic social reporting is becoming a common practice among the top *Shariah*-approved companies in Malaysia. *Shariah*-approved companies are companies that conduct activities which are not contrary to the Islamic principles and have been approved by the *Shariah* Advisory Council. Using top *Shariah*-approved companies listed in the Bursa Malaysia as the sample study, this study aims to identify the factors that may influence a company to provide Islamic social reporting. Specifically, four company's characteristics, namely, size, profitability, board composition and type of industry are chosen as factors in this study. The results show that three of the factors chosen: size, profitability and board composition significantly influence a company to provision of Islamic social reporting. Industry type, however, is not an important determinant to provision of Islamic social reporting. The findings in this study contribute to the body of knowledge a new dimension of corporate reporting.

Keywords: Islamic social reporting, *Shariah*-approved companies, size, profitability, board composition, industry type.

1. Introduction

Financial reporting refers to the communication of financial information by the companies to their stakeholders (Ousama and Fatima, 2006). Such communication deemed important as it reflects the companies' accountability towards their stakeholders (Gray et al., 1995). Stakeholders, particularly the existing and potential shareholders routinely rely on the annual reports as a mechanism in assisting their decision-making (Harahap, 2003).

In Malaysia, FRS 101: Financial Reporting Standard has explicitly stated that additional information should be included in the corporate reports if the management believes that such information could assist decision-makers in improving their decision performance (Zulkifli and Amran, 2006). One dimension of corporate reporting that is important to decision-makers is social reporting. The primary purpose of social reporting is to determine the impact of corporate actions on the quality of life of the society (Daykin, 2006). Within this dimension, Islamic social reporting (ISR) plays an important role particularly to the Muslim decision-makers.

Malaysia is a model representing a modern Islamic country due to its Islamization process (i.e. Islam Hadhari) to infuse Islamic values throughout the country at all levels, from individual to institutional organisation (Hassan, 2006). Malaysian companies have experienced pressure to embrace internationally accepted corporate governance best practices. This pressure is evident by the amendment in the Bursa Malaysia's Listing Rules which since January 2001 requires public listed companies to disclose in their reports a narrative statement of how the principles of corporate governance are applied in their organisations and the extent of its compliance to the Code on Corporate Governance' best practices recommendations. As consequence, these led to better transparency and accountability.

The *Shariah* Advisory Council in Malaysia was established in 1996 to advise Securities Commission on *Shariah* related matter. This includes providing guidance on Islamic Capital Market (ICM) transactions and activities with the aim to standardising and harmonising applications (Bursa Malaysia, 2007). ICM refers to the market which activities are carried out in ways that do not conflict with the principles of Islam. The establishment of ICM has consequentially led to ISR where Muslim decision-makers expect companies to disclose relevant information that may assist them in fulfilling their spiritual needs (Haniffa, 2002). Such expectation exists because although companies practice corporate social reporting as demonstrating their accountability to the decision-makers, the most pertinent information items from an Islamic perspective is often lacking. Of consequence, judgment of the Muslim decision-makers could be impaired and provide adverse effects on their spiritual being (Haniffa, 2002).

The recent emergence of ISR has also led studies to research into this dimension of corporate reporting. These studies have mainly provided conceptual or discussion papers on the need to research ISR (such as Baydoun and Willet, 2000; Haniffa, 2002; Sulaiman and Willet, 2003). Study researching on providing empirical evidence on ISR practices however, is sparse.

The remainder of this paper is structured as follows. The next section provides a review of relevant literature. Section 3 provides the framework and hypotheses. Section 4 provides the model in this study. Section 5 describes the research design. The results are presented in section 6. A summary and conclusion are provided in the last section.

2. Literature Review

The Islamic perspective of disclosure comprises of two general requirements: full disclosure and social accountability (Baydoun and Willet, 2000; Haniffa, 2002). The concept of social accountability is related to the principle of full disclosure with the objective to serve the public interest. Within the Islamic context, the *ummah* (public) has the right to know the operational effects of an organisation on its well-being and to be advised within the requirements of *Shariah* of whether the objectives set out has been achieved (Baydoun and Willet, 1997). One of the ways to provide full disclosure in the context of Islam is by ISR.

ISR is an extension of social reporting which encompasses not only a broader expectation of the society with regard to companies' role in the economy but also on spiritual perspective (Haniffa, 2002). In ISR, the stress on social justice goes beyond reporting on the environment, minority interests and employees. It concerns with issues related to the well-being of the society pertaining to interest and unfair trading practices (Sulaiman, 2005) such as income distributions (known as *zakat*). Such concern is consistent to the stakeholders' theory whereby management provides information to users so as to maintain company's success. A company continuing existence and success is dependent on the constant support from the stakeholders (Ullman, 1985). It is therefore, important for the management to identify, evaluate and disseminate information related to social and environmental information according to the demand of the stakeholders (Mohamed Zain, 1999). This is consistent to Gray et al. (1987, p.17):

"Stakeholder (community with respect to social concerns, community with respects to environmental concerns, employees and consumers) has a right to particular information for a particular decision. Those with a 'social' interest or 'stake' in the organisation should be provided with relevant information in social reports".

