

Corporate Environmental Responsibility Disclosures of Shariah-Compliant Companies in Bursa Malaysia

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ABSTRACT

The aim of this research is to investigate the disclosures and factors influencing of corporate environmental responsibility (CER) in the annual reports of Shariah-compliant companies listed in the Main Market of Bursa Malaysia. A total of 254 company annual reports for the year 2010 were analyzed. Regression analysis was used to examine the relationship between corporate environmental responsibility disclosure (CERD) and independent variables consisting of independent non-executive directors, Muslim chairman/president of the board, Muslim ownership structure, profitability, auditor types, company size and industry profile. Study findings suggest that there is a fair amount of CER disclosure amongst Shariah-compliant companies listed with Bursa Malaysia. The study revealed that the presence of a Muslim chairman/president, the type of auditors employed and a company's size have a significant relationship with CER disclosure. In contrast, the extent of CER disclosure is insignificant with regard to the proportion of independent non-executive directors on company boards, the level of Muslim ownership, profitability and industry profile. The research shows that the level of CER disclosures is different across sectors and is relatively low. This study provides evidence for regulatory bodies such as Shariah Advisory Council (SAC) of the Securities Commission Malaysia to look further at Shariah-compliance guidelines and to enforce new policies on environmental reporting.

Keywords: Corporate environmental responsibility, Shariah-compliant companies, disclosures, annual reports, independent non-executive directors, Malaysia.

1. INTRODUCTION

The disclosure of corporate social as well as environmental information has become a debatable issue over the past several years. In this context, companies have been regarded as a major source of pollution and, therefore, have been facing increasing pressure to reduce the impact of their operations on the natural environment. In addition, stakeholders have become more concerned with the way that, their companies interact with the environment, and the extent to which they are engaged in environmental preservation and pollution prevention.

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Disclosure is very important to stakeholders as it provides them with the information necessary to reduce uncertainty and help them make suitable economic and financial decisions. Hendriksen (1992) defines disclosure as showing information that is significant to investors, creditors and other stakeholders in ways that allow them to predict future business profitability and meet business liabilities. In this context, the transparency of corporate social and environmental reporting is vital for economic stability and the promotion of sustained levels of high quality investment by companies.

In Islam, the concept of social accountability has resulted in the concept of full disclosure, where the community has the right to know about the effects of a company's activities and operations on society (Maali, Casson & Napier, 2006). One of the avenues by which a company can demonstrate accountability and commitment in serving the needs of the Muslim community and society in general is the disclosure of relevant and reliable information in corporate annual reports (Haniffa & Hudaib, 2002). Moreover, in line with Islamic concepts and principles of full disclosure and social responsibility, companies should disclose both quantitative and qualitative information in their annual reports. The reports should include information on the company's mission and objectives, and information on the management team and members of the boards of directors (Mali et al., 2006).

It is therefore, important to recognize the need for Muslims to invest in companies that conduct their activities in strict accordance with Islamic principles (Maali et al., 2006). As a result, the Securities Commission Malaysia through its establishment of a *Shariah* Advisory Council (SAC) has categorized public-listed companies into *Shariah*-compliant and *Shariah* non-compliant companies. Ideally, *Shariah*-compliant companies are expected to conduct their business in accordance with Islamic principles. Based on the concepts of social accountability and full disclosure, users of the annual reports of *Shariah*-compliant companies' may expect the voluntary disclosure of relevant information (Ousama & Fatima, 2010). In this context, it is presumed that *Shariah*-compliant companies would disclose information about company activities that could be unfriendly to the environment, in addition to information on any corporate environmental protection programmes that might support the environment (Ousama & Fatima, 2010). This is in line with Islam's instructions to protect the environment and condemn its destruction or exploitation (Hanifa & Hudaib, 2002).

There is an extensive accounting literature relating to the determinant factors of environmental disclosure that suggests that board attributes and company characteristics are associated with variations in the extent of environmental disclosure across companies (Hackston & Milne, 1996; Pahuja, 2009; Reverte, 2009). All this research has linked conventional studies on board attributes (independent non-executive directors, chairman/president of the board, board

composition, CEO duality and audit committee) and company characteristics (size, profitability, auditor types, industry profile, leverage and market listing) with the level of environmental disclosure. Most of these empirical studies were undertaken in the United States, Europe, Australia and the Middle East.

Despite the growth of the Islamic capital markets in Malaysia, research on corporate environmental responsibility disclosure, especially among *Shariah*-compliant companies remains relatively limited. This is important because Islamic capital markets, especially the *Shariah*-compliant securities market in Malaysia, are the fastest growing segment of the overall capital market (Ousama & Fatima, 2010). Malaysia is an interesting environment for furthering investigation into corporate environmental responsibility disclosure by *Shariah*-compliant companies, given that it is one of the key players in the world of Islamic finance and Islamic capital markets (Abderrezak, 2008).

Therefore, this study aims to fill the existing knowledge gap by using secondary data to examine the relationship between the extent of corporate environmental disclosure and board attributes and company characteristics. An understanding of board attributes and company characteristics would assist in determining the extent to which the annual reports of *Shariah*-compliant companies contain environmental responsibility disclosures. Consequently, higher rates of environmental responsibility disclosure among *Shariah*-compliant companies could encourage investor confidence in *Shariah*-compliant securities. Subsequently, *Shariah*-compliant companies are expected to disclose the quality and useful information of the company to demonstrate their accountability and transparency to current and prospective investors, as well as to society in general. In short, such disclosures will boost the confidence level of investors and propel *Shariah* securities to greater heights of acceptance, especially in Malaysia's Islamic capital markets. Finally, this study is motivated by the lack of literature on environmental responsibility disclosure in the annual reports of *Shariah*-compliant companies, especially in Malaysia.

