

VOLUNTARY DISCLOSURE IN INDONESIA: COMPARISON OF SHARIAH AND NON-SHARIAH COMPLIANT COMPANIES

Peni Nugraheni

Universitas Muhammadiyah Yogyakarta

e-mail: peninugraheni@yahoo.com

Abstract

Shariah compliant companies are companies which the activities are accordance with Shariah principles. Indonesia, through Bapepam issues Shariah Securities List containing companies which has fulfilled the Shariah requirements issued by regulators.

This study attempts to find out the practice of voluntary disclosure of the Shariah compliant companies and identifies the differences with the practice of non-Shariah compliant companies. This research investigates the quantity and quality of voluntary disclosure in the annual reports of Shariah compliant companies listed in Indonesian Stock Exchange and compare it with non-Shariah compliant companies. Voluntary disclosures were measured using 30 items of disclosure index developed by Khomsiah (2005). Based on content analysis of 2009 annual report of 55 Indonesian listed companies for each category, the finding describes the difference in the quantity and quality of voluntary disclosure value of Shariah and non-Shariah compliant companies. Shariah compliant companies disclose more items and have higher quality of disclosure than non-Shariah compliant companies.

Keywords: *Shariah compliant companies, voluntary disclosure, content analysis*

Abstrak

Perusahaan yang kegiatan operasinya sesuai dengan prinsip Syariah (Shariah compliant companies) adalah emiten atau perusahaan publik yang kegiatannya sesuai dengan prinsip Syariah. Bapepam telah menerbitkan Daftar Efek Syariah yang memuat kumpulan efek yang tidak bertentangan dengan prinsip-prinsip Syariah di pasar modal. Studi ini bertujuan untuk mengetahui praktek pengungkapan sukarela oleh perusahaan yang sesuai Syariah dan membandingkannya dengan perusahaan non-Syariah yang terdaftar di pasar modal Indonesia. Kuantitas dan kualitas pengungkapan sukarela dalam 55 laporan tahunan tahun 2009 untuk masing-masing kategori diukur menggunakan content analysis melalui 30 indeks pengungkapan yang dikembangkan oleh Khomsiah (2005). Hasil penelitian menunjukkan bahwa perusahaan yang kegiatan operasinya sesuai dengan prinsip Syariah mengungkapkan lebih banyak item dengan kualitas yang lebih tinggi dibandingkan dengan perusahaan non-Syariah.

Kata kunci: *perusahaan Syariah, pengungkapan sukarela, content analysis*

INTRODUCTION

Recently, the growth of *Shariah* business organizations is not only dominated by Islamic banking but also by public companies that begin to operate based on *Shariah* compliance. Indonesia, as a country that has majority Muslim population, gives response on this development by establishing *Shariah*-Based Capital Market on Indonesian Capital Market (IDX) in 2003. As listed companies, of

course *Shariah* compliant companies must comply with the regulation issued by capital market, including the information that should be published in the annual report as part of their responsibility toward their stakeholders. Based on Organization for Economic Cooperation and Development (OECD, 1999), disclosure and transparency means that the corporations should disclose all information regarding them such as financial situation, per-

formance and governance of the corporation. The common tool to disclose the information is annual report (Smith, et al., 2005).

Popa (2009) stated that the expectation of the potential shareholders to meet certain minimum standards in terms of disclosure in their companies' report is increase. For religious shareholders, the information provided by company about its activities helping them to control that company's activities are in accordance with *Shariah*. Meanwhile for companies, voluntary disclosures are one of their accountability performances to God and stakeholders. Hence, this study attempts to find out the practice of voluntary disclosure of the *Shariah* compliant companies and identifies the differences with the practice of non-*Shariah* compliant companies

The study is motivated by inadequate studies of the disclosure practice of *Shariah* compliant companies. Although the voluntary disclosure is a popular paper topic, but disclosure practice of *Shariah* compliant companies is seldom exposed in Indonesian research. They tend to do studies in listed companies generally, specifically on manufacturing listed companies (Nurhayati, et al., 2006; Gunawan, 2007; Achmad, 2007; Rahman and Widyasari, 2008). Whereas, the rapid growth of Islamic oriented investments has placed an increasing urgency to understand better their profile. Islamic business organization automatically have ethical and religious activities and therefore, need to improve the disclosure of their operation (Hakim and Rashidian, 1999). Measurement of voluntary disclosure using quantity and quality measurement in this study may differ from Indonesian previous studies and therefore, it hopes to contribute more to the knowledge and understanding on the nature of Indonesian company's voluntary disclosure.