Within the corporate reporting literature, studies have examined various issues. One eminent issue that has often been discussed is the factors that may influence a company to provide corporate social reporting. These studies identified company's characteristics as the main determinants of corporate social reporting. Among the factors are size (Mohamed Zain, 1999; Romlah et al., 2003; Ousama and Fatima, 2006), profitability (Inchausti, 1997; Janggu, 2004); board composition (Chaganti et al., 1985; Hermalin and Weisbach, 1991; Ahmed et al., 2005) and industry type (Cooke, 1991; Ousama and Fatima, 2006). The results are often mixed with few studies supporting these factors in influencing social reporting while others failed to provide evidence on these factors influence social reporting. Most of these studies were conducted in a non-ISR setting.

In summary, although there are a number of studies that have examined the factors that may influence a company to provide corporate social reporting, most of these studies examined the conventional social reporting, overlooking examination of Islamic social reporting. One may argue that examining this dimension is equally important since it draws around stakeholders' beliefs, particularly the Muslim stakeholders in fulfilling their spiritual needs. This study attempts to examine the factors that may contribute to ISR practices among the top *Shariah*-approved companies in Malaysia. An examination of this issue provides further understanding on whether the factors found to be influencing a company in the conventional social reporting would appear similar in the Islamic social reporting.

3. Framework and Hypotheses

3.1. Framework

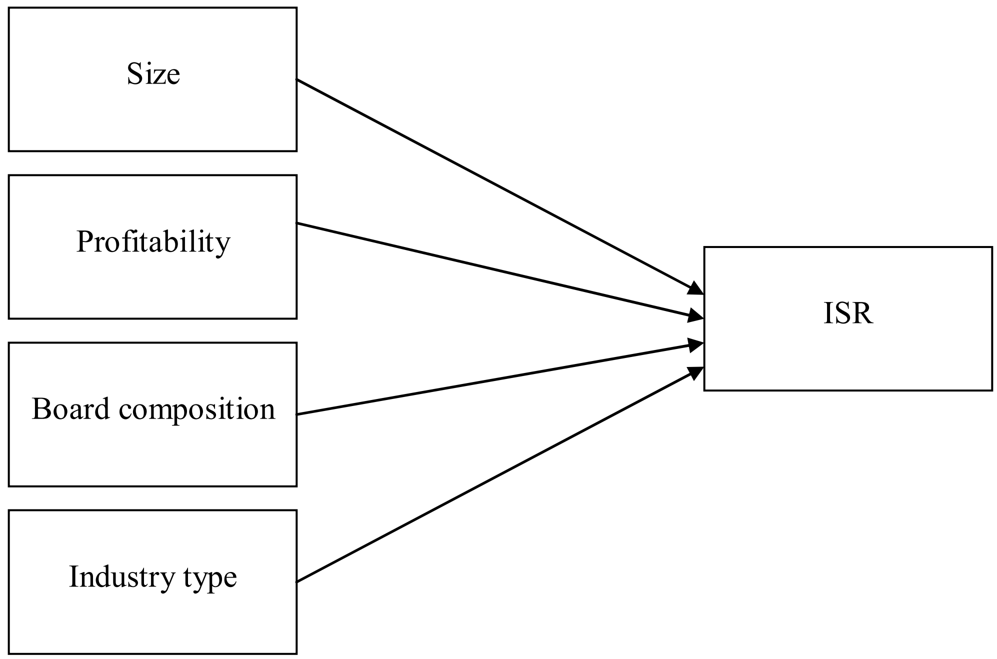
Figure 1 illustrates the framework that underpins this study. The framework shows that four factors related to company's characteristics may influence the company to do ISR. The four factors are size, profitability, board composition and industry type.

Haniffa (2002) noted the importance of having ISR is evident as it demonstrates a company's accountability to the community. ISR also serves a mechanism in improving transparency of business activities and conforming to the spiritual needs of the Muslim decision. However, what actually influence a company to do ISR has yet to be determined empirically. Although studies on corporate social reporting have been extensively examined, these studies overlooked the importance of ISR. Therefore, ISR becomes the dependent variable.

Large companies may have potential conflicts between management and the stakeholders (Inchausti, 1997). To reduce these conflicts, larger companies tend to disclose more information voluntarily. In addition, larger companies would also likely to have more activities compared to small companies and therefore, disclose more information. Arguably, based on Islamic perspective of social accountability and full disclosure, larger companies would likely become more involved with the community and therefore, would disclose more information in the annual reports to discharge their accountability to the stakeholders, particularly the Muslim stakeholders. Therefore, size is the first independent variable.

Studies have suggested that there is a link between company's profitability and its decision to provide corporate social reporting (Inchausti, 1997; Janggu, 2004). These studies suggested that a company that is making profit would likely to disclose more information compared to a company that is less profitable. This is because the management known as the agent wants to be known that they have acted for the best interest for the shareholders. Arguably, a company who is governed by the *Shariah* principles would likely to disclose more information related to Islamic social reporting. Profitability becomes the second independent variable.

Figure 1: Framework of this study



The third independent variable is board composition. A body of the literature has suggested that board composition plays an important role in influencing management's decision-making (Kersner and Dalton, 1986). This study anticipates that more Muslim directors in the board of directors of a company would significantly influence their decision to provide Islamic social reporting.