1.1 Research Objectives

This study attempts to accomplish the following main objectives:

- To examine the extent of corporate environmental responsibility (CER) disclosure in *Shariah*-compliant companies.
- To identify the factors (independent non-executive directors, Muslim chairman/president of the board, Muslim ownership structure, profitability, auditor types, company size and industry profile) influencing *Shariah*-compliant companies to disclose corporate environmental responsibility (CER) in their annual reports.

2. LITERATURE REVIEW

2.1 *Shariah*: The Essence of Islamic Perspective

Islam as a way of life, incorporates both permanent features and mechanisms for adapting to change (Dusuki, 2008). While the fundamentals of the Islamic worldview are not subject to change, their manifestation in secondary areas like economics, business and other worldly activities would require flexibility and development according to time and space (Dusuki, 2005). This is embodied in Islamic *Shariah*, which is central to the perspective of Islam. *Shariah* is the fundamental law of any activity of every Muslim whether an individual or organization; every single Islamic business and all activities must adhere to *Shariah* principles, which represent the absolute ethical codes of Islamic religion and culture. This Islamic code *Shariah*-law, imposes strong social obligations on Muslim individuals and organizations (Maali et al., 2006). Sulaiman (2000) opined that, from the Islamic perspective, one's accountability to *Allah* also encompasses one's accountability to society and therefore may be interpreted as promoting social justice and social responsibility. Consequently, a firm operating in Islamic surroundings is expected to be conscious of the impact of its activities on the community. Therefore, there is indeed a need for Muslims to understand and comply with *Shariah* rules.

The main sources of *Shariah* are *Al-Qur'an*, *Hadith*, *Sunna*, *Ijma*, *Qiyas* and *Ijtihad*. *Al-Qur'an* is the book of revelations given to Prophet Muhammad (pbuh), *Hadith* are the narratives relating the deeds and utterances of Prophet Muhammad (pbuh), *Sunna* refers to the habitual practices and behaviour of Prophet Muhammad (pbuh) during his lifetime, *Ijma* is the consensus among Muslim scholars about specific issues not addressed in either *Al-Qur'an* or the *Sunna*, *Qiyas* is the use of deduction by analogy to provide an opinion on a case not referred to in the *Al-Qur'an* or in the *Sunna* in comparison with another case referred to in the *Al-Qur'an* and *Sunna*. *Ijtihad* represents a jurist's independent reasoning relating to the applicability of certain *Shariah* rules on cases not mentioned in either *Al-Qur'an* or the *Sunna* (El-Gamal, 2000).

Overall, the *Shariah* is a system of ethics and values that covers all aspects of human life personal, social, political and intellectual with its unchanging bearings as well as its major means of adjusting to change (Sardar, 2003). It is therefore not possible to separate or isolate *Shariah* from religion or from the basic beliefs, values and objectives of Islam (Kamali, 1989). *Shariah* reflects the holistic view of Islam, which has to be looked at as a whole and not in parts as Islam is a complete and integrated code of life and its goal encompasses the whole life of individuals and society in this world and in the hereafter (Dusuki, 2005).

2.2 The Development of *Shariah*-Compliant Securities in Malaysia

The first move in facilitating the development and innovation of Islamic financial products in Malaysia was the establishment of the *Shariah* Advisory Council (SAC) by the Securities Commission Malaysia (SC) soon after SC's own establishment in 1993. The SAC is responsible for determining the status of securities traded on Bursa Malaysia and whether they can be considered as *Shariah*-compliant which means that the securities are considered as *halal* (permissible) for investment purposes (Jamal, Hambali & Ali, 2010).

Due to the demands from local and foreign investors for *Shariah*-compliant securities, the SAC was given the task of managing and monitoring all matters pertaining to *Shariah*-compliant securities. This includes providing guidance on Islamic Capital Market (ICM) transactions and activities with the aim of standardizing and harmonizing the applications from the companies (Bursa Malaysia, 2010). The SAC applies standard criteria in classifying the securities listed on Bursa Malaysia as *Shariah*-compliant or non-compliant based on a company's core activities. As at 26 November 2010, the SAC had listed a total of 735 *Shariah*-compliant securities. (Securities Commission, 2005b). The list was created by reviewing company annual financial reports, responses to a survey aimed at obtaining detailed company information and through specific inquiries made to the management of the respective companies. Additionally, the SAC will continue to monitor the activities of all public-listed companies on Bursa Malaysia to determine their status from a *Shariah* perspective.

The SAC appoints Islamic scholars and jurists to ensure that the running of the ICM complies with *Shariah* principles. These scholars and jurists advise the SC on all *Shariah* matters related to the ICM and they function as a point of reference for issues related to the ICM. Thus, qualified *Shariah* scholars set a benchmark for an acceptable level of mixed contributions from permissible and non-permissible activities towards a company's turnover and profit before tax (Securities Commission, 2004). If the contributions from non-permissible activities exceed the benchmark, the securities of the company will be classified as *Shariah* non-compliant.

2.3 Environmental Reporting and Islam

Every person in the world dreams of a better life for himself and his family. Everyone wants a good and healthy environment and so the responsibility to protect the environment must be carried out by every single person especially by Muslims. Every Muslim must obey what *Allah* has stated and follow what has been taught by Prophet Muhammad (pbuh). The issue of environmental protection is repeatedly mentioned in *Al-Qur'an* and *Hadith*. According to Masri (1992), about five hundred verses in the *Al-Qur'an* relate to environmental issues and the manner in which such issues are to be treated.

