Malaysian Accounting Review, Vol. 9 No. 1, 85-103, 2010

FACTORS INFLUENCING VOLUNTARY DISCLOSURE: EMPIRICAL EVIDENCE FROM *SHARIAH* APPROVED COMPANIES

A. A. Ousama
Ibb University, Yemen

A. H. Fatima
International Islamic University Malaysia (IIUM), Malaysia.

Abstract

The objective of the current study is to examine the relationship between the extent of voluntary disclosure (i.e. overall, conventional and Islamic disclosure items) and firm-specific characteristics (i.e. size, ownership structure, audit firm and industry) of Shariah Approved Companies (ShAC). The study used a disclosure index, consisting of 59 items, to measure the extent of voluntary disclosure. The data were collected from the 2003 annual reports of the top 50 ShAC. The main statistical tests conducted were: descriptive statistics, correlation and regression. Generally, the results show that firm size is statistically associated with the extent of voluntary disclosure in all three categories. While, the ownership structure is significant with overall and conventional voluntary disclosure, the type of audit firm is significant with the overall and Islamic voluntary disclosure. Moreover, regression results indicate that non-manufacturing ShAC seem to voluntarily disclose more Islamic items than manufacturing companies.

Keywords: *voluntary disclosure, Shariah approved companies, firm-specific characteristics.*

Introduction

Malaysia is one of the Muslim countries which realises the need for specific investors to invest in a capital market that complies with *Shariah*[1] rules and principles. In line with this, the Securities Commission (SC) established the Islamic Capital Market (ICM) where transactions and activities are free from

ISSN 1675-4077

non-permissible elements, according to the *Shariah* rules and principals. The ICM was set up with the aim of ensuring that Muslims have a place to make investments, which they were confident is *Shariah* compliant, to eventually establish Malaysia as a centre for international Islamic capital market (Securities Commission, 2002). Subsequent to ICM's existence, companies with products deemed *Shariah* compliant are selected as *Shariah* Approved Companies (*Sh*AC) and are then listed on the Bursa Malaysia (i.e. Malaysian Stock Exchange).

During the last decade *Sh*AC has significantly increased in number. For example in December 1998, July 2004 and 2009, the number of *Sh*AC was 272, 441 and 864 respectively (Bursa Malaysia, 2004; 2010 indicating the growing prominence of *Sh*AC. However, in order for *Sh*AC to gain further credibility, they have to ensure that they provide stakeholders with information concerning their financial performance and other useful information, even if this information has to be provided voluntarily (Brownlee, Ferris and Haskins, 2001). Thus, this study aims to examine the relationship between the extent of voluntary disclosure (EVD) and firm-specific characteristics (i.e. firm size, ownership structure, type of audit firm and industry type) of *Sh*AC. Understanding these characteristics would assist in determining what influences the level of disclosure. Subsequently, higher disclosure, particularly of Islamic items could be encouraged to enable a future strengthening of ICM through investor's confidence in *Sh*AC.

Furthermore, the study is motivated by the lack of literature on disclosure in the Malaysian context, particularly on EVD of *Sh*AC. Therefore, this study hopes to contribute towards the knowledge and understanding on the firm-specific characteristics of *Sh*AC which influence their EVD and in of extending the Malaysian disclosure literature.

The paper is structured as follows: the following section provides a background of the ICM and *Sh*AC. Next, the theoretical framework of the study and the hypotheses development are discussed, followed by the research method, and the results and findings of the study. Finally, is the conclusion of the study, including its limitations and suggestions for future research.

The ICM and *Sh*AC in Malaysia

The ICM plays a similar role to that of the conventional capital market, except that it only deals with securities and transactions which are permitted by the *Shariah*. Accordingly, the SC established the *Syariah* Advisory Council (*S*AC) on 16 May 1996, to: (i) ensure that the running of the ICM is consistent with *Shariah* principles, (ii) advise the Commission on all *Shariah* matters related to the ICM, (iii) function as a reference centre for issues related to the ICM (Securities Commission, 2002).

The *S*AC applies standard criteria in classifying the companies listed on Bursa Malaysia as approved and non-approved companies based on their core activities[2]. Companies with primary activities which are not contrary to the *Shariah* principles are termed

*Sh*AC (Securities Commission, 2004). On the other hand, *Shariah* Non-Approved Companies (*Sh*NAC) are companies involved in core activities deemed non-permissible according to the *Shariah,* such as those involved in interest, gambling, manufacture or sale of prohibited products or related products, conventional insurance, entertainment activities that are non-permissible according to the *Shariah*, manufacture or sale of tobacco-based products or related products, and stockbroking or share trading in *Sh*NAC (Securities Commission, 2004).

Theoretical Framework and Hypotheses Development

Theoretical Framework: Conventional Perspective

Agency Theory

The agency theory deals with the principal and agent relationship. Specifically, Jensen and Meckling (1976) defined the agency relationship as a contract under which a principal or more engage an agent to perform a service on their behalf. They argued that since there is a separation between the principal and agent, the agent may not always behave in the best interests of the principal, as there could exist a conflict of interests between both parties. Consequently, agency costs, which include the cost of monitoring and controlling, are incurred by the principal, and bonding costs are incurred by the agent. According to agency theory, companies (management) are motivated to disclose more information voluntarily to convince the stakeholders that they are behaving optimally on the stakeholders' behalf, consequently reducing agency costs.