A company in one industry may decide to place more weight on one particular information item which may not be of importance to another company in a different industry. The stakeholders' theory argued that stakeholders may be aware of the importance of social reporting and demand such information to be provided. Similarly, Muslim stakeholders may be aware of the social responsibility of the company in terms of its *halal haram*[1] status and therefore, demand the company to disclose more information. Therefore, industry type is the fourth independent variable.

3.2. Hypotheses

Previous studies have found that larger companies as measured by their total assets would provide higher level of disclosure to represent themselves as a good citizen in disseminating their social responsibility (Mohamed Zain, 1999; Ho and Matthews, 2002; Romlah et al., 2003; Mohd Shatari et al., 2004; Ousama and Fatima, 2006). Ousama and Fatima found that the size of a company would influence its decision to provide the extent of voluntary disclosure in the annual reports. Other studies found no conclusive evidence (Murtanto and Elvina, 2004; Nooraisah, 2004). It is expected in this study that a company with larger size would likely to provide higher level of ISR. The following hypothesis is developed:

H1: There is a positive relationship between company's size and the level of ISR.

From the Islamic perspective, a company should be willing to provide full disclosure regardless whether it is making profit or otherwise (Haniffa, 2002). However, Janggu (2004) argued that a company with higher profitability would likely to disclose more information compared to a company with less profitability. As there is yet an empirical study that examines the link between profitability and ISR, the following hypothesis is developed.

H2: There is a positive relationship between profitability and the level of ISR.

[1] Halal Haram indicates what is allowed and not allowed to be done as a Muslim.

Previous studies have examined board composition as two separate fractions of directors, namely, internal directors and external directors (Hermalin and Weisbach, 1991). Internal directors consist of full time employees of a company whereas external directors are those who not full time employees of the company. There are studies that found positive relationship between board composition and managements' decision-making (Baysinger and Butler 1985; Hermalin and Weisbach 1998). On the contrary, other studies found that more executive directors would influence management's decision-making (Kesner and Dalton, 1986). This study categorises board composition into Muslim directors and non-Muslim directors and hypothesis more Muslim directors in a board of directors would results to higher level of ISR. This led to the following hypothesis.

H3: There is a positive relationship between board composition and the level of ISR.

A body of the literature found that industry type would not influence a company to disclose corporate social reporting (Nor Izah and Shamsul Nahar, 1998; Azhar, 2001; Ho and Mathews, 2002). Another body of literature found contrasting results. For example: Ousama and Fatima (2006) found that the extent of voluntary disclosure of Islamic information items seems to be higher for non-manufacturing companies. They suggested that non-manufacturing *Shariah*-approved companies are basically from construction, properties and plantation sector would likely to disclose more information on the environment. This is because the public would perceived these companies to affect the environment more compared to other types of industry. This study re-examines this issue to determine whether similar results would appear in the Malaysian context. The following hypothesis is developed.

H4: There is a positive relationship between industry type and the level of ISR.

4. Multiple Linear Regression Model

This study uses regression analysis to develop the model in this study. This study tests whether the four factor variables chosen could influence level of ISR. The four factors are as follows:

SIZE = company size	ε = error term
PROFIT = profitabillity	βi = parameters to be estimated,
MusBOD = Muslim BOD	i = 1,..., 4. ... (4.1)
IND = industry type	
α = regression intercept	

Upon identifying the factor variables, the dependent variable is determined as follows:

Y = ISR

The relationship between the four factors and ISR is determined by the following model.

$$ISR = \alpha + \beta 1SIZE + \beta 2PROFIT + \beta 3MusBOD + \beta 4IND + \varepsilon$$

5. Research Design

The objective of this study is to examine the factors that may influence a company to provide Islamic social reporting. Specifically, this study examines whether:

1. Size of a company influences ISR
2. Profitability of a company influences ISR.
3. Board composition in a company influences ISR.
4. Type of industry the company is in influences ISR.

This study examines these issues by way of content analyses.

5.1. Sample Selection

The companies that are registered on the Bursa Malaysia are chosen as the sample study. Top 100 largest companies are selected based on their market capitalisation. The choice of such sample is due to three reasons. First, large companies would have more resources to disclose information voluntarily, whereas small companies may not have the same resources although they may be willing to disclose more information. Secondly, large companies could be considered as industry leaders. Therefore, in becoming an example to other smaller companies, they would disclose more information voluntarily. Finally, previous studies have also used similar sample (such as Ousama and Fatima, 2006).

Companies in the financial sectors however are excluded in this study due to the different nature of their business activities. Similarly non-*Shariah* approved companies are also excluded since it is expected that *Shariah*-approved companies would be more accountable in disclosing higher more ISR compared to non-*Shariah* approved companies.

From the 100 companies, it was found that 14 companies have some association with the finance sector. Twenty two companies are non-*Shariah* approved companies and 8 companies were found to provide incomplete annual reports. The final sample is 56 companies.