Everyone on earth has been given the right and privilege to use the resources granted by *Allah* for them. People should take precautions, however to ensure that the rights of others are not disrupted in doing so. Taking into account the context of corporate reporting, one would expect that environmental matters would be an important component of disclosures in annual reports. In Islam, reporting on the environment requires a conscious effort on the part of organizations to be more transparent in their disclosure practices. Similarly, the objectives of corporate reporting in Islamic businesses are to show the company's compliance with *Shariah* and to assist users of the information in making economic decisions. Therefore, Islamic businesses should disclose all information about their operations because in the Islamic context, Muslim societies have the right to know how organizations could affect their well-being. Finally, to some extent, this fulfills obligations regarding social accountability and the full disclosure precepts of Islamic corporate reporting (Baydoun & Willet, 2000).

2.4 Corporate Environmental Responsibility Disclosure (CERD) in Malaysia

Studies on environmental disclosure practices in Malaysia are still in the early stages compared to those involving developed countries such as United States and the United Kingdom (Yusoff & Lehman, 2006). Environmental information disclosed by Malaysian companies is very general, qualitative in nature and the type of disclosure varies widely (Nik Ahmad & Sulaiman, 2002). Although there are few reasons for companies to disclose environmental information, the increasing pressure on companies to be responsible to society has influenced them to operate in an environmentally responsible manner (Pahuja, 2009). Ahmad, Hassan and Mohammad (2003) indicated that a company's decision to disclose environmental issues in its annual report is a strategy to mitigate the company's potential associated political and contracting costs. In addition, the study by Jaafar and Buniamin (2004) showed that building a good corporate image is one of the important factors that influence companies to disclose environmental information. As various stakeholders demand greater disclosure of environmental impacts and performance, a large number of companies all over the world have started reporting this information.

Since 1999, there has been an increasing trend among companies listed on the Main Board of Bursa Malaysia to engage in social and environmental reporting (ACCA, 2004). A survey conducted by the Association of Chartered Certified Accountants (ACCA) found an increase in terms of the percentage of companies engaged in environmental reporting; from 5.4 % in 1999 to 10 % in 2003 (ACCA, 2004). However, the overall depth and breadth of reporting varied across sectors. There are three main drivers influencing this trend: a desire to enhance and maintain reputation, enhanced shareholder value and stakeholder awareness (ACCA, 2004). As a developing country, Malaysia has its share of social and environmental problems. Business activities have been blamed for the

deterioration of rivers, forest reserves and public places. The rapid increase in the number of motor vehicles, urbanization and industrial growth have all contributed to the deterioration in air and water quality (Malaysia Ministry of Natural Resources & Environment, 2008). For the last 15 years, Malaysians have experienced higher awareness of the importance of environmental protection, particularly following high-profile problems and disasters such as flash floods in Kuala Lumpur, the Highland Tower collapse in 1993 and the occurrence of widespread and prolonged haze in 1997. As a result, Malaysian companies were widely held to be at least partly responsible for increased pollution, the associated loss of natural habitat and eco-system damage.

3. RESEARCH FRAMEWORK AND METHODOLOGY

3.1 Research Framework

This study proposes a theoretical framework based on past literature and the relationship between board attributes and company characteristics and corporate environmental responsibility disclosure. The framework to be examined is presented in Figure 3.1. The model presents a hypothesized linkage between board attributes and company characteristics and corporate environmental responsibility disclosure among *Shariah*-compliant companies in Malaysia.

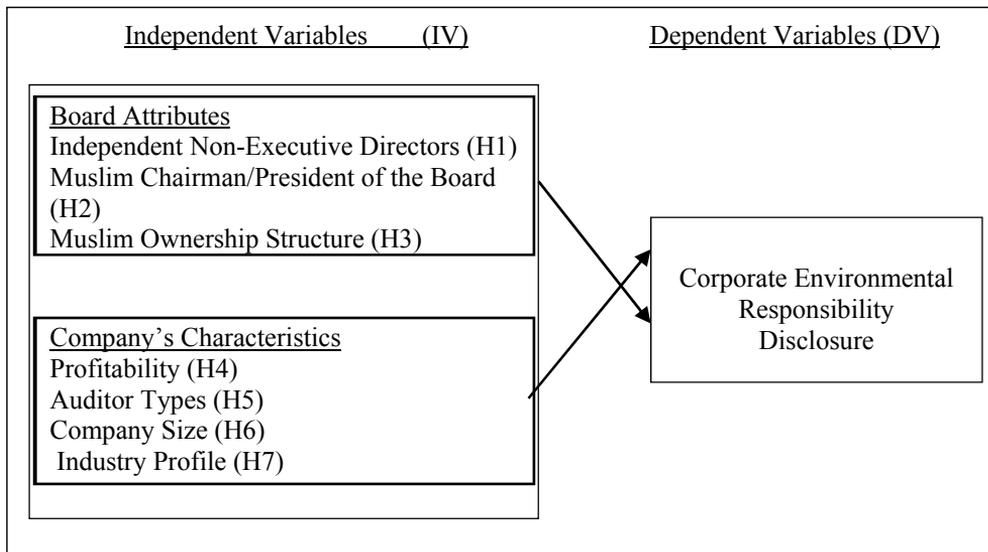


Figure 1: Research Framework

The theory that supports this study is agency theory. The agency theory emphasizes the importance of disclosure in reducing the conflict of interest between agents and principals, arising due to information asymmetry (Sen, Mukherje & Pattanayak, 2011).

3.2 Hypotheses Development

Hypothesis development in this study is based on the agency theory. Hypotheses are developed after considering previous studies on corporate environmental responsibility disclosure.