Signalling Theory

The signalling theory was developed in the economics literature due to information asymmetry, i.e. with one party of a potential transaction having more information than another (Watts and Zimmerman, 1986). Watts and Zimmerman (1986) argued that the problem of information asymmetry applies to accounting information as the management of the company has more information about the value of the firm than investors. Consequently, the management of companies with good value tries to distinguish themselves from others by disclosing inside information voluntarily to signal their firm's value. In this case, the investors believe that the signalled information is credible because signalling is costly and the cost of incorrect signalling exceeds its benefit (Hughes, 1986).

Theoretical Framework: Islamic Perspective

According to Sulaiman (2001), religion is a crucial part of some cultures, for example for Muslims, Islam is an integral part of their daily activities, including in business. Even in accounting, Islam influences different accounting systems at different levels for measurement and disclosure, but particularly at the level of disclosure (Baydoun and Willett, 1997). According to Baydoun and Willett (1997), the basic accounting measurement techniques are fundamentally similar in both the Islamic accounting system and conventional system. Consequently, from an Islamic perspective, the emphasis will be on the issue of proper disclosures rather than the measurement of technical procedures. The Islamic perspective of disclosure can be based on two general requirements of Islamic accounting, i.e. the concept of social accountability and the full disclosure concept (Baydoun and Willett, 1997, 2000; Haniffa, 2002; Haniffa and Hudaib, 2002).

Social Accountability

In Islam, the concept of one God who creates everything in the whole world, is important. Hence, absolute ownership belongs to God. Human beings are merely trustees in this world, therefore they are required to behave according to God's will, protecting and looking after each other and God's other creations as mankind will be accountable for their actions in this world on the Day of Judgment (Baydoun and Willett, 1997; Maali, Casson and Napier, 2006). Keeping in mind the view that accountability in Islam includes accountability to the community, Baydoun and Willett (1997) argued that companies, and in this case *Sh*AC, should disclose information that is required by their stakeholders and society, in order to fulfil their responsibility including providing information voluntarily.

Full Disclosure

The full disclosure concept in Islamic accounting is a result of the social accountability concept, where the community has the right to know about the effects of the companies' activities and operations on their society (Baydoun and Willett, 1997; Maali et al., 2006). Full disclosure can be interpreted as companies having to disclose all the necessary information about their activities, despite the possibility of such information being unfavourable for the company (Maali et al., 2006). The concept of conservatism in the disclosure of information has no place in Islamic accounting (Alam, 1998). This does not mean to disclose information to the last detail (Baydoun and Willett, 1997 and 2000), rather, to disclose all information required by users to assist them in making both economic and religious decisions, in addition to assisting management in fulfilling their accountability (Haniffa and Hudaib, 2002).

Hypotheses Development

Firm Size

The agency theory can be used to explain the relationship between firm size and the EVD. Large companies may have more potential conflicts between the management and stakeholders (Inchausti, 1997), thus, companies will disclose more information voluntarily in order to reduce agency costs. In addition, large firms have more activities and are deemed more complex than small companies. Therefore, management will be motivated to disclose more information to signal that they are acting optimally. Also, based on the concept of social accountability and full disclosure, large companies, having more resources, have more responsibilities towards the community. Consequently, large companies will be expected to disclose more information in the annual reports in order to discharge their accountability to the community and their stakeholders. In extrapolating the above discussion to *Sh*AC, the hypothesis, stated in its alternate form, is:

H_1: The extent of voluntary disclosure is positively related to the size of the ***Sh*AC**.

Ownership Structure

The agency theory can also be used to explain the relationship between ownership structure and disclosure. According to Fama and Jensen (1983), there is a greater possibility of conflict of interests between shareholders (as principals) and management (as agents), in widely held ownership than in ownership which is closely held. Hence, a widely-held company has the incentive to disclose more information in order to assist shareholders in monitoring and controlling the management. In addition, the signalling theory proposes that companies, with widely held ownership, will try to signal to their various shareholders by disclosing more information to show them the value of the company. On the other hand, from an Islamic perspective, God is the absolute owner, thus the shareholders are trustees of the property that they have, including their share of ownership of the company. Hence, based on the concept of social accountability, the shareholders will pressure the companies to disclose more information to discharge their accountability to the society.

Based on the measurement of ownership structure in this study as the concentration of ownership, it is expected that companies with high concentration of ownership have less incentive to disclose more information. This is because the higher the ownership concentration, the lower the pressure on the companies to disclose more. Therefore, by extending the discussion to the context of *Sh*AC, it is expected that the ownership structure of *Sh*AC (based on high ownership concentration) affects their EVD. The following hypothesis was thus formulated, in the alternate form:

H_2: The extent of voluntary disclosure is negatively related to the ownership structure (with high concentration of shares) of the ShAC.

Type of Audit Firm

The signalling theory can be used to explain the relationship between the EVD and type of audit firms. According to Inchausti (1997), the external auditors could use the disclosure of the information in the annual reports by their clients as a signal of their quality. The argument is that audit firms can play a major role in influencing polices and practices of their clients (Owusu-Ansah, 1998). Consequently, large audit firms may motivate their clients to disclose more information to safeguard their reputation. Furthermore, based on the agency theory argument, companies that have substantial agency costs will engage big audit firms (Inchausti, 1997), as the principals may be more reassured if their company is audited by more established audit firms, hence reducing these costs.

