

Sustainability Disclosure among Malaysian Shari'ah-Compliant listed Companies: Web Reporting

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Abstract

This paper advances previous research of sustainability disclosure by focusing on information disclosed in the companies' web site rather than through annual reports. Despite looking at the listed companies in general, this study attempts to consider the practice of disclosing sustainability information in the Malaysian Shari'ah-Compliant listed companies, which represented 87% of the total listed securities or 64.3% of the market capitalization on Bursa Malaysia web site. This study used Islamicity Disclosure Index consists of Shari'ah Compliance Indicator, Corporate Governance Index and Social/Environmental Index, and the data is analysed using a content analysis. The results of the study suggest that the sustainability disclosure by Malaysian Shari'ah-compliant listed companies fall significantly on corporate governance index themes, followed by social/environmental index themes. However, Malaysian Shari'ah-compliant listed companies did not clearly disclose the items under Shari'ah compliance index. Contrary to our expectation, most of the companies disclose the items measured in the annual reports linked to the companies' web site and are thus not fully in the web site.

Keywords: *Sustainability disclosure; corporate social responsibility; internet reporting; shari'ah-compliant listed companies*

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Introduction

The corporate environment is changing more rapidly than ever before, competitive pressures are increasing and stakeholders i.e. shareholders, investors, government and regulators demand more information from organisation not only on the financial aspects but also on non financial issues like corporate social responsibility. In order to remain competitive in the new environment, organisation needs to include social, environmental, corporate governance and stakeholders' concern into corporate strategy. Technology is enabling an organisation to communicate information to its stakeholders in a new and faster way, through the internet. The demand of information on sustainability is increasing. A growing number of writers over the last quarter of century have recognized that the activities of an organisation impact upon the external environment and have suggested that such an organisation should therefore be accountable to a wider audience than simply its shareholders (Aras & Crowther, 2008).

The challenge for organisation today is not only to create value to the shareholders but also need to consider the impacts of its activities to the society as well as the environment. There is a continuing debate pertaining to the role of corporate in the society. Sustainability or corporate social responsibility involves a new way of doing business that extends legal and economic responsibilities to satisfy the legitimate social and environmental expectations of multiple groups of stakeholders (Cresti, 2009).

Various terms are used for the goals desired or intended by organisations that relate to sustainability, including

'corporate social responsibility', 'corporate citizenship' and 'environmental, health and safety'. According to Aras & Crowther (2008) the term sustainability is a controversial topic because it means different things to different people. Similarly, Marrewijk & Werre, (2003) view that there is no specific definition of corporate sustainability and each organisation needs to devise its own definition to suit its purpose and objectives. However, they agree that corporate sustainability and corporate social responsibility are synonymous and based upon voluntarily activity which includes environmental and social concerns. Recently, the term 'sustainability' has started being used by many organisations in their reporting, generally referring to non financial and social objectives, but sometimes using the term to encompass both financial and social objectives. The terms of corporate sustainability and corporate social responsibility have been used interchangeably in this report.

Although, the research on corporate social responsibility has gained a wide attention in developed countries such as Europe and United States, previous studies have found that the level of corporate social responsibility of Malaysian public listed companies is still generally low (Nik Nazli, Maliah, & Siswantoro, 2003; Dawkins & Ngunjiri, 2008). In addition, the reporting of corporate social responsibility in Asian countries is much less comprehensive than in most advanced Western countries. Asian companies remain very cautious about disclosure of information to outsiders on matters related to corporate social responsibility (Debroux, 2006). The prior literatures on corporate social responsibility disclosure focused more on the annual report dis-

closure and gave less attention to the disclosure through corporate web site (Al Arussi, Mohamad Hisyam, & Mustafa, 2009; Williams & Pei, 1999). For example, Williams & Pei (1999) mention that empirical investigations examining the influence of internet disclosure practices is still very much in its infancy. However, for the past few years the study of corporate social responsibility reporting through the internet has started to receive attention in the Asian context (for example Fukukawa & Moon, 2004; Thompson & Zakaria, 2004; Chapple & Moon, 2005; Al Arussi, Mohamad Hisyam, & Mustafa, 2009). This study aims to fill this knowledge gap by examining the sustainability disclosure through corporate web sites among Malaysian Shari'ah-Compliant listed companies.

This paper reports the preliminary results on the sustainability disclosure in the corporate web sites. The themes of sustainability disclosure used in this study are categorized into three: shari'ah compliance indicator, corporate governance index and social and environmental index. The main objective of this study is to investigate how shari'ah compliant listed companies in Malaysia present their corporate social responsibility of the three themes mentioned earlier in their corporate web sites. This study addresses the following research questions: Is corporate sustainability presented on corporate web sites? What types of themes i.e., shari'ah compliance index, corporate governance index and social/environmental index are presented on the web sites? How is corporate social responsibility presented on the web sites?