The structure of the paper will be organized as follows. After introduction, next section will describe a literature review related to theoretical framework adopted in the study, voluntary disclosure and *Shariah* compliant companies. How to measure the voluntary disclosures practiced in *Shariah* compliant com-

panies will be discussed in research methodology section and then followed by discussion of the result and the differences between *Shariah* and non-*Shariah* compliant companies. Finally, the last section will describe the conclusion, limitation and suggestion for future research.

THEORETICAL FRAMEWORK AND HYPOTHESIS

Sarker (1999) argued that one of the objectives of Islamic business organizations is to operate within the ethical framework of the *Shariah* (Islamic Law) to achieve *falah* (success in the world and hereafter). It means that Islamic business must use Islamic values as the guidance in conducting the daily activities. The Islamic values from the Islamic worldview have been summarized by Abdalati (1994, cited in Shahul Hameed, 2000) as follows: *Firstly*, *Tawhid* (Unity). According to this concept, there is only one God. The concept of the unity of God implies total submission to God's will and following the religious requirements in all aspects of life. According to this concept, each Muslim is responsible to God for everything that he or she does. In the Islamic framework, all people, and businesses, are accountable to God on the Day of Judgment for their actions during their lives.

Secondly, *Khilafah* (vicegerency). The concept of *khalifah* refers to the role, status as well as the humankind's responsibility to themselves and to the *ummah* as a whole (Muwazir and Muhamad, 2006). *Khilafah* implies trust and responsibility, authority and duty, election and service (Abdalati, 1994, cited in Shahul Hameed, 2000). The duty to disclose the truth is a very important issue in the Islamic context, and this duty applies to businesses as much as to individuals. The information provided by Islamic business enterprises, in addition to showing compliance with *Shariah*, should assist Muslims in performing their religious duties. Man as a trustee of God's resources is one of implications of *khilafah* (Chapra, 1992 cited in Annuar, et al., 2009). The meaning is those resources must be well managed to give benefit to society at

large and not just to the small group or specific individual.

Thirdly, Ikhtisab (accountability). The central purpose of a Muslim is to submit to the Will of Allah and seek His pleasure (*rida'*) and his rewards in the Hereafter. Accountability requires every Muslim to ensure that every word and deed in this world is in line with Islamic teachings. Accountability to God implies accountability to society. The relationships of Muslims to each other and to the *Ummah* (which refers to the Islamic society) in general are emphasized in the *Qur'an* and in the deeds of the prophet Mohammed. This implies that submission to the will of God includes recognizing the rights of others and dealing with the society justly.

Fourth, Adalah (Justice). Allah has commanded the maintenance of justice under all circumstances and in all aspects of life (Al-Qur'an 6:152; 5:9). The prohibition of *riba* and paying *zakah* are clear examples of the Islamic emphasis on social justice.

A Muslim, as *khalifah*, has dual accountability for the consequences of all his behaviour (Shahul Hameed, 2000). The first, the primary accountability, is every human has the accountability to God absolutely. Al Attas (1978) stated that Muslims are the trustees or stewards for God and therefore they agree to have responsibility in a covenant with God. Based on the spelling of God in Qur'an (2:30) that "I will create to be a vicegerent of God", Abdul Rahim (2003) argued that accounting was the extension of the concept of accountability by man as a vicegerent of God. Second, human being must also be accountable to other creations of God. Although company has accountability to shareholders, they also have responsibility to stakeholders (employee, society) as well as other creation (environment). Sulaiman (2005) added that accountability to the community is also important.

According to Lewis (2006), Islamic business organization must be operated based on Islamic value in order to be fair, honest, and just toward others. Islam recognizes private and society or state ownership. The implication is the recognition of individual own-

ership in corporation as shareholders and *Shariah* principles have provided the guidelines to the individual, corporation, and the state on how to deal with the property ownership (Hasan, 2009). The resources and ownership of property by individuals (companies) as an *amanah* that must be managed well to the well-being of shareholders and society and thus wider concept of accountability is needed (Haniffa and Hudaib, 2002). "Business enterprises, both managers and providers of capital, are accountable for their actions both inside and outside their firms. Accountability in this context means accountability to the community (*Ummah*)" (Lewis, 2006, p.2).

Moreover, individual, on behalf of the company, beside has accountability to God, should also be accountable to society also (Sulaiman, 2005). This accountability can be in the form of information about company's activity through various media such as annual report, bulletin, press conference, or company's website.

Shariah Compliant Companies

The growth of *Shariah* compliant companies provide good opportunity for shareholders, especially religious shareholders to engage in investment activities without fear of violating *Shariah* principles. According to the Regulations of Bapepam-LK Rule No IX.A.13 concerning Issuance of *Shariah* Securities, item 1.a.3, *Shariah* securities are securities as defined in Capital Market Law and its implementing regulations in which its contract and issuance method fulfills the *Shariah* principles in Capital Market. By May 2010, there were 194 *Shariah* compliant companies or 47% out of 414 companies listed in Indonesian Stock Exchange (IDX).