Moreover, legally, auditors are appointed by shareholders at their annual general meeting, thus by law, they are accountable to the shareholders. Islamically, since they are paid to perform a specific task, i.e. audit the company accounts, they are obliged not only to fulfil their accountability to the shareholders, but also to society, and ultimately to

God. Failure to discharge this responsibility properly may lead to a law suit, in addition to consequences in the Hereafter. Fear of the repercussions would encourage more voluntary disclosure of information. By extending the above discussion to *Sh*AC, it is expected that *Sh*AC audited by the Big-4 audit firms will disclose more voluntary information. Thus, the following hypothesis was formulated for testing:

H_3: The extent of voluntary disclosure is positively related to the type of audit firm which audits the ShAC.

Industry Type

Owusu-Ansah (1998) argued that accounting policies and practices may vary according to industry, thus the disclosure practices would accordingly be dissimilar across industries. Furthermore, varied levels of disclosure of similar items in annual reports of companies in different industries may occur due to industry-related disclosures (Wallace and Naser, 1995). Companies in one industry may stress disclosure items which are considered important, but might be irrelevant to another industry. In addition, Cooke (1991) suggested that there may be historical reasons why some industries may disclose more than others, because of the bandwagon effect, i.e. if there is one dominant firm in an industry which has high levels of disclosure, this would encourage more disclosure by other companies in the same industry. Furthermore, Watson, Shrives and Marston (2002) argued that based on the signalling theory, companies may signal to show that they are complying with industry best practices.

Moreover, companies from different industries may contribute to the society and affect the environment differently. Therefore, from an Islamic perspective, these companies should voluntarily disclose this to reflect the concept of full disclosure and to discharge their accountability. Extrapolating from the above discussion, it is expected that the EVD of *Sh*AC would differ according to the industry that they are in. Thus, the following hypothesis was formulated:

H_4: The extent of voluntary disclosure is associated with the type of industry the ShAC is in.

Research Method

Sample Selection and Data Collection

The sample of the study consists of the largest 50 *Sh*AC listed on Bursa Malaysia, based on market capitalization ranking (overall ranking) from the *Investors Digest*, January 2004. The companies were selected using the *Shariah* Index as at 27 February 2004 launched on the Bursa Malaysia's website. The selection of large companies is due to firstly, large companies have resources to disclose information voluntarily, whereas small companies may not have the same resources, even though they may have the willingness to disclose more information. Secondly, large companies can be considered as industry leaders. Thus, they are expected to disclose more information voluntarily to set an example for other companies in the industry. Finally, using a sample of large companies is supported by previous studies (e.g. Barrett, 1976; Marston and Robson, 1997). Consistent with prior studies (e.g. Hossain, Perera and Rahman, 1995; Raffournier, 1995; Azhar, 2001) all banks and insurance companies have been excluded from the sample because their business activities are different from other companies. Furthermore, they disclose under specific disclosure requirements based on the Banking and Financial Institution Act (BAFIA) 1989, which differs from the disclosure requirements of companies from other industries.

All of the selected companies' annual reports for the year 2003 were available through the Bursa Malaysia website. The 2003 annual reports were used as they were the latest source of information available for the entire sample at the time of conducting this study. Furthermore, the *Shariah* Index was launched in 1999, thus it is considered inappropriate to choose earlier years (1999-2002), as the *Sh*AC are still in their development stage and their disclosure practices may still be limited. The data for all variables were gathered from these annual reports.

Disclosure Index

Willett and Sulaiman (2001) argued that the development of the Islamic financial reporting system should evolve concurrently with the development of the Islamic economy. In order to expedite the development of the former, companies should voluntarily disclose Islamic information in addition to the existing items in their financial reporting system[3]. The disclosure of Islamic items are currently voluntary as the *Sh*AC are not operating in a fully Islamic economic system. Furthermore, the investments in the *Sh*AC can be made by Muslims and non-Muslims, hence the Islamic perspective of disclosure should consider equally the information needed by all user groups (Haniffa and Hudaib, 2002). Disclosure of the information should assist non-Muslim users who are directly or indirectly involved with the company in making economic decisions, as well as assist Muslim users in making religious and economic decisions (Haniffa and Hudaib, 2002; Muwazir, Muhamad and Noordin, 2006) because, as argued by Shahul Hameed (2000), information about the performance and financial position of a company are still important from an Islamic perspective. As a result of the above discussion and the adoption of the voluntary disclosure basis, the disclosure index includes items from an Islamic perspective as well as items which have been included in conventional disclosure indices.

The following steps have been taken to develop the disclosure index in this study. Firstly, the study adopted the disclosure indices of Mohd Shatari, Muhd and Mustaffa (2004) and Hossain, Tan and Adams (1994). Secondly, additions were made to the disclosure index by reviewing other voluntary indices in prior studies (i.e. Cook, 1989b; Hossain et al., 1995; Meek, Roberts and Gray, 1995; Raffournier, 1995; Craig and Diga, 1998; Azhar, 2001). Thirdly, the disclosure requirements of the Companies Act 1965, Financial Reporting Act 1997, Financial Reporting Standards (FRSs) approved by the Malaysian Accounting Standard Board (MASB), and listing requirements of Bursa Malaysia were reviewed to exclude the mandatory items from the disclosure index. Finally, voluntary items from the Islamic perspective, based on the theoretical framework proposed by Baydoun and Willett (2000), Shahul Hameed (2000), Haniffa (2002), and Haniffa and Hudaib (2002) and Maali et al., (2006), were added.