3.2.1 Independent Non-Executive Directors

Empirical corporate governance literature suggests that the independence and composition of non-executive directors are associated with the level of board independence and will create board effectiveness (Said, Zainuddin & Haron, 2009). Due to that, independent non-executive directors are seen as not only ensuring that firms act according to the best interests of owners (shareholders) but as being tasked with monitoring all of the firm's activities (Haniffa & Cooke, 2005).

In view of the ideas from the above-mentioned discussion, the standing point is that independent non-executive directors have an essential role to play in ensuring that *Shariah*-compliant companies undertake corporate environmental responsibility activities. Therefore, *Shariah*-compliant companies with a higher proportion of independent non-executive directors on their boards are expected to disclose information to reduce agency costs and assure shareholders that they are acting in their interests. These observations and arguments as a whole suggest the following hypothesis:

H1: Independent non-executive directors are positively related to corporate environmental responsibility disclosure.

3.2.2 Muslim Chairman/President of the Board

The chairman is perceived to be a powerful force in an organization (Jones, 2007). Chairmen are charged with the responsibility of formulating corporate strategies and are often deeply involved in promoting the image of their respective firms through social responsibility (David, Donald & Mansour, 2006). In addition, Muslim chairmen may dramatically change company strategic direction as their responsibility is not limited to just increasing the profitability of the company but also extends to other parties related to the company including the stakeholders (Haniffa & Cooke, 2005).

Furthermore, a study by Haniffa and Cooke (2005) found that the chairman of a board has greater power and influence than other board members, including possible influence over the disclosure practices of the firm. Hence, the chairmanship of the board will influence a company's CER disclosure. From the above argument, the hypothesis is as follows:

H2: Muslim chairman/president of the board is positively related to corporate environmental responsibility disclosure.

3.2.3 Muslim Ownership Structure

A company's ownership structure will affect its corporate environmental disclosure (Cormier & Gordon, 2001). Notably, greater pressure on the disclosure of information is expected among public companies (especially from the majority of stakeholders), compared to private companies (Al-Shammari & Al-Sultan, 2010). Companies concerned with risks to investors will disclose more social and environmental information than other firms (Cormier & Gordon, 2001). Mohd Nasir and Abdullah (2004) studied the influence of ownership structure among financially distressed Malaysian firms and found that management shareholding levels have a positive significant relationship with the level of disclosures. From the discussion above, the proposed hypothesis is as follows:

H3: Muslim ownership structures are positively related to corporate environmental responsibility disclosure.

3.2.4 Profitability

Previous studies have widely discussed the significant influence of company profitability on CSER (Ahmad et al., 2003; Camelo, 2008; Joshi & Gao, 2009; Pahuja, 2009). Profitability is expected to influence a company's disclosure as profitable companies may have more resources to devote to social activities and a larger profit base over which to spread the costs of social responsibility (Ahmad et al., 2003). Initially, when company profitability is high, management is encouraged to disclose more information to demonstrate the reputation of the firms to customers, investors, shareholders and other parties.

Haniffa and Cooke (2005) suggested that the profitability ratio in Malaysia plays a significant role in determining the amount of corporate disclosure. It means that the more profitable a company is, the greater the amount of disclosure it provides. In light of the above discussion, the following hypothesis is examined:

H4: The firms with higher profitability are positively related to corporate environmental responsibility disclosures.

3.2.5 Auditor Types

It is argued that auditors can play an important role in improving a firms' overall reporting (Hail, 2002). Previous research suggests that larger audit firms such as the Big- Four auditing firms provide higher quality disclosure level and reliable information to the firms (Watkins, Hillison & Morecroft, 2004). Huang and Kung (2010) argued that when established audits firms work on audits, there is tendency for the analyst to give higher recognition in term of overall quality of corporate disclosure.

As a result, the Big- Four auditors firms strongly preserve their reputation and independence, and at the same time tightening their disclosure standards (Malone, Fries & Jones, 1993). Auditor type may also count as a factor in explaining variations in disclosure. Based on the above discussion, the following hypothesis is examined:

H5: The firms that are audited by the Big- Four audit firms are positively related to corporate environmental responsibility disclosure.

3.2.6 Company Size

Company size has been found to be a significant explanatory variable associated with the level of corporate disclosure in several previous studies (Chau & Gray, 2002; Archambault & Archambault, 2003; Aljifri & Hussainey, 2007; Hossain & Hammami, 2009). Based on the agency theory, size is probably important due to the need to raise capital and because of the pressure and expectation from shareholders and agents to increase disclosure (Ismail & Chandler, 2005). In addition, Alsaeed (2006) noted that large companies tend to disclose greater amounts of information because they are more exposed than small firms in terms of image-building and public interest. In revealing more information, large firms are better able to obtain new funds at lower cost. Additionally, large firms possess sufficient resources to collect, analyze and present extensive amounts of data at minimal cost. Therefore, in order to reduce or manage political costs, most managers (especially those in large firms) will disclose all their CSR activities in the corporate annual report (Aljifri & Hussainey, 2007). Thus, in light of these discussions, the hypothesis is as follows:

H6: There is a positive relationship between a company's size and the level of corporate environmental responsibility disclosure.