Bapepam and National *Shariah* Board - Indonesian *Ulama* Council (DSN-MUI) do collaboration to select securities that meet the criteria of *Shariah*. and generate a List of *Shariah* Securities (DES). The Issuance of *Shariah* Securities is regulated in Rule Number IX.A.13 through Decision of the Chairman of the BAPEPAM and LK Number KEP-130/BL/2006. Shares that included in the

Shariah based Capital Market are shares from issuers whose business activities do not against the Islamic law (item 1 letter b) such as gambling, ribawi financial services, or transactions that contain elements of bribery (*risywah*).

However, although a company does not claim that its business activities and the way to manage their business is based on *Shariah* principles, according to Decision of Chairman of BAPEPAM and LK Number: KEP-180/BL/2009 about List of Criteria and issuance of Islamic securities, the companies can be categorized as *Shariah* compliant companies as long as the Issuer or Public Company fulfils the following criteria: (a) not conduct business activities referred to item 1 letter b Rule Number IX.A.13; (b) meet the financial ratios as follows: (1) the ratio of interest-based debt to total equity is not more than 82% (eighty-two percent); (2) the ratio of interest income and other non *halal* revenue to total revenue is no more than 10% (ten percent).

From the description above, we can see that there are two processes in screening *Shariah* compliant companies. First screening focuses on the nature and characteristics of companies' core business while the second screening requires the certain amount in financial ratios.

Voluntary Disclosure

To demonstrate the companies' transparency and accountability, companies must provide relevant and reliable information about the business activities as well as companies' contribution to social and environmental aspects (Haniffa, et al., 2004, Mirza, 1991). Voluntary disclosure is defined as "disclosures in excess of requirements, representing free choices of the part of company managements to provide accounting and other information relevant to the decision need of users of their annual report" (Meek, et al., 1995).

Vishwanath and Kaufmann (2001) suggested that government should issue a clear and detail rules and regulation about disclosure requirement to protect the interest of society. The detail regulation can include the

categories of information, frequency of disclosure, and standards for disclosed information. Meanwhile Mandi (2002) argued that the levels of voluntary disclosures are influenced by country-specific cultural forces and prevailing economic conditions. Thus, the scope and kind of disclosure that must be disclosed by company may vary depending on the countries.

In Indonesia, disclosure of companies' report is regulated by the Indonesian Capital Market Supervisory Board through the Decision of the Chairman of BAPEPAM and LK No. KEP-134/BL/2006 about the obligation to submit annual report for public companies. The regulation requires publicly listed companies to arrange annual report in certain format and contain specific information (mandatory disclosure) such as financial highlight, board of commissioners' report, board of directors' report, company overview, management discussion and analysis, corporate governance, the board of director responsibility on the financial statement, and audited financial statement. However, there is no difference requirement of disclosure between *Shariah* and non-*Shariah* compliant company. Therefore, the decision of the scope and kind of disclosure in the annual report then depends on the companies as a form of their accountability to stakeholders.

RESEARCH METHODOLOGY

Data collection

The 55 *Shariah* compliant companies as samples were chosen randomly from Letter of Chairman of BAPEPAM-LK No. KEP-208/BL/2010 concerning *Shariah* Securities List on May 2010 based on the accessibility of 2009 annual reports on the IDX website or companies' website. Annual reports are common media to identify voluntary disclosure as they are primary source of information for various users and have high degree of credibility (Neu, et al., 1988). To make more comprehensive, 55 non-financial companies listed in Indonesian Stock Exchange (called as non-*Shariah* compliant company) will be used as comparison in the exploration of voluntary disclosure of *Shariah* compliant companies.

Voluntary Disclosure

Table 1: Quantity and Quality Measurement

Quantity of Disclosure “how much”	Quality of disclosure “how measured”	Quality definition
1 = sentence	1 = monetary	Disclosure in monetary/currency terms
2 = paragraph	2 = non-monetary	Quantified in numeric terms of weight, volume, size, etc. but not financial/currency
3 = half A4 page	3 = qualitative only	Descriptive prose only
4 = 1 A4 page	4 = qualitative and monetary	Descriptive prose and currency
5 = >1 A4 page	5 = qualitative and non-monetary	Descriptive prose and numeric terms
	6 = monetary and non-monetary	A combination of currency and numeric terms
	7 = qualitative, monetary and non-monetary	Descriptive prose, financial and numeric terms

Adopted from Raar (2002)

This study adopted Indonesian voluntary disclosures index developed by Khomsiah (2005) to make more suitable to Indonesian context. From 49 voluntary disclosure items, 19 items have been mandatory as included in Decision of the Head of BAPEPAM and LK No. KEP-134/BL/2006 about the obligation of publicly listed companies to present annual reporting, leaving 30 voluntary disclosure items.