At the end of the above procedure, the disclosure index comprised of a list of 59 voluntary items[4]. Of this total, 28 items are information of the Islamic perspective, thus termed "Islamic information". The remaining 31 items in the disclosure index are termed "conventional information".

Measurement of the Dependent Variable (Extent of Disclosure)

The study used the unweighted approach for scoring the disclosure index where each item in the disclosure index is considered equally important (Cooke, 1992; Hossain et al., 1994). The advantage of the unweighted approach to avoid the high subjectivity involved in assigning weights of items of importance by different user groups (Cooke, 1989a; Hossain et al., 1995; Raffournier, 1995) as it reduces the bias of inaccurate weighting (Raffournier, 1995). Moreover, Robbins and Austin (1986) and Chow and Wong-Boren (1987), found that using either the weighted or unweighted approach produced similar results. Consistent with most previous disclosure studies (e.g. Cooke, 1989b; Azhar, 2001; Mohd Shatari et al., 2004), this study used the dichotomous scoring scheme where "1" is assigned when an item in the disclosure index is disclosed in the annual report and "0" otherwise.

Regression Model

A multiple Ordinary Least Square (OLS) regression model based on the transformation of the continuous independent variables to normal scores was adopted in this study to determine the relationship between the dependent (i.e. EVD) and independent variables (i.e. SIZE, OWNERSTR, AUDIT and INDUSTRY). The development of the OLS regression model by transforming regression variables based on normal scores, referred to as the Van der Waerden approach (VW), was proposed by Cooke (1998). The major advantage of using normal score OLS regression is that the results will have exact statistical properties (Cooke, 1998). The transformation of the two continuous independent variables (i.e. SIZE and OWNERSTR) in this study is computed by using SPSS.

Based on the above discussion and the developed hypotheses, the equation of the regressions is specified as follows:

$$EVD = \alpha + \beta_1 SIZE + \beta_2 OWNERSTR + \beta_3 AUDIT + \beta_4 INDUSTRY$$

Where:

EVD	=	extent of voluntary disclosure;
SIZE	=	firm size;
OWNERSTR	=	ownership structure;
AUDIT	=	type of audit firm;

INDUSTRY = industry type;
a = regression intercept; and
β_1 = parameters to be estimated, i = 1,..,4.

Empirical Results and Discussion

Descriptive Statistical Analysis

Table 1 presents the descriptive statistics analysis. Considering the overall disclosure index, the *Sh*AC voluntarily disclosed, on average, 19 percent of the items in the disclosure index which is, on average, 11 items out of 59 items. More specifically, the mean EVD of the conventional items and Islamic items are 21 percent and 17 percent, respectively. These results indicate that companies disclosed, on average, 7 of the 31 conventional items and 5 of the 28 Islamic items.

Table 1: Descriptive Statistics of the Disclosure Index

	Mean
Overall items	0.192
Conventional items	0.214
Islamic items	0.167

Correlation Analysis

The correlation analysis was computed to determine whether there is a multicollinearity problem. Table 2 presents the Pearson correlation analysis between the independent variables which are used in the main regression analysis. A coefficient is considered high if it exceeds +/-0.80 (Shannon and Davenport, 2001). Based on Table 2, the highest correlation coefficient between variables was 0.348 which is below 0.50, thus, the independent variables do not suffer from the problem of multicollinearity.

Table 2: Correlation Analysis of the Independent Variables

	SIZE	OWNERSTR	AUDIT	INDUSTRY
SIZE	1.000	0.068	-0.087	-0.129
		0.637	*0.549*	*0.373*
OWNERSTR		1.000	0.348*	0.165
			0.013	*0.254*
AUDIT			1.000	0.042
				0.771
INDUSTRY				1.000

* Correlation is significant at the 0.05 level (2-tailed).
The values in bold font are the Pearson's correlation coefficient.
The values in italic font are the significance levels.

Multivariate Analysis

The study ran three regressions. The dependent variables for the first, second and third regression models were the overall disclosure index, the conventional disclosure index, and the Islamic disclosure index respectively. Tables 3, 4 and 5 report the empirical results of the relationship between the EVD in the annual reports and firm-specific characteristics of *Sh*AC using these three regression models.

Table 3 provides the empirical results of the regression analysis for the overall disclosure index (Model 1). The results show that firm size, ownership structure and type of audit firm are statistically significant ($p < 0.05$, $p = 0.10$ and $p < 0.10$, respectively), with the hypothesized direction. In contrast, industry type was found not to be statistically significant. It can be said that firm size, ownership structure, and type of audit firm influence the EVD in the annual reports of *Sh*AC, thus in line with the alternate hypotheses 1, 2 and 3. However, industry type has no influence, hence hypothesis 4, in its null form, fail to be rejected.