The remainder of this report is divided

into five sections. The second section reviews the literature. The third section describes the methodology which is then followed by the discussion of the results in section four. Finally, the last section presents the conclusion.

Sustainability/corporate social responsibility disclosure

Over the last decade, sustainable issues have become increasingly significant to policy makers in both the political and the business world (Avila & Bradley, 1993; Ladd Greeno, 1994). As mentioned by Elliot & Elliot (1998), the area of green accounting is probably more popular than pure social accounting because of high profile of green issues in general. Based on their study, the green accounting issues are specifically classified under sustainability and environmental pollution. On the other hand, government and statutory requirements also force manufacturers to improve their environmental performance, for example, waste minimization, pollution prevention, energy conservation and other health and safety issues (Pun et al., 2002).

For example, the Association of Chartered Certified Accountants Malaysia Sustainability Reporting Awards (ACCA MaSRA), previously known as ACCA Malaysia Environmental and Social Reporting Awards (ACCA MESRA) was first introduced in Malaysia in 2002, with the aim to encourage the uptake of sustainability (or corporate social responsibility) reporting among companies in Malaysia. Through the awards, businesses are encouraged to report on the impact of their business operations to the environment and soci-

ety they operate in. By enlarging the awards to embrace sustainability, ACCA hopes to encourage corporate Malaysia to examine and account for their “big picture” consequences on society, economy and environment. By focusing on sustainability reporting, organisations will be able to differentiate themselves from other reporters and this will give them the edge to compete in the global arena.

Not only it is important for companies to engage in favourable sustainability issues, but they also need to report those activities. According to Kolk, van der Veen & Hay (2002), KPMG published an *International Survey of Corporate Sustainability Reporting* to document all the activities of the companies. As mentioned in most published articles, such as Dawkins & Ngunjiri (2008), companies’ disclosure with regard to sustainability information can lead to favorable perceptions of corporate governance and Poitevin (1990) and Ravid & Saring (1991) mentioned that this information will be used by investors to make decisions. According to Dawkins & Ngunjiri (2008), disclosures on corporate social responsibilities are one way that companies demonstrate their legitimacy to stakeholders.

From Islamic perspective, social responsibility is resulted from the concept of brotherhood and social justice (Mohd Rizal, Rusnah, & Kamaruzaman, 2006). The practice of social justice will prevent Muslims from doing harm and is strengthened through the concept of *ukhuwwah* (brotherhood). Brotherhood makes Muslims responsible to each other. The commitment of Islam to justice and brotherhood demands that Muslim society take care of the basic needs

of the poor. Further, Mohd Rizal, Rusnah & Kamaruzaman (2006) suggest that the *tawhidic* approach be used for corporate social responsibility disclosure. The *tawhidic* approach consists of three relationships, which are to Allah, human and environment. They explain that based on the axiom of *Tawhid*, the main objectives of social responsibility should be to demonstrate responsibility not only to Allah and human beings, but also to environment. Hence, the leaders in Islamic business organisations are required to practise corporate social responsibility essentially from the principle of *Tawhid*. It must be remembered that all possessions, wealth, expertise, abilities, positions and power belongs to Allah. Mankind is only trustees to them. As trustees, it is imperative that people manage these possessions to the best or their abilities to create a maximum added value in corporate social responsibility by intention of creating benefit to the *ummah* (community).

According to Mohd Rizal, Rusnah & Kamaruzaman (2006), in Islam, the concept of corporate social responsibility disclosure of Islamic business organisations should include a different set of requirement from the conventional western format. The main objective of Islamic corporate social responsibility disclosure is to show compliance with Islamic Shari’ah, i.e. to demonstrate accountability to Allah. Disclosure from an Islamic perspective of accounting means disclosing information that would aid economics as well as religious decision-making. The implications of this is that Islamic business organisations should disclose all information necessary to advise the Islamic ummah about their operations, even if such information would work against the firm itself. They

suggested that Islamic business organisations should make a disclosure on corporate mission statement, information related to the top management, unlawful (*haram*) operations, Shari'ah Advisory Board, zakat, employees, products and services, community involvement, *qard al-hasan* funds and environment.

Shahul Hameed, Wirman, Alrazi, Mohd Nazli, & Pramono (2004) argued that the development of the indices to gauge the performance of Islamic business organisations nowadays is seen important as there is a growing awareness among the Muslim community to assess how far these organisations have successfully achieved their objectives. Further, they viewed that most Muslims now are not only conscious about how much of the return they can get, but more importantly, to where their money has been invested. While for the non-Muslims community such indices are beneficial to them to compare between organisations that have performed better, perhaps in terms of returns as well as the social responsibilities. The authors suggested two types of indices – Islamicity Disclosure Index and Islamicity Performance Index. These indices are developed to help stakeholders i.e. depositors, shareholders, religious bodies, government etc to evaluate the performance of Islamic financial institutions. The Islamicity disclosure index is to examine how well the organisations are disclosing the information that might be useful to the stakeholders. On the other hand, the Islamicity performance index is about the performance of the organisation that covers the profit-sharing performance, zakat performance and equitable distribution performance.