5.2. Islamic Social Reporting Index

To examine the extent of ISR among the companies listed on the Bursa Saham, an Islamic social reporting index is developed. The development of the index is adapted from Haniffa (2002) with some modifications to suit the context of this study. Haniffa developed the Islamic reports based on five themes: finance and investment, product, employees, society and environment (Refer Appendix A).

This study has identified a total of 43 items of disclosure index. The 43 items of disclosure index are categorised into six themes namely Finance and Investment, Products/Services, Employee, Society, Environment and Corporate Governance. Corporate governance is included in this study since the stakeholders would be interested to know whether the companies have complied with the Islamic principles and rules (Hassan, 2006). Appendix B provides details of the six themes.

5.3. Data Collection

The annual reports of the companies for 3 years period (2004 to 2006) were collected from the website of the Bursa Saham as at 14 August 2007. The time series from 2004 to 2006 (a multiple year approach) are chosen in examining the trends of the extent of disclosure items.

The 43 ISR items identified in this study were collected from the readings and analyses of annual reports. The data of the 43 ISR items was coded into the coding sheets. The nature of disclosure either in the form of word(s), sentence(s), picture(s) or graphic(s) was coded according to the themes of disclosures. This study did not quantify for how many times the number of occurrences for each disclosed items in any single year and single annual report of a company. As long as a minimum of one occurrence of disclosed ISR in any form of disclosure, the item is considered as available.

The data gathered was analysed using SPSS version 14.0. The analyses were divided into two parts namely descriptive statistics and inferential statistics. Descriptive statistic through content analysis was used to describe the extent of disclosure items. Meanwhile, inferential statistic by way of multiple regressions was used to draw conclusions about relationship of the variables and to test the hypotheses.

5.4. Data Measurement

The independent variables are measured by using data extracted from the annual reports of the sample companies in the following manner:

1. Company size (logSIZE) is measured by total assets of a company at the end of a reporting year.
2. Profitability is measured by profit before tax (PROFIT) of a company at the end of a reporting year.
3. Board composition (MusBOD) is measured as a proportion between the Muslim and non-Muslim members of the board of directors.
4. Value 1 is coded if a company falls under the manufacturing company and 0 if it is a non-manufacturing company. Manufacturing companies include consumer products and industrial products companies whilst non-manufacturing companies include construction, trading/services, properties, plantations, technology and infrastructure companies.

The dependent variable, level of ISR is measured on the number of occurrences on the information items disclosed in the annual reports over a three years period. The number of occurrences is determined in themes identified in this study.

5.5. Normality Test

A normality test was performed to determine the normality of the data based on three principal assumptions: (i) the residuals are independent of each other if the Durbin-Watson test is between 1 to 3, (ii) the residuals have equal variances if the dots are evenly dispersed around zero and (iii) the residuals have a normal distribution if all points are lie on line. The results show that (i) since none of the Durbin-Watson test for the three years regression model was below 1 and greater than 3, therefore the first assumption is met, (ii) all three scatter plots for the three years indicate that the residuals have equal variances because the dots are evenly dispersed around zero. Therefore, the second assumption is met for all the three years of study and (iii) the residuals are normally distributed to meet with third assumption. After satisfying all three assumptions, this study concludes the data is normally distributed and regression analysis can be performed (refer table 5).

6.0. Results

6.1. Descriptive Statistics

Table 1 provides the descriptive statistics of the sample of this study. The survey covered 56 *Shariah*-approved listed companies in the Bursa Malaysia. The results in panel A, Table 1 shows that majority of the companies came from the trading/services industry (30.36%) and industrial product industry (23.21%). This could be attributed by these two industries being the biggest population listed in Bursa Saham. As provided by Bursa Malaysia as at 16th May 2007, the industrial product industry and trading/services industry represented 308 companies and 204 companies respectively which is 50.1% from the total 1,023 listed companies. Panel B of Table 1 shows that out of the 56 companies, 18 companies (32.14%) were from manufacturing while the remaining 67.86% were non-manufacturing companies.

Table 1: Proportion of *Shariah*-approved companies
Panel A: *Shariah*-approved companies according to industry type

Industry type	Frequency	Percent
Consumer product	5	8.93
Industrial product	13	23.21
Trading and service	17	30.36
Properties	5	8.93
Plantations	5	8.93
Infrastructure	3	5.36
Construction	6	10.71
Technologies	2	3.57
Total	**56**	**100**

Panel B: *Shariah*-approved companies according to manufacturing/non-manufacturing companies

Industry type	Manufacturing	Non-manufacturing	Percent
Consumer product	5		
Industrial product	13		32.14
Trading and service		17	
Properties		5	
Plantations		5	
Infrastructure		2	
Construction		6	
Technologies		2	67.86
Total	**56**	**100**	

Table 2 provides the descriptive statistics for the independent variables in this study. The table shows the minimum (Min), maximum (Max) and mean values for company characteristics; company size which is represented by total assets, profitability which is represented by profit before tax and board composition which is represented by percentage of Muslim directors for the year 2004 to 2006.