Table 3: Multiple Regression (Overall Index)

Variables	Coefficients	Std. Error	t-statistics	Sig.t
Constant	0.158	0.031	5.093	0.000
SIZE	0.032	0.014	2.370	0.022
OWNERSTR	-0.024	0.014	-1.679	0.100
AUDIT	0.061	0.033	1.829	0.074
INDUSTRY	-0.043	0.027	-1.601	0.116

Model Summary

$R^2 = 0.232$	Adj. $R^2 = 0.163$	F-Value = 3.389	Sig. F = 0.017

The findings of the current study are supported by the findings of some prior studies, but are also contrary to the findings of other previous studies, as discussed below. The findings on firm size is consistent with most previous international studies (e.g. Cooke, 1991; Raffournier, 1995; Hossain et al., 1995; Mohammed, 2008) and Malaysian studies (e.g. Azhar, 2001; Ho and Mathews, 2002; Mohd Shatari et al., 2004; Rohana, Azlan and Erlane, 2009), which commonly found firm size to be significant with the level of disclosure. In contrast, the results are inconsistent with those of Murtanto and Elvina (2004) in Indonesia and Nooraisah (2004) in Malaysia which found firm size not to be statistically significant. The significant positive coefficient of firm size indicates that large *Sh*AC disclose more information voluntarily. Several possible reasons can explain the significance of firm size, as discussed earlier. First, large companies may have the resources (e.g. finance, facilities and human) to disclose more information voluntarily. Second, large companies have a wider range of various activities which requires more information to be disclosed, possibly to reduce agency costs. Therefore, based on the results, the null hypothesis 1 is rejected.

On the other hand, the result of ownership structure is found to be weakly significant at a 10 percent significance level. The coefficient for ownership structure has a negative sign in the current study. This implies that firms with a low concentration of share ownership disclosed more information voluntarily. The results of the current study, therefore, support the findings of Hossain et al., (1994) that the more dispersed the ownership structure, hence the varied type of users, the more the EVD to meet these users' needs. The result of ownership structure in this study indicates that *Sh*AC with a high concentration of share ownership disclose less information voluntarily in their annual reports, as hypothesized in hypothesis 2. The significance of ownership structure in this study may be due to the fact that *Sh*AC with close-held ownership may have less pressure from shareholders to disclose more information voluntarily compared to those companies with diverse ownership.

The findings of the type of audit firm support the findings of prior international studies (e.g. Ahmed and Nicholls, 1994; Patton and Zelenka, 1997; Inchausti, 1997) and Malaysian studies (e.g. Azhar, 2001; Ho and Mathews, 2002) which found that type of audit firm influences the EVD positively. In contrast, this result is inconsistent with some previous international studies (e.g. Firth, 1979; Wallace, Naser and Mora, 1994; Hossain et al., 1995; Owusu-Ansah, 1998) and Malaysian studies (e.g. Tong, Kidman and Wah, 1990; Hossain et al., 1994; Ku Nor Izah and Shamsul Nahar, 1998) which found that big audit firms do not influence the extent of disclosure in the annual reports.

As mentioned above, the empirical result of the multivariate regression in Table 3 reveals that the type of audit firm is an explanatory variable of the EVD in the annual reports of *Sh*AC. Thus, the result indicates that *Sh*AC audited by the Big-4 audit firms disclose more voluntary information in their annual reports compared to those audited by non-Big 4 firms. There are some possible reasons for such a finding. Firstly, it seems that the concern and pressure from the public, on big audit firms, increased after the accounting scandals (e.g. Enron, Worldcom and Parmalat). Thus, Big-4 audit firms require their clients to disclose more information voluntarily to satisfy the expectation of information needed by the public, and to maintain their reputation (Hossain et al., 1994). Secondly, the Big-4 audit firms seem to have the resources of human capital who are expert in specific areas and hence could advice their clients on better disclosure practices. Moreover, clients may adhere to advice given by the Big-4 audit firms compared to the non Big-4.

In contrast, the findings of industry type is consistent with most studies that have been conducted in the Malaysian context which examined this variable (e.g. Azhar, 2001; Ho and Mathews, 2002; Rohana et al., 2009), as these studies found that this variable does not have an influence on the extent of disclosure. These results seem to be in line with the study by Murtanto and Elvina (2004) in Indonesia, but contrary to the studies in Sweden and Japan (e.g. Cooke, 1989b, 1991, respectively) which found that the EVD of manufacturing companies is significantly higher than other industries. The empirical result of industry type in this study indicated that manufacturing *Sh*AC do not disclose more than their non-manufacturing counterparts; hence fail to reject the null hypothesis 4.

For further assessment, the study has performed regression analyses based on the sub-section of the voluntary disclosure index as divided into two parts, i.e. conventional and Islamic disclosure index. Tables 4 and 5 report the empirical results of these regressions respectively. Table 4 reports the empirical results of the regression analysis for Model 2 (conventional disclosure index). As reported in Table 4, firm size and ownership structure were the only significant variables ($p < 0.10$), while type of audit firm and industry type were not statistically significant. These results are also consistent with the results in Model 1 (overall) except for the type of audit firm. Therefore, the results of the type of audit firm indicate that the EVD of conventional items does not seem to be affected by whether *Sh*AC are audited by the Big-4 or non Big-4 audit firms.

Table 4: Multiple Regression (Conventional Index)

Variables	Coefficients	Std. Error	t-statistics	Sig.t
Constant	0.179	0.036	4.971	0.000
SIZE	0.028	0.016	1.814	0.076
OWNERSTR	-0.029	0.017	-1.709	0.094
AUDIT	0.053	0.039	1.362	0.180
INDUSTRY	-0.020	0.031	-0.657	0.514
Model Summary				
$R^2 = 0.140$	Adj. $R^2 = 0.063$	F-Value = 1.825	Sig. F = 0.091	

In addition, Table 5 presents the empirical results of the regression analysis for Model 3 (Islamic disclosure index). Table 5 reports that firm size, type of audit firm and industry type were statistically significant with Islamic disclosure index ($p < 0.05$, $p < 0.10$ and $p < 0.05$, respectively), whereas ownership structure was not significant. Therefore, the results of firm size and type of audit firm are consistent with Model 1, while the results of ownership structure and industry type are inconsistent.