State-of-the-art of sustainability disclosure in Malaysia

ACCA (Nik Nazli, Maliah, & Siswan-toro, 2003) in its Environmental Reporting Guidelines for Malaysian Companies has defined environmental reporting as

‘the disclosure by an entity of environmentally related data, verified (audited) or not, regarding environmental risks, environmental impacts, policies, strategies, target, costs, liabilities, or environmental performance, to those who have an interest in such information, as an aid to enabling their relationship with the reporting entity via either, the annual report and account package, a standalone corporate environmental performance report, a site-centred environmental statement or some other medium (e.g. Staff newsletter, video, CD-ROM and website) (page 9).

According to the ACCA there is no statutory requirement in Malaysia requiring public-listed companies to disclose environmental information to the public except for the legislation such as Occupational Safety and Health Act, 1994 and associated regulations. Based on the report summary of the ACCA (2005), the number of companies reporting on environmental performance has increased from 25 companies in 1999 to 43 in 2002 and reached 60 companies by 2003. Up to 2004, the manufacturing sector is the largest sector to be engaged in environmental reporting, followed by the plantation sector and then, the trading and service sectors.

The ACCA's report (2005) claimed that the level of awareness among the firms in Malaysia to report their environmental practice is at an early stage. Thus, the companies need further explanation and motivation by the government such as granting them incentives and providing appropriate skills and environmental training programs. Hasnah, Sofri, Andrew, Sharon, & Ishak (2004) also found in their study that corporate social disclosure among Malaysian companies was very low compared to other countries such as European countries.

Accordingly, Romlah, Takiah, & Nordin (2002) investigated the environmental reporting practice in the annual reports. The results of the study indicated that environmental information was not well published in the annual reports of Malaysian companies. The majority of the information can be found in the Review of the Operation and in the Chairman's Statements. Another study conducted by Environmental Resources Management Malaysia (2002) on the current status of environmental reporting in Malaysia demonstrated that there are an increasing number of Bursa Malaysia main board companies engaging in some form of environmental reporting. The recent survey done by Bursa Malaysia in 2007 (Ng, 2008) revealed that Malaysian listed companies showed poor understanding and lack of awareness in incorporating corporate social responsibility policies and disclosures in their daily operations. A breakdown of the results show that 11.5% are in the poor category, 28.5% are in the below average and 27.5% are in the average categories. The responses were based on the disclosures during their operations in the financial year of 2006 and 2007 and measured based on marketplace, work-

place, environment and community dimensions. However, no research reveals the number of Malaysian Shari'ah-compliant companies which disclosed the sustainability disclosure in Malaysia.

Corporate social responsibility communication and web sites

Previously, researchers used annual reports as their medium of communication (Che Zuriana, Kasumalinda, & Rapih, 2002). As reasons provided by Adam & Harte (1998), corporate annual reports can be of interest as much for what they do no report, as for their actual content and it is main form of corporate communication and in the case of quoted companies, is made widely available. However, recently with the advancements in information and communication technology, an annual report is no longer the first ranking medium for investors to gather companies' information. Jones & Walton (1999) mentioned that environmental reporting is now appearing in different formats and in different communication methods. Jones & Walton (1999) stated that the internet should become an important medium to communicate environmental information because it is an expanding medium through which corporate stakeholders are increasingly gathering and disseminating information about companies' activities to global audience.

A number of researchers agree that the internet as an important medium to communicate corporate social responsibility information (see for example Chaudhri & Wang, 2007; Wanderly et al., 2008; Akinci Vural & Oksuz, 2009). For example, Wanderly et al. (2008) mentioned that corporate communication is a

much under-investigated area of corporate social responsibility. They also explained that internet is increasingly becoming one of the main tools for corporate social responsibility information disclosure, as it allows companies to publicise more information less expensively and faster than ever before. Unlike traditional media i.e. newspapers, magazines, billboards, television and radio, the internet allows the company to publicise detailed and up-to-date information. Moreover, the information remains permanently available on the web, allowing the internet user to choose which subjects he/she wants to access and as often as he/she wishes. Corporate websites provide an official perspective regarding corporate social responsibility within the corporation for all its stakeholders.