Table 2: Company's characteristics
Panel A: Size measured by total asset

Total Asset in year	Min (RM000)	Max (RM000)	Mean (RM000)
2004	1233	63382000	5246436
2005	1525	63494000	5711417
2006	1599	65092000	6026797
Total	**1233**	**65092000**	**6026797**

Panel B: Profitability measured by profit before tax

Total Asset in year	Min (RM000)	Max (RM000)	Mean (RM000)
2004	166	3173000	363045
2005	-167004	1819000	357103
2006	-129278	3133000	451273
Total	**-167004**	**3173000**	**451273**

Panel C: Board composition measured by proportion of muslim/ non-muslim directors

Total Asset in year	Min (RM000)	Max (RM000)	Mean (RM000)
2004	0	100	52.32
2005	0	100	51.93
2006	0	100	53.21
Total	**0**	**100**	**52.49**

Panel A, Table 2 provides the descriptive analysis of the size of companies as measured by the total assets. The results show that the companies' overall mean scores for the total assets is RM 6,026,797,000. Specifically, the results show that the minimum amount of total assets for all companies in any of the three years was RM 1,233,000 in year 2004 and the maximum is RM 65,092,000,000 in year 2006. Such results indicate that a number of the companies are very big in size in term of their total assets while other companies are small. The small size companies could be attributed by the nature of the company that does not require huge amount of assets or the company is still new in business. However, this disparity is ideal for this research since it may allow the existence of relationship between company size and level of ISR.

The descriptive analyses for the companies' profitability as measured by profit before tax are provided in panel B, Table 2. The results show that the companies' overall mean scores for the profit before tax is RM 451,273,000. The results show that the lowest mean score of profitability is in year

2006 amounting RM 167,004,000 (loss) and the highest mean score is RM 3,173,000,000 in year 2004. The results imply that in general, performance of the selected companies is good. It is very difficult to determine the factors that contribute to the variances among companies. Only few companies suffered losses and this could be due to the internal problems of the companies.

Table 3: Number of occurrences by themes of disclosure

	2004	2005	2006
Finance and Investments	59	60	60
Product and Services	55	56	62
Employees	97	112	128
Society	185	204	222
Environment	60	75	92
Corporate Governance	62	61	60
Total	**518**	**568**	**624**

Panel C, Table 2 presents the descriptive analyses of the board composition as measured by the proportion of Muslim directors. The results show that the companies' overall mean scores for board composition is 52.49%. The minimum and maximum board composition in terms of percentage Muslim and non-Muslim directors are equally the same for the three years. The results indicate that there are companies fully controlled by Muslim directors while others have a mixture of Muslim and non-Muslim directors.

Figure 2: Total Amount of ISR over Periods of Study

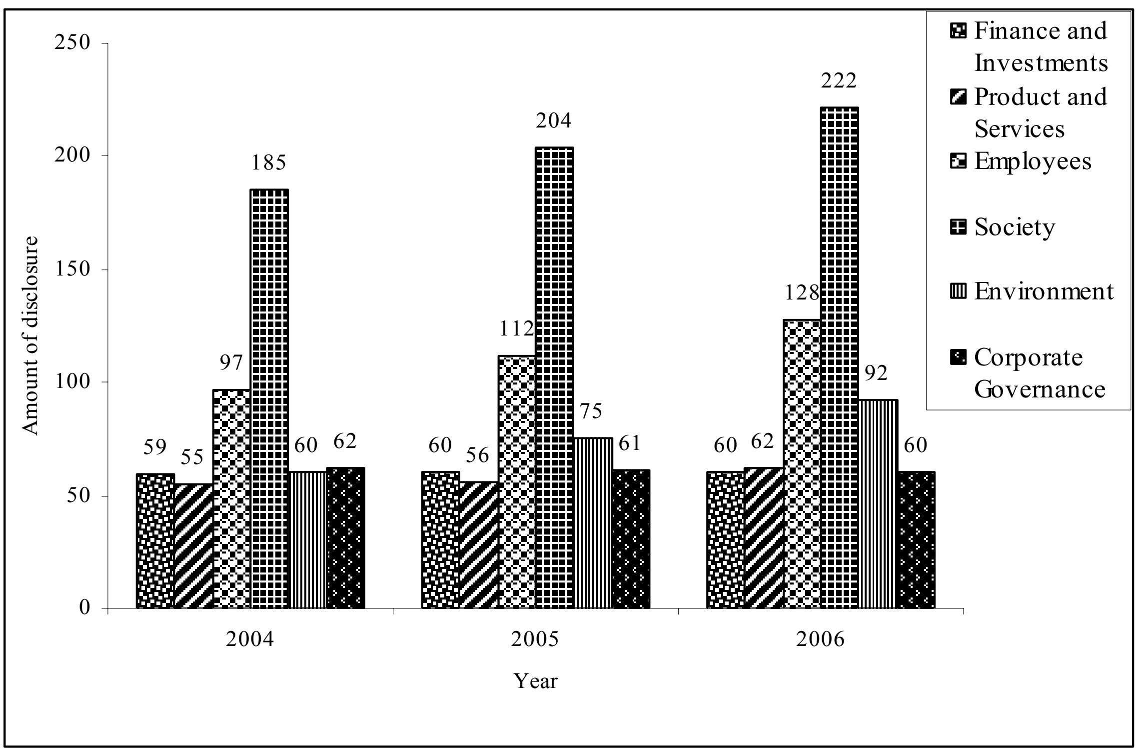


Table 3 provides the results of analysing the level of ISR reported in the annual reports over the three years period. The number of occurrences of ISR by themes of disclosure and reveals that the there is a general rising trend of ISR under the six themes of disclosure over time.