Table 5: Multiple Regression (Islamic Index)

Variables	Coefficients	Std. Error	t-statistics	Sig.t
Constant	0.135	0.035	3.813	0.000
SIZE	0.035	0.015	2.301	0.026
OWNERSTR	-0.019	0.016	-1.157	0.254
AUDIT	0.070	0.038	1.847	0.071
INDUSTRY	-0.068	0.030	-2.243	0.030
Model Summary				
$R^2 = 0.254$	Adj. $R^2 = 0.188$	F-Value = 3.831	Sig. F = 0.009	

The result of ownership structure indicates that the EVD of Islamic items is not influenced by the high concentration of share ownership. A possible reason is that the various shareholders may not appreciate the importance of the Islamic disclosure items, therefore, they do not influence the company to disclose such information in the annual reports. Hence, ownership structure is not significantly associated with the level of voluntary disclosure of Islamic items.

On the other hand, type of audit firm has a significant influence on the level of voluntary disclosure of Islamic items, based on the multivariate regression in Table 5. The results indicate that the EVD of Islamic items by *Sh*AC audited by the Big-4 firms is higher than the EVD of Islamic items by *Sh*AC audited by non Big-4. Furthermore, the significant negative coefficient of industry type indicates that the EVD of Islamic items seems to be higher for non-manufacturing *Sh*AC compared to manufacturing *Sh*AC. A possible reason for the significant result is that the type of *Sh*AC in the non-manufacturing category is basically from the construction or mining sector. The companies in these sectors would be more likely to voluntarily disclose information on the environment, which has been included as an Islamic item. This is because the public would be likely to perceive that these companies affect the environment more than other companies. Hence, industry type does have a significant influence on the EVD of Islamic items.

Conclusion

The empirical results of the multivariate regressions support the hypothesis that the EVD in the annual reports is influenced by firm size in all three models (i.e. overall, conventional and Islamic). Thus, it seems that even among the largest 50 *Sh*AC, those with larger firm size do take the lead in terms of disclosure practices. In addition, ownership structure is significant in the overall disclosure and the conventional disclosure models. However, this is not so for Islamic disclosure, although the coefficient sign is negative. These results indicate that dispersing the concentration of share ownership may encourage more voluntary disclosure of conventional items, subsequently overall disclosure, but not the Islamic items. Instead, type of audit firm plays a role in enhancing the disclosure of Islamic information, and subsequently overall disclosure. However, the results in the regression model show that type of audit firms does not significantly affect the EVD of conventional items. Moreover, the regression results provide evidence that non-manufacturing *Sh*AC seem to voluntarily disclose more Islamic items voluntarily than manufacturing companies. Therefore, based on the discussion above, the evidence from this study would be of interest to investors, as they may wish to invest in *Sh*AC with specific firm characteristics in order to be informed about certain facts (i.e. overall, conventional or Islamic items) voluntarily by their investment companies. Other stakeholders may also be keen to know which firm-specific characteristics influence more voluntary disclosure of *Sh*AC. The findings of the current study may also be useful to regulators in making decisions in regulating *Sh*AC, as well as the disclosure practices of these companies.

Although the current study has provided some contributions, being an initial study on firm-specific characteristics influencing *Sh*AC's disclosure practices, it is not void of some limitations. Firstly, this study has focused on the disclosure in the annual reports of *Sh*AC. Future research might be extended by including other forms of disclosure such as interim reports, press releases, stock market announcements and internet financial reporting. Secondly, the study has used a single year in measuring the EVD of *Sh*AC, hence future research may consider using a multiple-year approach to examine the trends in the EVD. Thirdly, only four independent variables of firm-specific characteristics were tested in this study. Therefore, future research could incorporate more independent variables that could further explain the EVD of *Sh*AC. It is hoped that this study will motivate future research on *Sh*AC, particularly on enhancing disclosure practices. Better reporting practices are needed to gain and build confidence of international investors in these companies, consequently strengthening the ICM with their investments.

Notes

[1] The *Shariah* is "the Islamic law of human conduct, which regulates all matters of the lives of Muslims. It is based on God's [*Allah*'s (s.w.t.)] holy word in the *Qur'an*, the deeds and sayings of the prophet Mohammed [p.b.u.h.], and the consensus of Islamic religious scholars" (Maali et al., 2006: 1-2).

[2] The focus is on the core activities of the company because they generate profit for the company and this profit is subsequently distributed to its shareholders in the form of dividends (Securities Commission, 2002).

[3] Their suggestion is in terms of the inclusion of the value added statement and current value balance sheet.

[4] The disclosure index is available upon a request from the first author.

Acknowledgments

The authors are grateful for comments received from participants at the *IIUM International Accounting Conference (INTAC) III*, Kuala Lumpur, Malaysia, 26-28 June, 2006 and the reviewers for their useful comments.