3.2.7 Industry Profile

Many studies conclude that a company's industry or sectors are the main predictors of the amount of environmental disclosures (De Villiers & Staden, 2006; Herbohn, 2005; Deegan & Blomquist, 2006). De Villiers and Staden

(2006) assert that companies whose operations modify the environment will tend to disclose more information on the environmental impacts compared to companies in other industries. In this respect, the plantation and mining sectors are found to be significant with respect to CSR disclosure in Malaysia. This is expected in the plantation sector since big companies dominate the sector and are exposed to environmental issues (Amran & Devi, 2008). Following the above argument, environmental sensitivity within industries will affect the extent of environmental disclosures among *Shariah*-compliant companies. The following hypothesis is thus tested:

H7: There is a positive relationship between industry profile and the level of corporate environmental responsibility disclosure.

3.3 Research Methodology

The research method involves an examination of the annual reports of the *Shariah*-compliant companies listed on Bursa Malaysia. The aim of the study is to explore the state of environmental disclosure by *Shariah*-compliant companies in their annual reports. In order to accomplish the aim, the annual reports of the companies in the sample are used to examine the accessibility and extent of the disclosure of environmental information. The annual reports for 2010 were selected for examination, as 2010 was the latest financial year for which all companies' published annual reports were available at the time when the data collection started.

3.3.1 Sample

The population for this study consists of all *Shariah*-compliant companies listed on the Main Board of Bursa Malaysia. As at 26 November 2010, some 735 *Shariah*-compliant companies were listed on the Main Board. For the purpose of this study, 254 companies were selected as a sample using stratified random sampling.

3.3.2 Sampling Method

The samples selected from each industry accounted for approximately 35 % of the population in each sector. The value of 35 % was derived after the overall sample size ($n=254$) was divided by the total population ($n=735$). Since listed companies are categorized differently according to industry type, and the number of companies for each industry was not the same, stratified random sampling was utilized in this research. According to Sekaran (2003), the decision to use this type of sampling is made when some stratum or strata are either too small or too large, or when there is more variability suspected within a particular stratum. The samples were drawn from the annual reports of public-listed *Shariah*-compliant firms in the year 2010, while the distribution of companies was based to Bursa

Malaysia's industry classification. Table 3.1 below shows the number of companies selected by industry.

Table 1: Numbers of Sample Firms Selected from the Main Board of Bursa Malaysia

Industry	Total Listed Firm	Sample Selected
Consumer	130	45
Industrial	255	88
Construction	48	17
Trading/Services	155	54
Properties	71	24
Plantations	38	13
Technology	29	10
Infrastructure	9	3
Total	735	254

Source: *Shariah* Advisory Council of Securities Commission Malaysia, 26 Nov. 2010

3.3.3 Unit of Analysis

The units of analysis are the companies listed with Bursa Malaysia for the year 2010. Specifically, this study examines corporate environmental responsibility disclosure within the annual reports of the sample population. This study is based exclusively on annual reports that are consistent with past studies (Mohammed et al., 2010; Nik Ahmad & Sulaiman, 2004; Unerman, 2000).

3.4 Method of Data Analysis

This study uses content analysis to measure corporate environmental responsibility disclosure. Statistical Package for Social Science (SPSS) software (version 17) is used to find the extensiveness of the environmental information disclosed by *Shariah*-compliant companies in their annual reports. Various techniques such as descriptive statistics, correlation analysis and multiple regression analysis are used in the analysis of different results discussed below;

3.4.1 Descriptive Statistics

Descriptive statistics will be used to study the independent non-executive directors, Muslim chairman/president of the board, Muslim ownership structure, profitability, auditor types, company size and industry profile. Descriptive statistics are used to describe the basic features of the data gathered from the study. This fundamental information is necessary as it illustrates the population represented by the samples.

3.4.2 Regression Analysis

Based on the discussion of dependent and independent variables, the following regression model is developed:

$$\text{CERD} = \beta_0 + \beta_1\text{INED} + \beta_2\text{CPOB} + \beta_3\text{MOS} + \beta_4\text{PFT} + \beta_5\text{ADT} + \beta_6\text{CZ} + \beta_7\text{IP} + \varepsilon$$

where;

CERD = Corporate Environmental Responsibility Disclosure

INED = Independent Non-Executive Directors

CPOB = Muslim Chairman/ President of the Board

MOS = Muslim Ownership Structure

PFT = Profitability

ADT = Auditor Types

CZ = Company Size

IP = Industry Profile

ε = error terms

3.4.3 Correlation Analysis

This analysis is a technique used in hypothesis testing of the relationships among the independent variables and between independent variables and the dependent variable. The significance of the correlation is tested at the 1 % and 5 % level in a two-tail test. A Pearson correlation is used to test the correlation between the independent variables.

4. DATA ANALYSIS AND RESEARCH FINDINGS

4.1 Descriptive Statistics Analysis

This section explains the descriptive statistics of all variables. Table 2 summarizes the results for dependent and independent variables. The mean or average corporate environmental responsibility disclosure (CERD) by *Shariah*-compliant companies selected is 0.2198 and the standard deviation is 0.54238. As for the level of disclosure, the maximum level of disclosure for CER is 4.01 and the minimum level is 0, as there are some companies that do not disclose CER in their annual reports.

Table 2: Descriptive Statistics

	N	Min.	Max.	Mean	Std. Deviation
CERD	254	0.00	4.01	.2198	.54283
INED	254	0.22	0.85	0.44	11.85
CPOB	254	0.00	1.00	0.62	0.48
MOS	254	0.00	1.00	0.19	0.39
PFT	254	-96.88	29.87	3.90	10.50
ADT	254	0.00	1.00	0.62	0.48
CZ	254	2.20	4.61	1.49	5.26
IP	254	0.00	1.00	0.61	0.48

Valid N (listwise)

The maximum ratio for Independent Non-Executive Directors (INED) is 0.85 and the minimum is 0.22. The mean of the proportion of independent non-executive directors to total directors on the board is 0.44, which indicates that the number of independent non-executive directors sitting on the board of *Shariah*-compliant companies is about average. It is noted that, the average level for the Muslim chairman/president of the board (CPOB) variable is 0.62 or 62.0 %. This suggests that some 62.0 % of *Shariah*-compliant companies have a Muslim occupying the position of chairman or president of the board while the rest of the companies (37.4 %) have a non-Muslim chairman or president of the board. The standard deviation is 0.48.