Content analysis was used to analyze the data. Content analysis is a method of codifying the text (or content) of a piece of writing into various groups (or categories) depending on selected criteria (Weber, 1988 cited in Milne and Adler, 1999). The quantity and quality measurement adopted from Raar (2002) had been used to do content analysis of voluntary disclosure in *Shariah* and non-*Shariah* compliant companies. The items were measured in five categories for quantity and seven categories for quality measurement. Table 1 describes those measurements.

DATA ANALYSIS AND DISCUSSIONS

The study uses SPSS Windows version 13.0 to analysis the data. Descriptive statistics are used to describe the basic features of the data in a study. They provide summaries about the sample and the measures. Descriptive statistics in this study will summarize the data

and score the level of voluntary disclosure practices of the company.

Empirical Results and Discussion

Reliability

A preliminary test was conducted to control the data reliability. Two coders analyzed the same annual reports and then the results were compared. This test was applied to 30 annual reports of companies (20% of samples) according to suggestion for Boesso and Kumar (2007). The statistical result was satisfactory and showed that there is no significant difference between the two coders (Sig value=0.117 > 0.05), means that the reliability of data can be accepted. Therefore, the coder continued to do content analysis whole samples.

Voluntary disclosure practices

Khomsiah (2005) divided the voluntary disclosure into seven categories: general corporate information, information about boards, business prospects, research and development, employee information, social responsibility reporting and product and service improvements. Table 2 provides the descriptive statistic of voluntary disclosure categories for Indonesian listed companies used in this study.

Table 2: Descriptive statistic of voluntary disclosure categories

Categories	Shariah Companies					Non-Shariah Companies			
	N	Min	Max	Mean	St. Dev	Min	Max	Mean	St. Dev
General corporate information	55	0	7	0.75	1.848	0	5	0.87	1.775
Information about boards	55	0	12	6.69	3.084	0	8	6.55	3.114
Business prospect	55	0	48	17.31	11.065	4	36	13.82	7.454
Research and development	55	0	30	6.44	8.257	0	14	1.91	3.758
Employee information	55	5	63	27.91	13.807	4	57	22.11	10.602
Social responsibility reporting	55	5	60	22.85	15.331	0	55	16.09	12.266
Product and service improvement	55	5	17	6.35	3.368	0	19	5.27	3.822

Table 2 illustrates the mean of seven category of voluntary disclosure. For both those two groups of companies, Employee information is the most disclosing item with the mean score is 27.91 and 22.11, followed by social responsibility reporting (22.85 and 16.09), business prospect (17.31 and 13.82), and information about board (6.69 and 6.55). Although they have similar rank, overall Shariah compliant companies have higher mean than non-Shariah compliant companies. It means that Shariah companies disclose the quantity and quality of VD items in their annual reports better as an effort to give information to the stakeholders.

Shariah compliant companies disclose more items than non-Shariah compliant companies, although every company has various levels in quantity and quality in disclosing the items. Further, Table 3 and 4 below describes the various levels of items disclosed by the sample companies. Business plan is the highest items disclosed by companies in both Shariah and non-Shariah compliant companies (94.5% and 100%). followed by corporate policy's on employee training (94.5% and 89.1%), product quality assurance (92.7% and

83.6%). Business plan item describes how company's future has good prospect by explaining the action and preventive steps to win the competition among the companies. This information is important in order to achieve the trust from shareholders. Then, how companies keep their employees become important disclosure to perform that the companies are managed by high quality human resources. The explanation about companies' product become third highest items disclosed by companies to declare how they produce high quality product and how consumers can rely on this quality.

Meanwhile number of R&D personnel employed item is rare to be disclosed by companies. Even no non-Shariah compliant companies disclose this item. Only certain companies (i.e. agriculture, chemicals) that disclose this items because research & development are important part in companies' activity. Nevertheless, they do not explain clearly in all aspects, specifically the personnel and the money they are invested in this activity. And again Shariah compliant companies have higher score for every items disclosed by all companies.