References

Ahmed, K. and Nicholls, D. (1994). The Impact of Non-Financial Company Characteristics on Mandatory Disclosure Compliance in Developing Countries: The Case of Bangladesh, *The International Journal of Accounting*, 29, 1: 62-77.

Alam, K. F. (1998). Islam, Ethics and Accounting Practices. *Accounting, Commerce and Finance: The Islamic Perspective Journal*, 2, 2: 67-85.

Azhar, A. (2001). Disclosure of Information and Corporate Characteristics: A Study of Malaysia. Paper presented at IIUM Asian Pacific Accounting Conference-Accounting in the New Millennium, Malaysia, 10th-12th October 2001.

Banking and Financial Institution Act 1989. (Act No. 372), Kuala Lumpur. Retrieved 8 July, 2004, from http://www.bnm.gov.my/index.php?ch=14&pg=17&ac=14&full=1

Barrett, M. E. (1976). Financial Reporting Practices: Disclosure and Comprehensiveness in an International Setting, *Journal of Accounting Research*, 14, 1: 10-26.

Baydoun, N. and Willett, R. (1997). Islam and Accounting: Ethical Issues in the Presentation of Financial Information. *Accounting, Commerce and Finance: The Islamic Perspective Journal*, 1, 1: 1-25.

Baydoun, N. and Willett, R. (2000). Islamic Corporate Reports, *Abacus*, 36, 1: 71-90.

Brownlee, E.R., Ferris, K.R. and Haskins, M.E. (2001). Corporate Financial Reporting, 4th Ed. New York: McGraw-Hill/Irwin.

Bursa Malaysia. (2004). Shariah Approved Companies. Retrieved 12 August, 2004, from http://www.bursamalaysia.com

Bursa Malaysia. (2010). Listing Statistics. Retrieved 12 February, 2010, from http://www.klse.com.my/website/bm/listed_companies/ipos/listing_statistics.html

Companies Act 1965. (Act No. 125), Kuala Lumpur.

Chow, C. W. and Wong-Boren, A. (1987). Voluntary Financial Disclosure by Mexican Corporations, *Accounting Review*, 62, 3: 533-541.

Cooke, T. E. (1989a). Disclosure in the Corporate Annual Reports of Swedish Companies, *Accounting and Business Research*, 19, 74: 113-124.

Cooke, T. E. (1989b). Voluntary Corporate Disclosure by Swedish Companies, *Journal of International Financial Management and Accounting*, 1, 2: 171-195.

Cooke, T. E. (1991). An Assessment of Voluntary Disclosure in the Annual Reports of Japanese Corporations, *International Journal of Accounting*, 26, 3: 174-189.

Cooke, T. E. (1992). The Impact of Size, Stock Market Listing and Industry Type on Disclosure in the Annual Reports of Japanese Listed Corporations, *Accounting and Business Research*, 22, 87: 229-237.

Cooke, T. E. (1998). Regression Analysis in Accounting Disclosure Studies, *Accounting and Business Research*, 28, 3: 209-224.

Craig, R. and Diga, J. (1998). Corporate Accounting Disclosure in ASEAN, *Journal of International Financial Management and Accounting*, 9, 3: 246-273.

Fama, E. F. and Jensen, M. C. (1983). Separation of Ownership and Control, *Journal of Law and Economics*, 25: 301-325.

Financial Reporting Act 1997. (Act No. 558), Kuala Lumpur. Retrieved 8 July, 2004 from http://www.masb.org.my/index.php?option=com_content&view=article&id=7&Itemid=10

Firth, M. (1979). The Impact of Size, Stock Market Listing and Auditors on Voluntary Disclosure in Corporate Annual Reports, *Accounting and Business Research*, 9, 36: 273-280.

Haniffa, R. (2002). Social Responsibility Disclosure: An Islamic Perspective, *Indonesian Management & Accounting Research*, 1, 2: 128-146.

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.

Ho, P. and Mathews, M. R. (2002). Comprehensiveness of Disclosure of Non-Financial Companies: Some Empirical Evidence from Annual Reports (2000) of Companies Listed on the Kuala Lumpur Stock Exchange, Working Paper, No. 26/02. Charles Sturt University.

Hossain, M., Tan, L. M. and Adams, M. (1994). Voluntary Disclosure in an Emerging Capital Market: Some Empirical Evidence from Companies Listed on the Kuala Lumpur Stock Exchange, *The International Journal of Accounting*, 29, 4: 334-351.

Hossain, M., Perera, M. H. B. and Rahman, A. R. (1995). Voluntary Disclosure in AnnualR of New Zealand Companies, *Journal of International Financial Management and Accounting*, 6, 1: 69-85.

Hughes, P. J. (1986). Signalling by Direct Disclosure Under Asymmetric Information, *Journal of Accounting and Economics*, 8: 119-142.

Inchausti, B. G. (1997). The Influence of Company Characteristics and Accounting Regulation on Information Disclosed by Spanish Firms, *The European Accounting Review*, 6, 1: 45-68.

Investors Digest. (2004). KLSE Market Capitalization Analysis – Overall Ranking, Kuala Lumpur: Kuala Lumpur Stock Exchange. January, 16-22.

Jensen, M. C. and Meckling, W. H. (1976). Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure, *Journal of Financial Economics*, 3: 305-360.

Ku Nor Izah, K. I. and Shamsul Nahar, A. (1998). Mandatory Disclosure in the Annual Reports of General Insurers in Malaysia, *Analisis*, 5, 1&2: 47-66.