Table 3 and Figure 2 show that the total ISR has increased from 518 in year 2004, 568 n year 2005 to 568 in year 2006. Such finding is considered a good sign in encouraging future ISR practices.

The most consistent ISR themes are Corporate Governance and Finance and Investment. Product and Services theme shows a slight increase from 55 to 56 and 62 numbers of occurrences for year 2004, 2005 and 2006 respectively. As expected, since the developed disclosure index under study is mainly voluntary items under corporate social responsibility, therefore Employee, Society and Environment provides greater increase from year 2004 to 2006Government emphasis on Occupational Safety and Health (OSHA) for employees and mandated by laws in the late nineties; poverty eradication; human capital building through scholarships; education funds; private universities; training; caring and loving society and environment protection could have triggered the level of ISR. This was consistent with Mohamed Zain (2004) findings that government policy is one of the main factors why companies have higher disclosure of CSR information.

6.2. Multicollinearity Analysis

The correlation analysis among the independent variables (i.e. profitability and Muslim BOD) was computed to determine whether there is a multicollinearity problem by using variance inflation factor (VIF) and tolerance statistic. Table 4 shows the collinearity statistics for all variables. The results show that except for year 2006, none of the tolerances are less than 0.2 and none of the VIF was greater than 10. Such results indicate that there is no problem of multicollinearity between size of company, industry type, profitability and board composition. However, there is a multicollinearity problem in year 2006 between total assets and profitability as the tolerance value is less than 0.2. For that matter, one of the variables was excluded through stepwise multiple regression.

Table 4: The Colinearity Studies
Panel A: Company's characteristics – Year 2004

Variables	Tolerance	VIF
Percentage ISR (Constant)		
Company size (total asset)	0.381	2.625
Profitability	0.390	2.565
Muslim directors	0.921	1.086
Industry type	0.909	1.100

Panel B: Company's characteristics – Year 2005

Variables	Tolerance	VIF
Percentage ISR (Constant)		
Company size (total asset)	0.332	3.011
Profitability	0.344	2.911
Muslim directors	0.905	1.105
Industry type	0.894	1.118

Panel C: Company's characteristics – Year 2006

Variables	Tolerance	VIF
Percentage ISR (Constant)		
Company size (total asset)	0.179*	5.599
Profitability	0.183*	5.462
Muslim directors	0.870	1.149
Industry type	0.886	1.129

Note: *Tolerance value < 0.2

6.3. Multiple Linear Regression Model

This study presents the results of regression analysis to develop the model in this study. This study tests whether the four factor variables chosen could influence level of ISR.

Table 5: Multiple Regression of ISR on the companies' characteristics.
Panel A: Year 2004

Variables	Coeff.	Sig.(Coeff.)	Sig.(ANOVA)	R	R^2	Adj.R^2	Durbin-Watson
Constant	13.740	0.003*	0.001*	0.558	0.331	0.257	1.303
Industy	-6.174	0.116					
Total assets	5.424E-07	0.057*					
PBT	-1.07E-06	0.844					
MusBOD	0.153	0.025*					

Panel B: Year 2005

Variables	Coeff.	Sig.(Coeff.)	Sig.(ANOVA)	R	R^2	Adj.R^2	Durbin-Watson
Constant	14.338	0.003*	0.010*	0.474	0.225	0.164	1.373
Industy	-4.497	0.255					
Total assets	1.579E-07	0.588					
PBT	4.479E-06	0.512					
MusBOD	0.158	0.27*					

Panel C: Year 2006

Variables	Coeff.	Sig.(Coeff.)	Sig.(ANOVA)	R	R^2	Adj.R^2	Durbin-Watson
Constant	21.253	0.000*	0.064*	0.397	0.157	0.091	1.956
Industy	-5.181	0.171					
Total assets	-1.36E-07	0.713					
PBT	6.361E-06	0.289					
MusBOD	0.080	0.219					

Note: * Significant at 0.05 ** significant at 0.1

Table 5 presents the results of the multiple linear regression analysis. Panel A, panel B and panel C of Table 5 shows that all four independent variables can explained 33.1% in year 2004, 22.5% in year 2005 and 15.7% in year 2006. The remainder remain unexplained which means, there are other factors which are related to the increase in ISR level. Since the *p* value for all the models as taken together as a whole are less than 0.05 and 0.1 (Sig. ANOVA), therefore there is sufficient evidence to indicate that the model is statistically useful for prediction and significantly associated with ISR. Therefore, the following regression models were developed:

Y (2004) = 13.740 - 6.174 (Industry) + 5.424E-07 (Total Assets) – 1.07E-06 (Profitability) + 0.153 (MuslimBOD)

Y (2005) = 14.338 - 4.497 (Industry) + 1.579E-07 (Total Assets) – 4.479E-06 (Profitability) + 0.158 (MuslimBOD)

Y (2006) = 21.253 - 5.181 (Industry) - 1.36E-07 (Total Assets) + 6.361E-06 (Profitability) + 0.080 (MuslimBOD)

However, not all individual four variables included in the models are significant at $p < 0.05$ or 0.1 regression coefficients level. Although the models as a whole are significant but individually only Muslim BOD ($p < 0.05$) and Total Assets ($p < 0.1$) in year 2004 and Muslim BOD ($p < 0.05$) in year 2005 are significant variables. In the year 2006, none of the variables are significant. As mentioned earlier in section 4.4, there is a multicollinearity problem between company size (represented by Total Assets) and profitability (represented by PBT). Therefore, the model for year 2006 has to be revised and stepwise multiple regression analysis was used as shown in Table 6.