Table 3: Five highest items disclosed by companies

Shariah company				Non-Shariah Company			
No	Disclosure Items	N	0/0	No	Disclosure Items	N	0/0
1	Business Plan	52	94.5	1	Business Plan	55	100
2	Corporate policy on employee training	52	94.5	2	Corporate policy on employee training	49	89.1
3	Product Quality Assurance	51	92.7	3	Employee welfare	47	85.5
4	Employee welfare	47	85.5	4	Product Quality Assurance	46	83.6
5	sponsorship on government program	47	85.5	5	Name and photo of BOC and BOD	45	81.8

Table 4: Five lowest items disclosed by companies

<i>Shariah company</i>				<i>Non-Shariah Company</i>			
No	Disclosure Items	N	0/0	No	Disclosure Items	N	0/0
1	Number of R&D personnel employed	2	3.6	1	Number of R&D personnel employed	0	0
2	Forecast of R&D expenses	3	5.5	2	Forecast of R&D expenses	1	1.8
3	Categories of employee by gender	3	5.5	3	Cash flow projections	2	3.6
4	Statement of corporate objectives	8	14.5	4	Categories of employee by gender	3	5.5
5	Cash flow projections	11	20	5	New product development	3	5.5

The next section was result analysis for the quantity and quality of voluntary disclosure in each items presented in table 5 and table 6. Table 5 shows that the majority of information provided was equal to sentence and paragraph. Companies may feel sufficient to disclose information in such form merely satisfy curiosity of external parties. Companies explained information more detail in equal to or greater than ½ pages only in specific category such as employee information and social responsibility reporting or specific items such as business plan. It may argue that the items in these categories have high relation with the stakeholders. Stakeholders usually concern with the companies' activity which will influence their life, including how the existence of companies will give value added to society and environment. Therefore, it is common if companies' reports explain what they had done to participate in some areas such as economics, cultural, environment and physical building for the companies' surrounding. Many companies write this information in more than one page showing that companies give more attention to this topic. This supports the Indonesian previous studies. Gunawan (2007) found that community was the most influenced party for Indonesian listed companies in disclosing their corporate social disclosure. Similarly, Cahaya et al. (2007) found that human resources development and community was the most disclosed category in the annual report and Indonesian companies tend to disclose the non-controversial and are easily reported items. The information is considered helping to achieve best self serving interests of the company and improve their image. While

Craig and Diga (1998) concluded that ASEAN companies tend to disclose non-financial and social information that they perceived as a basis for evaluating their future financial performance and capability.

The long explanation in those categories was usually accompanied by good quality disclosure. The information related to employee or social responsibility was described in monetary, non monetary and qualitative level. They are very interesting subjects to indicate the amount of corporate concern for employee and the environment around them. The companies' programs aimed at community are presented very clearly to perform the success of employee training program as well as corporate social responsibility programs. Especially for social responsibility, it is argued that the social responsibility disclosure is influenced by the event happened for the period (Gunawan, 2007). Most companies disclosed their social responsibility in annual report 2009 in term of donation to the victim of earthquake in Padang, Sumatera Barat.

Table 6 shows that qualitative discussion is majority technique of companies to report their activities in annual report. It is the simple way to describe all activities without the need for data that is more detailed. The important thing is that the reader has known the kinds of activity of companies although there is no information how the activities and resources are required to perform the activities. How much money they had spent or they will spend in the future for the items disclosed is seldom found in the report (i.e. R&D activities) except for items that usually are a concern of stakeholders (i.e. employee and corpo-

rate social responsibility information). Another way showing the amount is by listing the percentage (non-monetary) of activities they did. Employee information and social respon-

Table 5: Quantity of Voluntary Disclosure

Disclosure Items	Shariah Company					Non-Shariah Company					Total				
	Sentence	Paragraph	½ page	1 page	>1page	Sentence	Paragraph	½ page	1 page	>1page	Sentence	Paragraph	½ page	1 page	>1page
General Corporate Information															
1. Statement of corporate objectives	1	6		1		7	4				8	10		1	
Information About Boards															
2. Name and photo of BOC	46					45					91				
3. Name and photo of BOD	45					45					91				
Business Prospects															
4. Sales Forecast	23	13	5	1		17	16	2			40	29	7	1	
5. Profit Forecast	17	14		1		17	4				34	18		1	
6. Cash flow Projections	8	3				1	1				9	4			
7. Information on planned capital expenditure	9	4	4		1	10	7	1	1		19	11	5	1	1
8. Business plan	6	13	15	6	12	5	24	15	5	6	11	37	30	11	18
Research and Development (R&D)															
9. Company's policy on R&D	16	5	1			9	1				25	6	1		
10. Discussion on R&D activities	9	4	5	2	2		7		1		9	11	5	3	2
11. Forecast of R&D expenses	3					1					4				
12. New product development	9	5	3	1		1	1		1		10	6	3	2	
13. Number of R&D personnel employed	1			1							1			1	
Employee Information															
14. Breakdown of employee by education	28	12				27					55	12			
15. Breakdown of employee by line of business/ department	30	9				26					56	9			
16. Categories of employee by gender	3					3	10				6				
17. Recruitment policy	14	12	2		1	14	30	8			28	22	2		1
18. Corporate policy on employee training	6	16	14	8	8	8	19	7	1	2	14	46	22	9	10
19. Employee welfare (health and safety)	7	21	8	5	6	16	13		3	2	23	40	15	8	8
20. Company's employees pension plan	13	8	3	1		17		1	1		30	21	3	2	
21. Employee reward	14	16	4	2		16	11				30	27	5	2	
22. Information of accident	9	6	2	2	1	5	6			1	14	12	2	2	2
Social Responsibility Reporting															
23. Pollution and environmental control	9	16	4	8	6	12	10	5	3	3	21	26	9	11	9
24. Sponsorship of education and scientific/research award	19	11	5	3	3	15	14	2	2	1	34	25	7	5	4
25. Sponsorship of sports and games	15	5				14	5	1			29	10	1		
26. Sponsorship of arts and cultural activities	17	3	5			13	4				30	7	5		
27. Sponsorship of government programs	18	13	8	5	3	11	20	3	5	3	29	33	11	10	6
28. Improvement of social facilities	20	9	2	2	1	9	3	1			29	12	3	2	1
Product and Service Improvement															
29. Product quality assurance	13	27	10	1		9	23	3	1		32	50	13	2	
30. Responsiveness to customer complains	12	5		1	1	4	6	1	1		16	11	1	2	1