In order to prepare an environmental or sustainability reports, companies likely need to have a large amount of environmental or sustainability information, thus according to Philips et al. (1999), internet technology has made the task easier to store and retrieve large quantity of environmental or sustainability data required. As mentioned by Williams & Pei (1999), the World Wide Web has the ability to deliver information to a wider spectrum of stakeholders across a

broader locality than the traditional print medium of annual reports. However, in Malaysia Williams & Pei (1999) also mentioned the disclosures of sustainability and corporate social information did not provide any significance differences either by printed annual reports or by website. The study of corporate social responsibility communication on the internet has started to receive attention in the Asian context (Thompson & Zakaria, 2004; Chaudhri & Wang, 2007; Al Arussi, Mohamad Hisham & Mustafa, 2009).

Methodology

The Sample

The sampling frame for this study is Malaysian Shari'ah-Compliant companies listed on the main board of Bursa Malaysia. As at 28 November 2008, there were 855 Shari'ah-compliant securities as determined by the Shari'ah Advisory Council (SAC) of the Securities Commission (SC). This represented 87% of the total listed securities or 64.3% of the market capitalisation on Bursa Malaysia (Bursa Malaysia, 2009). The list of the companies was obtained from Bursa Malaysia website, accessed on 5 April 2009. Of the 855 shari'ah compliant securities, this study focuses on the 523

Table 1: Sample Selection

Industrial Sector	Number of Companies in Sample
Consumer Products	16
Industrial Products	19
Construction	16
Trading/Services	26
Properties	20
Plantations	20
Technology	17
Total	134

shari'ah compliant companies which are listed on the main board of Bursa Malaysia. However, this paper reports the preliminary results of the study which covers only a part of the total main board shari'ah-compliant listed companies. Table 1 illustrates the sample selection for the preliminary results of the study.

The SAC has applied a standard criterion in focusing on the activities of the companies listed on Bursa Malaysia. As such, subject to certain conditions, companies whose activities are not contrary to the Shari'ah principles will be classified as Shari'ah-compliant securities. On the other hand, companies will be classified as Shari'ah non-compliant securities if they are involved in the following core activities:

- (a) Financial services based on *riba* (interest);
- (b) Gambling and gaming;
- (c) Manufacture or sale of non-halal products or related products;
- (d) Conventional insurance;
- (e) Entertainment activities that is non-permissible according to Shari'ah;
- (f) Manufacture or sale of tobacco-based products or related products;
- (g) Stockbroking or share trading in Shari'ah non-compliant securities; and
- (h) Other activities deemed non-permissible according to Shari'ah

This study focuses on shari'ah-compliant companies because it is expected that these companies are more accountable in disseminating information to the stakeholders. Islamic accountability is defined by Shahul Hameed, Wirman, Alrazi, Mohd Nazli, & Pramono (2004) as being premised on both Islamic/Muslim organisations and owners with dual accountability. The

first accountability arises through the concept of *Khilafa* whereby a man is a trustee of Allah's resources. This primary accountability is transcendent, as it cannot be perceived through the senses. However, it is made visible through the revelation of the *Qur'an* and *Hadith*, which are the sources of Islamic teachings. The second accountability is established by a contract between an owner or investor and a manager. To discharge the secondary accountability, the company should identify, measure and report the socio-economic activities pertaining to Islamic, social, economic, environmental, and other issues to the owner.

Data Collection

Data were collected using the information disclosed in the companies' web site. This study used the disclosure via web sites because these media are a popular alternative mechanism for disseminating accounting information (Williams & Pei, 1999). According to Williams & Pei (1999) the disclosures via World Wide Web has several advantages. First, the World Wide Web has international implications which are its potential to promote harmonization in disclosure practices. Second, the World Wide Web has the ability to deliver information to a wider spectrum of stakeholders across a broader locality within the same time frame with greater regularity and lower cost. Further, this study chooses disclosure via World Wide Web since the influence of this medium on disclosure practices are still very much in its infancy (Williams & Pei, 1999; Al Arussi, Mohamad Hisyam, & Mustafa, 2009).

The screening of the corporate web sites

of the companies reported in these preliminary results was carried out from April until June 2009. The web sites of the shari'ah-compliant listed companies were located through the Bursa Malaysia web site which provides links to the companies' websites. If the companies' web sites were not found there, the most widely used search engines such as Google and Yahoo were used to discover it.

Measurement of the Quantity and Nature of Sustainability Disclosure

The quantity of sustainability disclosures was measured using content analysis. Krippendorff (1980) states that content analysis is a research technique for making replicable and valid inferences from data according to their context. This technique has been readily applied and widely used in corporate social disclosure-based research (see for example Gray, Kouhy, & Lavers, 1995a; 1995b)

A checklist instrument categorized sustainability disclosures into three major themes: (1) shari'ah compliance indicator; (2) corporate governance index; (3) social and environmental index. This instrument was adopted from the study carried out by Shahul Hameed, Wirman, Alrazi, Mohd Nazli, & Pramono (2004) with some modification. This instrument is originally called an Islamicity Disclosure Index and is developed particularly for Islamic financial institution to help stakeholders i.e. depositors, shareholders, religious bodies, government, etc to evaluate their performance. Shahul Hameed, Wirman, Alrazi, Mohd Nazli, & Pramono (2004) explained that the Islamicity disclosure index is meant to

examine how well the organisation is disclosing the information that might be useful to the stakeholders. All the items chosen are supported by the literature from various authors and sources. Details on the items of the Islamicity disclosure index for each theme (15 items on shari'ah compliance indicator, 35 items on corporate governance index and 14 items on social and environmental index) are presented in Appendix 1.