Table 6: Stepwise Multiple Regression of ISR on the companies' characteristics (revised 2006).

Variables	Coeff.	Sig.(Coeff.)	Sig.(ANOVA)	R	R^2	Adj.R^2	Durbin-Watson
Constant	23.434	0.000	0.038*	0.278	0.077	0.060	1.998
PBT	5.494E-06	0.038*					

Note: * Significant at 0.05

The results in Table 6 shows that the profitability of the companies represented by profit before tax (PBT) only can explain 7.7% degree of predictive accuracy of the regression model in explaining the variations in the dependent variable. Since the *p* value for the model is less than 0.05, therefore there is a sufficient evidence to indicate that the model is statistically useful for prediction and significantly associated with ISR. The model obtained is shown as follows:

Y (revised 2006) = 23.434 + 5.494E-06 (Profitability)

In summary, the results show that the company size, profitability and the number of Muslim directors in the board are statistically significant with the prediction as hypothesised. In contrast, industry type is not statistically significant. The results indicate that the company size, profitability and Muslim directors have the influence on the extent of ISR in the annual reports of the companies, thus in line with hypotheses1, 2 and 3. However, industry type has no influence on ISR. Therefore, hypothesis 4 is rejected.

7.0. Summary and Conclusion

The main objective of this study is to examine whether there is any relationship between company's characteristics such as size, profitability, board composition and type of industry and ISR. It is hypothesised that ISR in the annual report is significantly associated with company's size (H1), profitability (H2) and board composition (H3). While the industry type (H4) are found to be insignificant.

The finding of the current study is consistent with the findings of some prior studies. For example, Ousama and Fatima (2006), Ho and Mathews (2002), Mohd Shatari et al. (2004) who found that firm size to be significantly associated with the level of disclosure. In contrast, the finding is not consistent with Murtanto and Elvina (2004) and Nooraisah (2004) who found firm size as not important to level of disclosure. The results of this study could be due to several reasons. ISR in Malaysia is still at the conceptual phase and there are no such real practical guidelines or standards that could be adopted by the companies. Since larger companies have more resources in term of financial, facilities and human resources to disclose more ISR, they would likely disclose more information even with the absence of standards or guidelines to be followed.

On the other hand, the result of profitability is found to be significant. Such results is consistent with Singhvi and Desai (1971) that noted that when the rate of return is high, managers are motivated to disclose detailed information in order to support the continuance of their positions and remuneration. Inversely, when the rate of return is low, they may disclose less information in order to conceal the reasons for losses or declining profit. Therefore, the more profitable firms tend to disclose more ISR. However, disclosing ISR should be a responsibility no matter whether the company is making more or less profit or even loss. The level of profitability should not affect the level of ISR.

The findings of the Muslim directors in the board show that their dominance (in terms of numbers) may provide them with more power to force management to provide more disclosure as long as they perform their monitoring role rather than their 'perceived' monitoring role (Haniffa and Cooke, 2000). The results of board composition is found to be significant which is consistent with Huafang and Jianguo (2007) that found an increase in board composition (i.e. independent directors) increases corporate disclosure. However, the results of this study may not be generalised in other countries. In Malaysia, we could directly trace the religion of the directors by their names itself which may not be possible to trace in other countries.

The result of industry type is found to be insignificant is in contrast with some prior studies in Sweden and Japan (e.g. Cooke, 1989), who found that the extent of voluntary disclosure by manufacturing companies is significantly higher than other industries. The results is however consistent with Ku Nor Izah and Shamsul Nahar (1998), Azhar (2001) and Ho and Mathews (2002). These studies found that the industry type does not have an influence on the extent of disclosure. Therefore, empirical result from this study has suggested that the industry type of companies has no influence on the level of ISR. Such result is expected because there are significant differences in the operations and reporting practices among the industries, reflecting their unique characteristics.

This study has few limitations. First, this study focused on annual reports in measuring the extent of the Islamic information disclosure practices by the selected companies. Future research might be extended by including other forms of disclosure such as interim reports, press releases, stock market announcements and internet financial reporting. Secondly, the interpretation of some ISR's item in coding process is very subjective. It is very difficult to find the correct wording to explain the required item of ISR. Therefore, the author suggest for multiple coder to avoid the subjectivity.

In summary, the results of this study would be of interest to investors since they may wish to invest in companies with specific characteristics. As a result, the investors would be able to closely monitor their investment. As mentioned before, disclosure in annual reports is one of the usual communication methods to the public. Thus, other stakeholders, such as creditors, employees and authorities would perceive companies with a higher level of ISR are more favourably.