Table 6: Quality of Voluntary Disclosure

Disclosure Items	Shariah Company					Non-Shariah Company						
	Monetary	Non monetary	Qualitative	Qualitative and nonmonetary	Qualitative and nonmonetary	Monetary and nonmonetary	Qualitative, monetary & non monetary	Monetary	Qualitative & Monetary	Qualitative & non monetary	Monetary & non monetary	Qualitative, monetary & non monetary
General Corporate Information												
1. Statement of Corporate Objectives			8					11				
Information about boards												
2. Name and photo of BOC			46					45				
3. Name and photo of BOD			45					45				
Business Prospects												
4. Sales Forecast			29	7		6		25		8		2
5. Profit Forecast			21	7		4		17		1		3
6. Cash flow Projections			9	1		1		1		1		
7. Information on planned capital expenditure			7	2	5	4		11	1	5		2
8. Business plan			29		16	7		36	1	15		3
Research and Development (R&D)												
9. Company's policy on R&D			20	1	1			10				
10. Discussion on R&D activities			14		6		2	8				
11. Forecast of R&D expenses				1	2					1		
12. New product development		1	15		2			3				
13. Number of R&D personnel employed				1	1							
Employee Information												
14. Breakdown of employee by education		35			5			24	1	2		
15. Breakdown of employee by line of business/department		36		3				22	1	3		
16. Categories of employee by gender		3						2		1		
17. Recruitment policy			24		5			21		3		
18. Corporate policy on employee training			31		13			38		7		4
19. Employee welfare (health and safety)			40	1	5		8	36	2	7		2
20. Company's employees pension plan		1	15	1	4	1	3	18		13		
21. Employee reward			29	2	3		2	26		1		1
22. Information of accident			10		8	1	1	5		6		1
Social Responsibility Reporting												
23. Pollution and environmental control			25	4	10		4	25	2	4		2
24. Sponsorship of education and scientific/research award			22	2	9		8	22	2	3		7
25. Sponsorship of sports and games			13	5	1		1	17		2		1
26. Sponsorship of arts and cultural activities	2		16	2	3		2	15	1			
27. Sponsorship of government programs	1		25	3	6		12	25	3	8		6
28. Improvement of social facilities	1		22	2	3		6	9	1	3		
Product and Service Improvement												
29. Product quality assurance		1	48		2			42		2		1
30. Responsiveness to customer complains			17		2			9		2		1

CONCLUSIONS

This study attempts to investigate the difference in the quantity and quality of voluntary disclosure in the annual reports of *Shariah* and non-*Shariah* compliant compa-

nies listed in Indonesian Stock Exchange. *Shariah* compliant companies which disclose more items and more qualified than non-*Shariah* compliant companies may prove their transparency and accountability. The status as

Shariah compliant companies has implication that the nature and characteristics of company's core business are accordance to *Shariah* principles. The stakeholders, especially Muslim stakeholders will have high demand about the responsibility of company in term of its *Shariah* compliance. Therefore, companies must provide relevant and reliable information about the business activities and their contribution to society (Hanifa, et al., 2004).