Based on the items of the Islamicity disclosure index, a checklist table is prepared using Excel. Each item was formulated on a simple yes/no basis, encoded as 1 for the disclosure on the corporate web site only and 2 for the disclosure in the annual report linked on the corporate web site. However, if no disclosure made neither on web sites nor in the annual report linked on the web site, 0 was encoded. Further notes were made if the corporate web site was not updated or the annual report linked on the corporate web site could not be opened or the placement of CSR information on the corporate web site (home page vs. primary/secondary link on its home page). It is very important to reinforce that this study only examined the disclosure appeared on the corporate web site or in the annual report linked on the corporate web site. If a company did not meet any of both mentioned situation, then the company is considered to have no disclosure of corporate social responsibility. At the end of the coding process, total numbers of disclosures were summed up separately for the disclosures on the web sites and in the annual reports linked on the corporate web sites.

Results and discussion

Figure 1 provides descriptive statistics for the total sample. Overall, the Malaysian shari'ah-compliant listed companies do have some disclosures on shari'ah compliance, corporate governance and social and environmental. Figure 1 shows that 56.4 percent of the sample companies were found to have disclosure on corporate governance, followed by 43.9 percent on the social and environmental and 16.3 percent on the shari'ah compliance. This is not a surprising result since the corporate governance is a mandatory disclosure in Malaysia (Malaysian Institute of Corporate Governance, 2009). The Malaysian Institute of Corporate Governance required the Malaysian companies to disclose

information such as the composition of the board of directors (BOD), recruitment of new directors, remuneration of directors, the use of board committees, their mandates and their activities.

Regarding the disclosure on the corporate governance theme, the lowest disclosure made by the companies falls on shari'ah board's representative in BOD under the composition on BOD category. Besides that, none of the companies made a single disclosure on the shari'ah supervisory board category. The possible explanation for this result could be due to the newly-introduced of the stage of the identification of the Malaysian shari'ah compliant companies. Shari'ah compliant securities are introduced in 1997, and the list is updated regularly to keep investors informed the

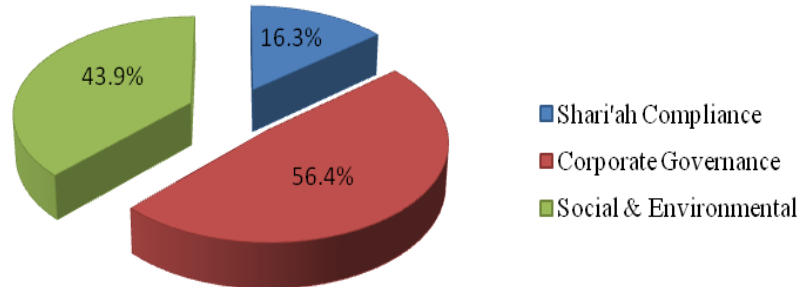


Figure 1: Overall Sustainability Disclosure

shari'ah status of listed securities based on the latest audited annual report of the companies (Security Commission Annual Report 2005). Another possible reason to explain the low level of disclosure on this item could be because there was no clear guideline made by either Bursa Malaysia or the Malaysian Institute of Corporate Governance on the disclosure for this item.

For the shari'ah compliance theme, the items on basic information category such as the company's vision, mission and objective, and its principal activities appeared to be the most favourable items to be disclosed. Clearly, all these are common information that can be found either on the corporate websites or in the annual report. However, pertaining to the disclosure on the payment of zakat,

(v) Zakat

The Group recognises its obligations towards the payment of zakat on business. Zakat for the current period is recognised as and when the Group has a current zakat obligation as a result of a zakat assessment. The amount of zakat expenses shall be assessed when a company has been in operation for at least 12 months, i.e. for the period known as "haul".

Zakat rates enacted substantively enacted by the balance sheet date are used to determine the zakat expense. The rate of zakat on business, as determined by the National Fatwa Council for 2008 is a 2.5% of the zakat base. The zakat base of the Group is determined based on the profit after tax of eligible companies within the Group after deducting certain non-operating income and expenses. Zakat on business is calculated by multiplying the zakat rate with zakat base. The amount of zakat assessed is recognised as an expense in the year in which it is incurred.