However, the average level of Muslim Ownership Structure (MOS) is 0.19 which indicates that only 19.0 % of the ownership of *Shariah*-compliant companies is held by Muslims while another 81.0 % is held by non-Muslim. This result shows that non-Muslims dominated the ownership of *Shariah*-compliant companies listed with Bursa Malaysia. The standard deviation for this variable is 0.39 or 39.0 %. In addition, the profitability of the companies (as measured by Return on Assets) shows a maximum ratio of 29.87 % for Profitability (PFT), and a minimum ratio of -96.88%. The mean value of company profitability is 3.90% which means that the level of profitability of *Shariah*-compliant companies is moderate given the minimum value of -96.88 % and the maximum value of 29.87 %. However, the standard deviation of profitability is 10.50% which demonstrates that there are large differences in the levels of profitability among *Shariah*-compliant companies.

The mean of Company Size (the natural logarithm of the book value of (Total Company Assets) is 1.49 %. Specifically, the results also show maximum value of 4.61 % and a minimum value of 2.20 %. In addition, the high value of standard deviation (5.2 %) shows that the variation among *Shariah*-compliant

companies (in terms of the size of total assets) is high. The table also reveals that the mean for the Auditors Types (ADT) is 0.62, meaning that about 62 % of the sample of *Shariah*-compliant companies were audited by the Big- Four, while another 38 % were audited by non Big- Four audit firms. The standard deviation was 0.48 or 48.0 %. Finally, the Industry Profile (IP) variable has a mean of 0.61, meaning that about 61 % of the sample of *Shariah*-compliant companies consisted of high profile companies, while 39 % was comprised of low profile companies. The standard deviation for this variable was 0.48.

4.2 Correlation Analysis

As can be seen in Table 3, corporate environmental responsibility disclosure (CERD) has a significant positive relationship with Muslim Chairman/President of the Board (CPOB), Muslim Ownership Structure (MOS), Auditor Types (ADT) and Company Size (CZ). The correlation analysis shows that Muslim Chairman/President of the Board (CPOB) is significant and positively correlated with CER disclosure with a value of (.166). Furthermore, the correlation between CER disclosures and Muslim Ownership Structure (MOS) also has a significant positive relationship with the value of (.169). Meanwhile, the correlation analysis shows that Auditor's Types is positively correlated with CER disclosure with a value of (.196). Finally, the variable of Company Size has a positive correlation with CER disclosure at a value of (.616).

In contrast, the other variables of Independent Non-Executives Directors (INED), Profitability (PFT) and Industry Profile (IP) do not significantly influence the level of CER disclosure. Based on the results shown in Table 3, the correlation between CER disclosure and Independent Non-Executives Directors (INED) is not significant, given a correlation value of (-.075). The relationship between Profitability (PFT) and CER disclosure was also insignificant, with a value of (.060). Finally, the Industry Profile (IP) does not appear to have any significant relationship with CER disclosure given its value of (-.041). The results for these variables (INED, PFT and IP) show that scores of the significance are above 0.05 which, is more than threshold standard for significance. Meanwhile, the p-values must be less than or equal to 0.05 for effect of the variables to be significant.

Table 3: Correlations Results of all Variables

	CERD	INED	CPOB	MOS	PFT	ADZ	CZ	IP
CERD	1	-0.075	0.166**	0.169**	0.060	0.196**	0.616**	-0.041
INED		1	0.059	0.167**	-0.097	0.013	0.058	0.121
CPOB			1	0.383**	-0.099	0.002	0.061	-0.067
MOS				1	0.050	0.161*	0.215**	0.111
PFT					1	-0.032	0.015	0.059
ADT						1	0.166**	0.043
CZ							1	0.044
IP								1

4.3 The Test of Regression Coefficients

The significant effect of a predictor occurs if the significance value is less than 0.05 alpha values used in this study. Otherwise, the effect of the predictor on the dependent variable is considered insignificant.

Table 4: The Coefficient of Multiple Regressions Analysis

Variable	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
Constant	0.199	0.117		1.692	0.092
INED	-0.005	0.002	-0.106	-2.139	0.033
CPOB	0.158	0.059	0.141	2.654	0.008
MOS	-0.010	0.075	-0.007	-0.132	0.895
PFT	0.003	0.003	0.061	1.242	0.215
ADT	0.115	0.055	0.103	2.068	0.040
CZ	6.181	0.000	0.600	12.010	0.000
IP	-0.059	0.055	-0.053	-1.074	0.284

a. Dependent Variable: Corporate Environmental Responsibility Disclosure

Based on the results presented in Table 4, the multiple regressions for *Shariah*-compliant companies listed on the Main Board of Bursa Malaysia are expressed as follows:

$$Y (\text{CERD}) = 0.199 - 0.005\text{INED} + 0.158\text{CPOB} - 0.010\text{MOS} + 0.003\text{PFT} + 0.115\text{ADT} + 6.181\text{CZ} - 0.059\text{IP}$$

From the regression equation above, it can be concluded that CER disclosure is positively related with Muslim Chairman/President of the Board, Profitability, Auditor Types and Company Size. However, CER disclosure is negatively related with Independent Non-Executive Directors, Muslim Ownership Structure and Industry Profile. Additionally, the variables of Muslim Ownership Structure, Profitability and Industry Profile failed to be accepted due to a significance value of more than 0.05. Furthermore, it can be concluded that Muslim Chairman/President of the Board, Auditor Types and Company Size have a positive influence on CER disclosure by *Shariah*-compliant listed companies.