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Appendices

Appendix A: Contents of Islamic Social Report Based on Five Themes

Theme	Content
Finance & Investment	*Riba* activities & *Gharar* activities: Identify activities and % profit contribution *Zakat*: Amount and beneficiaries
Product	Nature of product/services: Identify activities and % profit contribution
Employees	Wages Education and Training Equal Opportunities Nature of work: Religious provisions; Holidays and leave; Working hours
Society	*Saddaqa* & *Qard Hassan*: Amount and beneficiaries *Waqf*: Type and value
Environment	Use of resources: Description and amount Conservation of Environment: Description and amount spent

Note: Adapted from Haniffa, 2002, p.137

Appendix B: The Islamic Social Reporting (ISR) Items Based on Six Themes.

	Items of disclosure	Source of references:
A	**FINANCE AND INVESTMENT THEME**	
1	*Riba* activities	Haniffa (2002)
2	*Gharar*	Haniffa (2002) Maali et al. (2006)
3	*Zakat*: • method used • zakatable amount • beneficiaries	Haniffa (2002) Maali et al. (2006) Ousama and Fatima (2006) Sulaiman (2005)
4	Policy on Late Repayments and Insolvent Clients/Bad Debts written-off	Maali et al. (2006) Ousama and Fatima (2006)
5	Current Value Balance Sheet (CVBS)	Baydoun and Willet (2000) Sulaiman (2005) Ousama and Fatima (2006)
6	Value Added Statement (VAS)	Baydoun and Willet (2000) Sulaiman (2005) Ousama and Fatima (2006)
B	**PRODUCTS AND SERVICES THEME**	
7	Green product	Bursa Malaysia (2007)
8	Halal status of the product	Sulaiman (2005)
9	Product safety and quality	Sulaiman (2005) Ousama and Fatima (2006)
10	Customer complaints/incidents of non-compliance with regulation and voluntary codes (if any)	Bursa Malaysia (2007)
C	**EMPLOYEES THEME**	
11	Nature of work: • working hours • holidays • other benefits	Haniffa (2002) Sulaiman. (2005)
12	Education and Training/ Human Capital Development	Haniffa (2002) Maali et al. (2006) Sulaiman (2005) Ousama and Fatima (2006)
13	Equal Opportunities	Haniffa (2002) Maali et al. (2006) Ousama and Fatima (2006)
14	Employee involvement	Bursa Malaysia (2007)
15	Health and Safety	Bursa Malaysia (2007) Sulaiman (2005) Ousama and Fatima (2006)
16	Working environment	Maali et al. (2006) Ousama and Fatima (2006)
17	Employment of other special-interest-group (i.e. handicapped, ex-convicts, former drug-addicts)	Sulaiman (2005)
18	Higher echelons in the company perform the congregational prayers with lower and middle level managers.	Sulaiman (2005)
19	Muslim employees are allowed to perform their obligatory prayers during specific times and fasting during Ramadhan on their working day.	Sulaiman (2005)
20	Proper place of worship for the employees.	Sulaiman (2005)
D	**SOCIETY THEME**	
21	*Saddaqa*/Donation	Haniffa (2002) Sulaiman (2005)
22	*Waqf*	Haniffa (2002)
23	*Qard Hassan*	Haniffa (2002)

24	Employee Volunteerism	Maali et al. (2006) Ousama and Fatima (2006) Bursa Malaysia (2007) Sulaiman (2005)
25	Education-School Adoption Scheme • Scholarships	Bursa Malaysia (2007) Sulaiman (2005)
26	Graduate employment	Bursa Malaysia (2007)
27	Youth development	Bursa Malaysia (2007)
28	Underprivileged community	Bursa Malaysia (2007)
29	Children care	Bursa Malaysia (2007)
30	Charities/Gifts/Social activities	Baydoun and Willet (2000) Maali et al. (2006) Ousama and Fatima (2006)
31	Sponsoring public health/recreational project/sports/cultural events	Sulaiman (2005)
E	**ENVIRONMENT THEME**	
32	Conservation of environment	Sulaiman (2005) Maali et al. (2006) Ousama and Fatima (2006)
33	Endangered wildlife	Bursa Malaysia (2007) Sulaiman (2005)
34	Environmental Pollution	Sulaiman (2005)
35	Environmental Education	Sulaiman (2005)
36	Environmental Products/Process related	Sulaiman (2005)
37	Environmental Audit/ Independent Verification Statement/Governance	Sulaiman (2005)
38	Environmental Management System/Policy	ACCA (2003)
F	**CORPORATE GOVERNANCE THEME**	
39	Shariah compliance status	Sulaiman (2005) Ousama and Fatima (2006)
40	Ownership structure: • Number of muslim shareholders and its shareholdings	Sulaiman (2005)
41	Board structure-muslim vs non-muslim	This study
42	Forbidden activities: • monopolistic practice • hoarding necessary goods • price manipulation • fraudulent business practice • gambling	Sulaiman (2005) Ousama and Fatima (2006)
43	Anti-corruption policies	Bursa Saham (2007)