Excerpt from the annual report of Pharmaniaga Berhad

only three of the sample companies made such disclosure. The following is the example of the disclosure on the payment of zakat found in one of the companies (see the next page)

The low level of disclosure on the Shari'ah Compliance theme is inconsistent with the suggestion in the prior literature. For example Khan (1994), Shahul Hameed, Wirman, Alrazi, Mohd Nazli, & Pramono (2004), Mohd Rizal, Rusnah & Kamaruzaman (2006) suggested that Islamic business organisations should disclose additional information on zakat payable, treatment of the employees, Islamic and non-Islamic investments, Islamic and non-Islamic revenue and adherence to the Islamic code of ethics. The low level of disclosure particularly on the zakat payment is interesting and could trigger a question for future research that is whether the Islamic business organisations in Malaysia pay the zakat but do not disclose the information or they do not make the zakat payment at all.

Referring to the details result presented in Table 2 (see the next page), the high-

est level of disclosure for shari'ah compliance is made by plantations sector followed by trading/services, properties, technology, construction, consumer and industrial products. While for the corporate governance, technology sector disclosed the highest. This is followed by the plantation, construction, industrial, properties, trading/services and consumer products. The technology sector also made the highest disclosures on the social and environmental theme. The plantation sector is the second highest followed by construction, industrial products, trading/services, consumer and properties.

The comparison to the prior studies may be difficult to be made due to the different themes used amongst studies. For examples, shari'ah compliance was not widely used in the past. Though the study of Shahul Hameed, Wirman, Alrazi, Mohd Nazli, & Pramono (2004) used the shari'ah compliance, the study only focused on the Islamic financial institutions. Consequently, the interpretation of the results in this study should be carefully made since the sample of this study only includes the Malaysian

Table 2: Sustainability Disclosure by Industries

Industrial Sector	Shari'ah Compliance		Corporate Governance		Social & Environmental	
	No. of items	% of disclosure	No. of items	% of disclosure	No. of items	% of disclosure
Consumer Products	28	11.7	192	34.3	61	27.2
Industrial Products	27	9.5	392	58.9	111	41.7
Construction	30	12.5	354	63.2	97	43.3
Trading/Services	74	19.0	425	46.7	117	32.1
Properties	51	17.0	362	51.7	51	18.2
Plantations	86	28.7	488	69.7	158	56.4
Technology	32	12.5	433	72.8	228	95.8

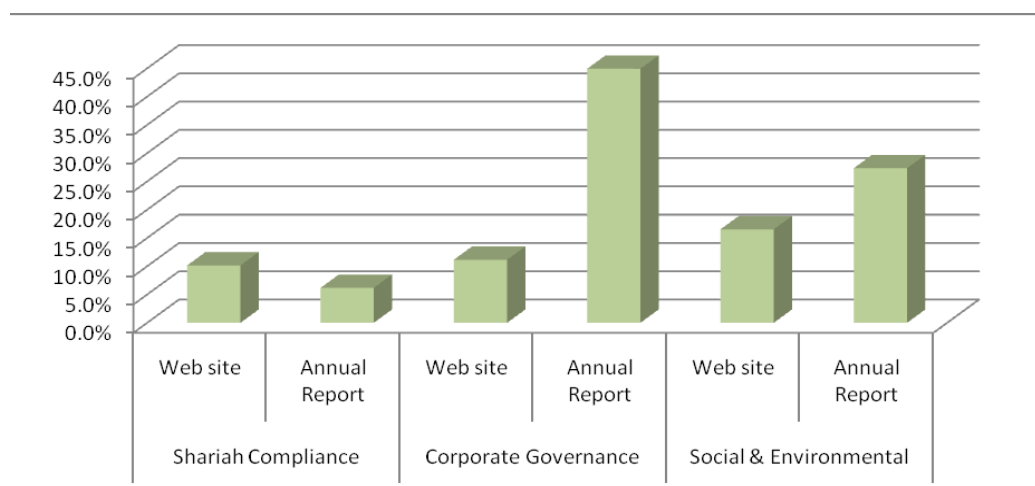


Figure 2: Comparison of Sustainability Disclosure between Companies' Web Sites and Annual Report Linked on Companies' Web Sites (Overall Companies)

shari'ah-compliant listed companies added with the use of different themes in this study. Besides that, this study only analyses the companies that have web sites and annual reports that linked on the companies' web sites.