4.4 Hypotheses Testing

The hypotheses developed are tested against the results of the regression analyses.

4.4.1 Hypothesis 1

Based on the regression analysis, Independent Non-Executive Directors have a significant negative relationship with CER disclosure by *Shariah*-compliant companies with Bursa Malaysia. The significance value is equal to 0.033 which is less than the threshold standard that indicates that a p value should be ≤ 0.05 to be significant. Hence, H1 is significant and is accepted.

4.4.2 Hypothesis 2

Based on the regression analysis, Muslim Chairman/President of the Board has a significant positive relationship with CER disclosure by *Shariah*-compliant companies listed with Bursa Malaysia. The significance value is equal to 0.008, which is less than the threshold standard that indicates that a p value should be ≤ 0.05 to be significant. Thus, H2 is significant and is accepted.

4.4.3 Hypothesis 3

Based on the regression analysis, Muslim Ownership structures has no significant influence on the CER disclosure of *Shariah*-compliant companies listed with Bursa Malaysia. The significance value is equal to 0.895 which is more than the

threshold standard that indicates that a ρ value should be ≤ 0.05 to be significant. Thus, H3 is rejected.

4.4.4 Hypothesis 4

Based on the regression analysis, the Profitability of *Shariah*-compliant companies listed with Bursa Malaysia has no significant influence on their CER disclosures. The significance value is equal to 0.215 which is more than the threshold standard that indicates that a ρ value should be ≤ 0.05 to be significant. Hence, H4 is rejected.

4.4.5 Hypothesis 5

Based on the regression analysis, the involvement of the Big- Four audit firms in the performance of audits for *Shariah*-compliant companies listed in Bursa Malaysia has a significant, positive relationship on the CER disclosure of the companies. The significance value for Audit Types is less than the threshold standard that indicates that a ρ value should be ≤ 0.05 to be significant. Since the result shows the significance value is equal to 0.040, the relationship is in the positive direction and H5 is accepted.

4.4.6 Hypothesis 6

Based on the regression analysis, the result shows that Company Size is significantly related to CER disclosure. This suggests that larger firms disclose more than smaller firms do. The significance value is equal to 0.000 which is less than the threshold standard that indicates that a ρ value should be ≤ 0.05 to be significant. Hence, H6 is significant and is accepted.

4.4.7 Hypothesis 7

Based on the regression analysis, the study finds that Industry Profile is insignificantly associated with CER disclosure. The significance value is equal to 0.284 which is more than the threshold standard that indicates that a ρ value should be ≤ 0.05 to be significant. Thus, H7 is rejected.

5. DISCUSSION AND CONCLUSION

5.1 What is the extent of corporate environmental responsibility (CER) disclosure in *Shariah*-compliant companies?

Out of 254 *Shariah*-compliant companies studied 177 reported on corporate environmental responsibility. This shows that the awareness of environmental responsibility among *Shariah*-compliant companies is extremely good. The findings of this study suggest that the high level of CER disclosure amongst *Shariah*-compliant companies may reflect an attempt by the companies to practice corporate reporting that embodies the Islamic principles of full disclosure and social accountability. Hence, an emphasis on environmental-related matters was taken into account by the companies. More importantly, CER disclosure appears to occur irrespective of the size of *Shariah*-compliant companies.

Additionally, Malaysian consciousness of environmental issues and protection is enhanced through campaigns conducted by professional bodies and non-governmental organizations (NGOs). Both organizations play an important role in efforts to spur CER and CER disclosure. In advocating for corporate self-regulation and raising public awareness and expectations, they can pressure companies to go beyond their minimal statutory duties and legislative requirements with respect to CER disclosure. Therefore, effort taken by bodies such as the Association Chartered Certified Accountants (ACCA) to promote CER best practices through its MESRA awards should be applauded and continuously encouraged.

5.2 What are the factors that influence *Shariah*-compliant companies to disclose corporate environmental responsibility (CER) in their annual reports?

5.2.1 *Independent Non-Executive Directors and CERD*

The results show a significant and negative relationship between independent non-executive directors and CERD. Hence the results support the hypothesis, of a positive relationship between independent non-executive directors and CER disclosure among *Shariah*-compliant companies.

5.2.2 *Muslim Chairman/President of the Board and CERD*

The study found that there are significant positive relationships between CER disclosure and the presence of a Muslim chairman of the board or president at the helm of the company. This proves that companies with Muslim chairmen or presidents will have the influence of power to ensure that their organizations practice CER disclosure.

5.2.3 Muslim Ownership Structure and CERD

The results indicate that Muslim ownership of *Shariah*-compliant companies does not have any impact on CER disclosure. As noted in the earlier discussion, only 19.0 % of the Muslim majority ownership companies disclosed corporate environmental in their annual reports. However, 81.0 % ownership of the companies were by non-Muslims which provided significantly greater environmental disclosures based on the analysis. Nevertheless, the Muslim majority ownership company still disclosed the CER. This is consistent with Islamic thought from *Al-Qur'an* and *Sunnah*.

5.2.4 Profitability and CERD

The profitability of *Shariah*-compliant companies was found to have no significant relationship with CER disclosure, as these results revealed that profitability has no effect on the extent of CER disclosure among *Shariah*-compliant companies. This implies that companies that are more profitable do not voluntarily provide any more information than less profitable ones. In the case, of *Shariah*-compliant companies, they must provide CER disclosure in their annual reports regardless of whether they have profit or otherwise.