Maali, B., Casson, P. and Napier, C. (2006). Social Reporting by Islamic Banks, *ABACUS*, 42, 2: 266-289.

Marston, C. and Robson, P. (1997). Financial Reporting in India: Changes in Disclosure over the Period 1982 to 1990. *Asia-Pacific Journal of Accounting*, 4: 109-39.

Malaysian Accounting Standard Board (2006). *Financial Reporting Standards (FRSs)*, Malaysian Accounting Standards Board, Kuala Lumpur.

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 MultinationalC, *Journal of International Business Studies*, 26, 3: 555-572.

Mohammed, H. (2008). The Extent of Disclosure in Annual Reports of Banking Companies: The Case of India, *European Journal of Scientific Research*, 23, 4: 659-680.

Mohd Shatari, A. G., Muhd, K. I. and Mustaffa, M. Z. (2004). An Investigation of Voluntary Disclosure in Annual Reports: The Malaysian Evidence. Ins. Khairul, A. K., Muhd, K. I. & Mustaffa, M. Z. (1st Ed), *Financial Reporting in Malaysia: Some Empirical Evidence*, 52-76. Kuala Lumpur: Utusan Publications & Distributors Sdn Bhd.

Murtanto & Elvina. (2004). The Effect of Firm Characteristics to Voluntary Disclosure in Annual Report of the Companies Listed in Jakarta Stock Exchange, Paper presented at International Conference on Corporate governance and Reporting, Malaysia, 25th-26th May 2004.

Muwazir, M. R., Muhamad, R. and Noordin, K. (2006). Corporate Social Responsibility Disclosure: A Tawhidic Approach, Jurnal Syariah, 14, 1: 125-142.

Nooraisah, B. K. (2004). The Relationship between Quality of Disclosure in Corporate Annual Reports and Firm-Specific Characteristics: The Case of NACRA. M.Sc. Thesis, International Islamic University Malaysia.

Owusu-Ansah, S. (1998). The Impact of Corporate Attributes on the Extent of Mandatory Disclosure and Reporting by Listed Companies in Zimbabwe, *The International Journal of Accounting*, 33, 5: 605-631.

Patton, J. and Zelenka, I. (1997). An Empirical Analysis of the Determinants of the Extent of Disclosure in AnnualR of Joint Stock Companies in the Czech Republic, *The European Accounting Review*, 6, 4: 605-626.

Raffournier, B. (1995). The Determinants of Voluntary Financial Disclosure by Swiss Companies, *The European Accounting Review*, 4, 2: 261-280.

Robbins, W. A. and Austin, K. R. (1986). Disclosure Quality in Governmental Financial Reports: An Assessment of the Appropriateness of a Compound Measure, *Journal of Accounting Research*, 24, 2: 412-421.

Rohana, O., Azlan, M.T. and Erlane, K. G. (2009). Determinants of Islamic Social Reporting Among Top *Shariah*- Approved companies in Bursa Malaysia, *Research Journal of International studies*, 12: 4-20.

Securities Commission. (2002). Resolutions of the Securities Commission Syariah Advisory Council. 1st Ed. Kuala Lumpur: Securities Commission.

Securities Commission. (2004). Islamic Capital Market. Retrieved 10 December, 2004, from http://www.sc.com.my/html/icm/fr_icm.html

Shahul Hameed, B. M. I. (2000). The Need for Islamic Accounting: Perceptions of Malaysian Muslim Accountants and Academics on the Objective and Characteristics of Islamic Accounting. Ph.D. Thesis, University of Dundee.

Shannon, D. M. and Davenport. M. A. (2001). Using SPSS to Solve Statistical Problems: A Self-Instruction Guide. New Jersey: Prentice-Hall, Inc.

Shariah Index. (2004). KLSE Syariah Index: As at 27 February 2004. Retrieved 10 December, 2004, from http://www.bursamalaysia.com/website/marketinfo/indexcomp_syariah.htm

Sulaiman, M. (2001). Testing A Model of Islamic Corporate Financial Reports: Some Experimental Evidence, *IIUM Journal of Economics and Management*, 9, 2: 115-139.

Tong, T. L., Kidman, Z. A. and Wah, C. P. (1990). Information Needs of Users and Voluntary Disclosure Practices of Malaysian Listed Corporations, *The Malaysian Accountant*, April, 2-7.

Wallace, R. S. O. and Naser, K. (1995). Firm-Specific Determinants of the Comprehensiveness of Mandatory Disclosure in theC annual Reports of Firms Listed on the Stock Exchange of Hong Kong, *Journal of Accounting and Public Policy*, 14: 311-368.

Wallace, R. S. O., Naser, K. and Mora, A. (1994). The Relationship Between Comprehensiveness of Corporate Annual Reports and Firm Characteristics in Spain, *Journal of Accounting and Public Policy*, 25, 97: 41-53.

Watson, A., Shrives, P. and Marston, C. (2002). Voluntary Disclosure of Accounting Ratios in the U.K, *The British Accounting Review*, 34: 289-313.

Watts, R. L. and Zimmerman, J. L. (1986). Positive Accounting Theory. New Jersey: Prentice-Hall, Inc.

Willett, R. and Sulaiman, M. (2001). Islam, Economic Rationalism, and Accounting, *The American Journal of Islamic Social Sciences*, 18, 2: 60-93.