Figures 2 and 3 present the results on comparison of sustainability disclosure between companies' web sites and an-

nual report linked on companies' web sites of overall companies and by industries respectively. Overall, the Malaysian shari'ah-compliant listed companies disclosed sustainability information in the annual report linked on the companies' web sites compared to disclose directly in the companies website (see Figure 2). This study also found that 28 companies (21 percent) only disclosed the basic/

minimal information such as the business activities and vision and mission on their web sites. These companies also did not have a link to the companies' annual report. Al Arussi, Mohamad Hisyam, & Mustafa (2009) found that the level of technology is significantly related to the internet financial and environmental disclosure. They expected that the companies that have the infor-

mation system department are more likely to disclose more information through their web sites. This probably could explain for the lack of information disclosed on the web sites by these companies. Mostly, the annual reports linked on the companies web sites are found under the investor relation or financial section. The disclosure of sustainability in the companies' web sites could also

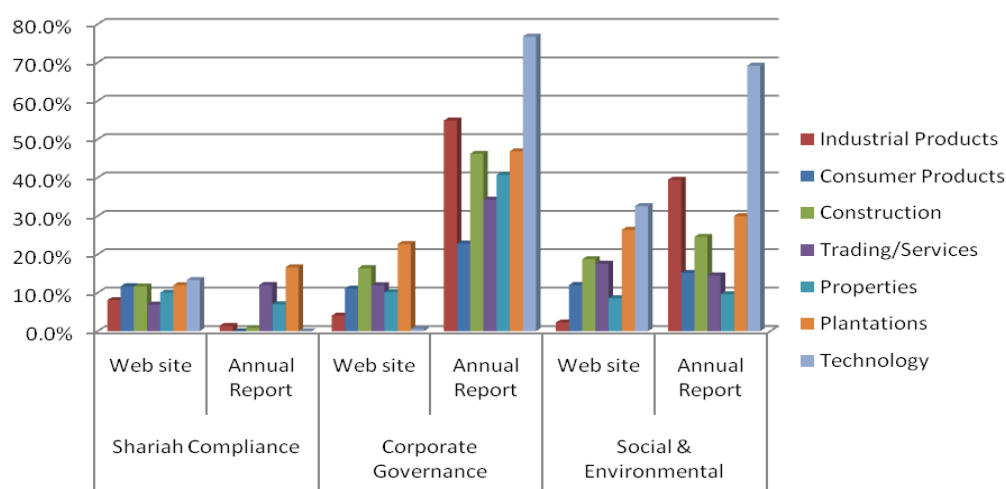


Figure 3: Comparison of Sustainability Disclosure between Companies' Web Sites and Annual Report Linked on Companies' Web Sites (By Industries)

be found in other sections such as "About us" and "Company Profile". There are also companies that have the separate sections that disclose the information about corporate governance and corporate social responsibility on its own.

From Figure 3, it shows that the technology industry has the highest sustainability disclosure either in the companies' web site or annual report linked to the companies' web sites.

Conclusion

The main objective of this study is to investigate how shari'ah compliant listed companies in Malaysia present their corporate social responsibility of the three themes (Islamicity disclosure) on their corporate web sites. It was found that the format of information provided is diverse. Most of the companies disclose the items measured in the annual reports linked to the companies' web site and are thus not fully found in the corporate

web site. This study reports the preliminary results of 134 companies. Most Malaysian Shari'ah-compliant listed companies disclose information related to sustainability disclosure fall significantly on corporate governance index themes, followed by social and environmental index themes. However, Malaysian Shari'ah-compliant listed companies did not clearly disclose the items under Shari'ah compliance index. The result provides further evidence that mandatory rules and regulation to disclose corporate governance information will be one of the motivation factors for the companies to disclose such information. Accordingly, the results of this study provide some preliminary evidence of the growing awareness within the Malaysian Shari'ah-compliant listed companies of disclosing sustainability information, so as to unveil the corporate image and to be sustained as responsible corporate citizens.

As with any consideration in Islamicity index to further investigate the shari'ah compliance complied by the listed companies, the results suggested that companies in different sectors have their own perception in terms of shari'ah disclosure. This is not surprising given that plantation was the highest ranking in disclosing Shari'ah information because this type of companies is environmentally-sensitive industries. By assuming this type of industries does not involve in any illegal operation, these results provide some implication to the sector across industry groups where companies that declare themselves as Shari'ah-based companies which categorised as environmentally-sensitive industries may have more concern to disclose sustainability information according to the Islamic rules.

The results provide evidence on the level of accountability of Islamic business organisations to disclose information that can help the Muslim community to make economics and religious decision-making. As there is limited empirical evidence on the Shari'ah compliance disclosure, the findings from this study could be used as a benchmark for future research. Further, this study also provides an indication of the use of electronic media, in particular, World Wide Web, in disclosing information to the stakeholders, rather than just traditional print media. The findings contribute to the limited body of knowledge in this area.