5.2.5 Auditor Types and CERD

The important role of audit firm type in determining the level of CER disclosure is due to large audit firms such as the Big-Four, having more international audit exposure, capability, expertise and experience compared to smaller audit firms. Big audit firms reduce agency costs, exert more of a monitoring role by limiting the opportunistic, behavior of managers and are less likely to be associated with clients that disclose lower levels of information in their annual reports.

5.2.6 Company Size and CERD

The results show a highly significant and positive relationship between the level of CERD and company size. This finding supports Hypothesis 6 that larger companies are more likely to disclose CER. It is consistent with previous findings (Haniffa & Cooke, 2005; Amran & Devi, 2008; Pahuja, 2009, Reverte, 2009). The positive relationship means that the larger the company, the higher the level of CER disclosure. The reason is that larger companies face greater pressure from society to behave socially responsible especially on environmental issues.

5.2.7 Industry Profile and CERD

Industry profile was found to have an insignificant relationship with *Shariah*-compliant companies in Bursa Malaysia, since the result for industry profile is not significant. The negative relationship provides no evidence to show that the impact a company's activities has on the environment affects the extent of environmental reporting of *Shariah*-compliant companies.

5.3 Implications for Policy and Practice

Several implications can be drawn from the present study results. The study shows that the level of CER disclosure by *Shariah*-compliant companies listed with Bursa Malaysia is still low compared to Western countries. The low disclosure level could be related to the lack of pressure or interest from stakeholders in asking for CER disclosure. It could also be due to the absence of strict regulation for protecting the environment and employee rights, or to some companies not taking any action to reduce pollution or implement any CSR programs (Mohd Noor, 2000).

5.4 Implications to Knowledge/Theory

The present study fills an important gap in determining the relationship between CER disclosure and board attributes and company characteristics. First, the primary contribution of this study is that, it offers a constructive understanding from an Islamic perspective of CER disclosure by *Shariah*-compliant companies.

Second, the study of CER disclosure practice from an emerging economy like Malaysia will add a substantially new dimension to existing literature. This is because previous studies have focused predominantly on more developed economies such as those of the United States and Europe. In addition, this is the first study of its kind to examine the influence of religion in general, and Islam in particular, on the extent of CER disclosure among *Shariah*-compliant companies listed with Bursa Malaysia.

5.5 Limitations

Although this study provides some useful insights into the relationship between board attributes and company characteristics and the disclosure of CER information among *Shariah*-compliant companies listed with Bursa Malaysia, the following limitations should be noted. First, due to time constraints, the study was conducted only among *Shariah*-compliant companies listed in the Main Market of Bursa Malaysia. These companies were selected due to the availability and accessibility of the data to be collected. Second, the present study did not focus on the motivation behind CER disclosure. Third, there might be other

factors such as leverage, listing age, capital raised, CEO duality, audit committee and board composition that should be considered in undertaking such a study.

5.6 Recommendation for Future Research

In spite of this study, there is still little research being done on CER reporting in Malaysia. There is also a paucity of research examining *Shariah*-compliant companies' in particular on the extent of their CER disclosure. This study of CER disclosure among *Shariah*-compliant companies is considered an exploratory study. It is therefore recommended that any future study should be extended to cover companies listed in Bursa Malaysia's (ACE) market.

Many other factors may contribute to the disclosure of CER by *Shariah*-compliant companies. These include gearing (debt to equity), CEO duality, capital raised and company age; future research might want to look at these factors. This study does not focus on the specific sectors or industries that *Shariah*-compliant companies listed with Bursa Malaysia are involved in. Hence, further research should be focused on specialized sectors of the Main Market.

The element of corporate governance should be taken into consideration as an explanatory variable for CER disclosure because this has not yet been explored, especially among *Shariah*-compliant companies. Therefore, the investigation of the relationship between corporate governance and CER disclosure might be considered as a future research opportunity.

6. CONCLUSION

Overall, this study constitutes an attempt at gaining an understanding of CER and CER disclosure from an Islamic perspective, particularly among *Shariah*-compliant companies listed with Bursa Malaysia. The study employs the agency theory to develop hypotheses on the influences of Independent Non-Executive Directors, Muslim Chairman/President of the Board, Muslim Ownerships Structure, Profitability, Auditor Types, Company Size and Industry Profile on CER disclosure by *Shariah*-compliant companies. In general, Islam via the concept of vicegerency (*khalifah*) envisages firms as caretakers of shareholder investments in addition to holding financial resources in trust for the benefit of society and ultimately attaining the blessing of Allah. This implies an ineluctable need for firms to instill good CER practices in their business conduct by embracing issues such as best environmental practices, and occupational safety and health activities and initiatives.

This study has reasonably achieved its objective of identifying the effects of factors such as independent non-executive directors, Muslim chairman/president of the board, Muslim ownership structure, profitability, auditor types, company

size and industry profile on CER disclosure by *Shariah*-compliant companies on the Main Market of Bursa Malaysia. However, the awareness of environmental issues and environmental responsibility is still low. This could hinder the progress and development of the national economy. In response the Malaysian government's Vision 2020 plan suggests that government involvement in CSR can help sustain the development of the country.

The present study also makes an important contribution to literature on the subject as there is a paucity of research on the influence of religion, in general, and Islam in particular, on the extent of CER disclosure. Furthermore, this study provides valuable insights into how certain factors affect the extent CER disclosure by *Shariah*-compliant companies.

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