Shariah compliant companies disclose more items than non-*Shariah* compliant companies, although every company has various levels in quantity and quality in disclosing the items. Unfortunately, there is no specific information disclosed by *Shariah* compliant companies which can demonstrate them as companies whose the activities accordance to *Shariah* compliance. All of information disclosed by the companies has similar substance with non-*Shariah* compliant companies. This is very unfortunate because to get status as *Shariah* compliant companies they must fulfill certain requirement and it is not easy. Hanifa et al (2004) suggested that according to Islamic principles, disclosing information should aid the stakeholders to make economic as well as religious decision making. For the Muslim, besides from the financial objective, other information with regard to the compliance of the organization in applying *Shari`ah* rules is important (Harahap, 2003). Therefore, the companies seem not used this status to maximize their role in advising the ummah about their activities.

The researcher expects the study on voluntary disclosure in both *Shariah* and non-*Shariah* compliant companies will give contribution to some pertinent areas such as management, shareholders, regulators, and other stakeholders. For management, more voluntary disclosure increases the transparency of the company and it could promote management accountability, especially for attracting the investment from shareholders who prioritized company's activities that are in accordance with *Shariah*. For shareholders, it is important to improve their confidence in making

decisions based on information disclosure, especially for religious shareholders. For regulator, understanding the extent of voluntary disclosure in Indonesia can be considered in making regulations to promote transparency of information to stakeholders as well as to strengthen the role of Islamic capital market and capital market overall.

However, this study has some limitations. First, this study only uses secondary data. Annual report is the only source in doing content analysis in this study. Second, a single year (2009) of annual report is chosen as the year 2009 is the last year when this research is done. Third, this study only does descriptive analysis to investigate the voluntary disclosure in these group.

Therefore, some suggestion may be important to be considered in the next research. First, some media (bulletins, company website, newsletter, etc) of companies to publish their activities can be used as primary sources to do content analysis. Second, future research can extend the study to longitudinal analysis. This approach can produce better findings in terms of knowing the changes of the extent and the quality of company's disclosure and the study will get more meaningful findings and stronger conclusions. Third, the next research can expand the scope of research by examining the factors which is thought affecting voluntary disclosure (i.e. company characteristic, corporate governance). By knowing their relation, the study can investigate further why firms are providing more information than the mandatory one.

REFERENCES

- Abdul Rahim, A. R. (2003). "Ethics in Accounting Education: Contribution of Islamic Principle of *Maslahah*". *IIUM Journal of Economics and Management*, 11(1), 31-49.
- Achmad, T. (2007). *Corporate Governance of Family Firms and Voluntary Disclosure: The Case of Indonesian Manufacturing Firms*. <http://theses.library.uwa.edu.au/adt->

- WU2008.0042/public/02whole.pdf. Retrieved January 23, 2010.
- Al Attas, S. M. N. (1978). *Islam and Secularism*. Kuala Lumpur: ABIM.
- Anuar, H. A., Sulaiman, M. and Nik Ahmad, N. N. (2009). "Some Evidence of Environmental Reporting by Shariah Compliant Companies in Malaysia". *IUM Journal of Economics and Management*, 17 (2).
- Boesso, G. and Kumar, K. (2007). "Drivers of Corporate Voluntary Disclosure: A Framework and Empirical Evidence from Italy and the United States". *Accounting, Auditing & Accountability Journal*, 20(2), 269-296.
- Cahaya, F. R., Porter, S. A. and Brown, A. M. (2007). "Social Disclosure Practices of Indonesian Listed Entities". *Paper presented at the British Accounting Association Conference, London, UK*.
- Cooper, D. R., & Schindler, P. S. (2008). *Business research methods (tenth edition)*. New York: Mc Graw Hill.
- Craig, R. and Diga, J. (1998). "Corporate Accounting Disclosure in ASEAN". *Journal of International Financial Management and Accounting*, 9(3).
- Gray, R., Kouhy, R and Lavers, S. (1995). "Corporate Social and Environmental Accounting: a Review of Literature and a Longitudinal Study of UK Disclosure". *Accounting, Auditing, and Accountability Journal*, 8(2), 47-77.
- Gunawan, J. (2007). "Corporate Social Disclosures by Indonesian Listed Companies: A Pilot Study". *Social Responsibility Journal*, 3(3).
- Hakim, S., and Rashidian, M. (1999). "How Costly is Investors' Compliance to Sharia?" *Proceeding of the 11th Economic Research Forum Annual Conference*. Sharjah, U.A.E.
- Haniffa, R. and Hudaib, M. A. (2002). "A Theoretical Framework for the Development of the Islamic Perspective of Accounting". *Accounting, Commerce & Finance: The Islamic Perspective Journal*, 6, (1-2), 1-71.
- Haniffa, R., Hudaib, M. and Mirza, A. M. (2002). "Accounting Policy Choice within The Shari'ah Islami'iah Framework". *Discussion Papers in Accountancy and Finance, No. 02/04, School of Business and Economics, University of Exeter*.
- Hananto, D. (2009). "Analisis Pengaruh Karakteristik Perusahaan Terhadap Luas Voluntary Disclosure Laporan Tahunan (Studi Empiris: Perusahaan-perusahaan yang terdaftar di Jakarta Islamic Index tahun 2004 s.d. 2007)". *Journal of Islamic Business And Economics*, 3(2).
- Hasan, Z. (2009). "Corporate Governance : Western and Islamic Perspectives". *International Review of Business Research Papers*, 5 (1), 277-29.
- Khomsiah. (2005). *Analisis hubungan indeks dan struktur corporate governance terhadap kualitas pengungkapan (Analysis of relationship between the quality of disclosure and the index and corporate governance structure*. Unpublish PhD Disertation, Department of Accounting, Gadjah Mada University.
- Kurniawan, D. M. and Indriantoro, N. (2000). "Corporate Governance in Indonesia. The Second Asian Roundtable on Corporate Governance". *Unpublished Working Paper*.
- Lewis, M. K. (2006). "Accountability and Islam". *Paper Presented in Fourth International Conference on Accounting and Finance in Transition Adelaide*.
- Mandi, V. (2002). Discussion of "The Changing Nature of Financial Disclosure in Japan". *The International Journal of Accounting*, 37, 113-116.