The findings have several implications. First, it appears that without some form of mandatory regulation, voluntary disclosure with regard to sustainability information is unlikely to result in either a high quality of disclosure or sufficiency of disclosure among Malaysia Shari'ah-compliant listed companies. Absence of sustainability disclosure standard is likely to be one of the possible reasons of lacking in information being disclosed in website or annual report linked to the website. Second, the disclosure of sustainability information in web site confirms the proposition in the literature review that suggests the web site will easily disseminate information to a global audience. This study shows that even though the application of web site in disseminating information to the interested parties is still at infancy stages, most of the companies relied on the accuracy of the website function, where they are likely to include their annual reports that linked to their companies' website which can be traced and seen by outsiders.

To add to the findings of the present study, future work may be undertaken in several areas. First, the research can be replicated with a bigger sample size to enable the application of some statistical tests to determine the relationship between the sustainability information and Malaysian Shari'ah-compliant listed companies' performance. Additionally, surveys and interviews may be conducted with those who prepare annual reports and in-charge to link the reports to their companies' web site in order to elicit their views of the web site reporting. Finally, research to determine the possible underlying theory rather than just adapting the theory suggested by the previous literature in disclosing sustainability information should be undertaken

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Appendix 1

Islamicity Disclosure Index

Shari'ah Compliance Index

- 1 *Shari'ah* Supervisory Board (SSB):
 - a. The appointment of SSB
 - b. The report of SSB
 - c. Identification the actual activity conducted
 - d. The SSB members' background (Name, Educational background, experiences)
- 2 Basic of Information
 - a. The Vision, mission and objectives
 - b. Principal activity
- 3 Financial Statement
 - a. Identification of *Islamic* investment
 - b. Identification of non-*Islamic* investment
 - c. Identification of *Islamic* revenue
 - d. Identification of non-*Islamic* revenue
 - e. Provide the statement of sources and uses of funds in *Zakat* and charity
 - f. Provide the statement of sources and uses of funds in the qard funds
 - g. Identification sources of revenue :
 - a. excluded revenue attributable to depositors
 - b. excluded revenue attributable to *Murabaha* financing
 - h. The adoption of current value whenever it is possible
 - i. Value added statement

Corporate Governance Index

- 1 Composition of board of directors
 - a. The board of directors comprises at least one-third of independent non-executive director
 - b. The board of directors has representative from *Shari'ah* board
 - 2 Appointment and Re-appointment
 - a. The directors retire by rotation once in three years and subsequently eligible for re-appointment
 - b. The reappointment of non-executive directors is not automatic
 - c. The terms of appointment of the non-executive directors are disclosed
 - 3 Board meetings
 - a. Board meetings were conducted at least four times a year
-

Appendix 1

Islamicity Disclosure Index (*continued*)

	b.	Number of board meetings held in a year and the details of attendance of each individual director in respect of meetings held are disclosed
	c.	Directors attend at least 75% of meeting on average
4		Directors' fees and remuneration
	a.	Directors remuneration is disclosed
	b.	Separate figures for salary and performance-related elements, and the basis on which performance is measured are be explained
	c.	Shareholder approve directors aggregate pay
5		Nomination committee
	a.	The company has nomination committee
	b.	The committee should exclusively consists of non-executive directors which majority are independent
6		Remuneration Committee
	a.	There is a Remuneration Committee
	b.	Remuneration consisting wholly or mainly of non-executive directors
	c.	Membership of the remuneration committee should appear in the directors' report
7		Audit Committee
	a.	There is an audit committee
	b.	The Audit Committee consists of at least three non-executive directors, whom majority are independent
	c.	Audit committee include someone with expertise in accounting
	d.	Audit committee recommends the external auditor at the annual shareholders meeting
	e.	At least, once a year the committee met with the external auditors without executive board members present, to review financial statement
	f.	Details of the activities of audit committees, the number of audit meetings held in a year and details of attendance of each individual director in respect of meetings are disclosed
	g.	Audit committee members attend at least 75% of meetings on average
8		<i>Shari'ah</i> Supervisory Board
		Include someone with expertise in accounting
		SSB meets with audit committee and/or external auditor to review financial statement
		Details of the activities of SSB, the number of board meetings held in a year and details of attendance of each individual member in respect of meetings are disclosed
		SSB committee members attend at least 75% of meetings on average
		SSB is independent body
9		Others
		Directors, senior management are qualified persons in terms of educational background, working experience etc

Appendix 1

Islamicity Disclosure Index (*continued*)

Chairman and CEO are different persons

There is a Risk Management Committee

English disclosure exists

There is a statement on Corporate Governance

The maintenance of an effective system of internal controls is disclosed

There is director's report

Social and Environmental Index

1. Policy and objective

Mission statement/statement of environmental policy

Mission statement/statement of social policy

Environmental target and objective

Social target and objective

2. Community issues

Consumer care

Community involvement

3. Employees issues

Health and safety

Employee training

Reporting on other issues

4. Environmental issues

Environmental protection

View on environmental issues

Environmental Management System

Energy saving

Environmental indicators and target