- Meek, G. M., Roberts, C. B. and Gray, S. J. (1995). "Factors Influencing Voluntary Annual Report Disclosures by U.S., U.K. and Continental European Multinational". *Journal of International Business Studies*, 26 (3), 555-572.
- Mirza, A. M. (1991). "Social Reporting and Managers' Self-interest". *Accounting Research Journal*, 7-17.
- Muwazir, M. R. and Muhammad, R. (2006). "Islamic Business Organizations (Ibos) and Corporate Social Disclosure (CSD): A Tawhidic Paradigm". *International Conference on Environmental Challenges of Service Industry in Asia Pasific, Bukittinggi, Indonesia*.
- Neu, D., Warsame, H. and Pedwell, K. (1998). "Managing public impression: Environmental Disclosures in Annual Reports". *Accounting, Organizations and Society*, 23(3), 265-282.
- Nurhayati, R., Brown, A. and Tower, G. (2006). "A Developing Country's Natural Environment Disclosure Index". *Paper Submission AFAANZ Conference, Wellington, New Zealand*.
- OECD. (2004). *OECD Principles of Corporate Governance*. www.oecd.org. Retrieved January 3, 2010.
- Othman, R., Thani, A. M. and Ghani, E. K. (2009). "Determinants of Islamic Social Reporting Among Top Shariah-Approved Companies in Bursa Malaysia". *Research Journal of International Studies*, 12.
- Oussama, A. A. and Fatima, A. H. (2010). "Factors Influencing Voluntary Disclosure: Empirical Evidence From Shariah Approved Companies". *Malaysian Accounting Review*, 9(1), 85-103.
- Pallant, J. (2001). *SPSS: Survival Manual*. Buckingham: Open University Press.
- Popa, A. (2009). "Transparency and Disclosure Between Theory and Practice. A Case Study of Romania". *Paper Presented on Symposium for Young Research in Budapest, Hungary*, 173-183.
- Raar, J. (2002). "Environmental Initiative: Towards Triple Bottom Line Reporting". *Corporate Communications: An International Journal*. 7 (3), 169-183.
- Rahman, A. and Widyasari, K. N. (2008). "The Analysis of Company Characteristics Influence Toward CSR Disclosure: Empirical Evidence of Manufacturing Companies Listed in JSX". *Jurnal Akuntansi dan Auditing Indonesia*, 12(1), 25-35.
- Sarker, A. A. (1999). "Islamic Business Contracts: Agency Problems and the Theory of the Islamic Firms". *International Journal of Islamic Financial Services*, 1(1).
- Sekaran, Uma. (2003). *Research methods for business: a skill-building approach (fourth edition)*. John Wiley & Sons, Inc.
- Shahul Hameed, M. I. (2000). The need for Islamic accounting: perceptions of its objectives and characteristics of Islamic accounting: perceptions of Muslim accountants and accountant academics. Unpublished doctoral dissertation, University of Dundee, United Kingdom.
- Sulaiman, M. (2005). *Islamic Corporate Reporting: Between the Desirable and the Desired*. Kuala Lumpur: IIUM Press.
- Vishwanath, T. and Kaufmann, D. (2001). "Toward transparency: New Approaches and Their Application to Financial Markets". *The World Bank Research Observer*, 16 (1).
- www.bapepam.go.id
- www.bi.co.id
- www.idx.co.id