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CSR Disclosure of Shari'ah Compliant Companies in Indonesia: The Extent and Quality Examination

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Abstract

In Indonesia, the number of Shari'ah Compliant Companies (ShCCs) has risen since the release of a fatwa that encourages the growth of the Islamic Capital Market (ICM) in the country. ShCCs are expected to be transparent in disclosing information in their annual reports. Besides non-financial information, the ShCCs also need to provide more information on compliance with Islamic teaching in their reports. This action is to fulfill their responsibility and accountability to society. This study aims to assess the extent and the quality of the Corporate Social Responsibility (CSR) disclosure in the annual reports of ShCCs of Indonesia. The data were collected from the 2014 annual report of 100 ShCCs in Indonesia. To measure the extent and quality of CSR disclosure, a checklist comprising 33 items was constructed. This study used descriptive statistics and reliability tests as the primary statistical tests. The results showed that the extent and quality of CSR disclosure among ShCCs in Indonesia are low. It suggests that ShCCs maintain the narrative disclosure stage rather than promote verifiable CSR information. Hence, companies must intensify the quality of CSR disclosure by providing CSR information in both quantitative and qualitative forms.

Keywords: *CSR; Disclosure; ShCCs; Indonesia*

INTRODUCTION

Researchers in the Islamic finance industry have focused on the Islamic capital market (ICM). The development of ICM is spreading worldwide, including

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in Indonesia. In order to establish the ICM, Indonesia released the Fatwa NO: 40 DSN/DSN-MUI/X/2003 in 2003 as the starting point of ICM development. In the initial development step, Indonesia introduced 164 Shari'ah Compliant Companies (ShCCs) in 2007. ShCCs increased to 322 in 2014 (IDX, 2014). Within seven years, Indonesia's ICM succeeds in leveling up the number of ShCCs by about 100 percent. This is perceived that the response of stakeholders of ICM is a significant positive.

The significant growth of ShCCs has been responded to by the academic fraternity as the standard subject to be studied and researched (see Che Azmi *et al.,* 2016; Mazri *et al.,* 2018; Pitchay, 2022; Sabrun *et al.,* 2018; Shahrier *et al.,* 2020; Tahir and Ibrahim, 2020). Sabrun *et al.* (2018) argued that ShCCs is the organization that could fulfill the perception and expectation of potential Muslim investors. Hence, as a public organization and the high expectation from the stakeholders, ShCCs need to disclose more information, especially non-financial information. ShCCs are expected to disclose information that complies with Islamic teaching in the annual report (Haniffa, 2002; Maali *et al.,* 2006; Said *et al.,* 2018). Besides, the ShCCs are also obligated to be more transparent than non-ShCCs (Anuar *et al.,* 2009; Said *et al.,* 2018).

The high demand from the expectation leads to the notion of corporate social responsibility (CSR) disclosure. CSR disclosure is argued as a medium for the ShCCs to confirm the expectations. CSR disclosure would reflect the expectation of society as one of the stakeholders. Since there is a new expectation from Muslim investors, as a group within the society, ShCCs are required to disclose more information due to the expectation to fulfill both their economic and religious decisions (Anuar *et al.,* 2009; Haniffa and Hudaib, 2002; Sabrun *et al.,* 2018; Said *et al.,* 2018). As a relevant public audience, Muslim investors are crucial for accountable corporate reporting. Thus, CSR disclosure of ShCCs should be accountable from the perspective of Muslim society as relevant public.

A study by Farook *et al.* (2011) revealed that ShCCs in countries with a larger Muslim population had a positive level of CSR disclosure in their annual reports. It shows that in the context of ShCCs, being in a country with a larger Muslim population may contribute to a higher level of CSR disclosures, and the Muslim population is considered a relevant public for CSR disclosure of ShCCs.

In other words, CSR disclosure of ShCCs in countries with a sizeable Muslim population could be more significant compared to other countries. However, it was found that there is no standardization of the disclosure index, which acts as a benchmark to measure the extent and quality of CSR disclosure in the ICM. In the meantime, the conventional capital market has been using GRI guidelines as a benchmark to evaluate the practice of CSR disclosure (Jain *et al.,* 2021).

As explained previously that the expectation of Muslim investors towards the ShCCs and the relevant context of Indonesia is the object of the study; thus, this study has the objective to assess the CSR disclosure in terms of the extent and the quality. It is important to understand to which level the ShCCs are concerned about CSR issues and how they disclose CSR information within the corporate reports. This study contributes several ways to the existing literature on CSR disclosure studies. Firstly, this study provides empirical evidence on CSR disclosure of ShCCs, both extent and quality, an area in which limited empirical evidence has been documented (Bakar *et al.,* 2019; Kusuma and Sudarman, 2017; Soobaroyen *et al.,* 2022; Utami, 2020). The majority of CSR studies focused on the disclosure's extent (see (Al Haija *et al.,* 2021; Cho *et al.,* 2021; Lui *et al.,* 2021; Ramdhony *et al.,* 2021; Rashid, 2021). The present study extends prior studies by examining both the extent and quality of CSR disclosure on ShCCs in Indonesia. Indonesia provides an exciting avenue for investigation, given that it is one of the top five most populous countries. Indonesia also has the highest number of Muslims in the world.

Consequently, Indonesia's substantial Muslim population can be expected to influence the extent and quality of CSR disclosure. This is because the Muslim community places a high expectation on the ShCCs, and subsequently, this should motivate the companies to differentiate their reporting practice, including CSR disclosure, from those non-ShCCs. Secondly, this study uses a self-constructed CSR disclosures index which includes Islamic aspects, to examine the extent and quality of CSR disclosure in ShCCs' annual reports. In this regard, a few past studies have been done on CSR disclosure of ShCCs that include the Islamic aspects in the disclosure checklist (see Aziz and Haron, 2021; Ridwan and Mayapada, 2020; Said *et al.,* 2018).

The remainder of the paper is structured as follows. Section 2 covers the literature review of the study, which consists of general CSR disclosure literature and overview of disclosure practice from Islamic perspective and also the theoretical framework of the study. Section 3 presents the research method used in this study, while Section 4 covers the results and discussion. Finally, Section 5 ends with the conclusion of the paper.

LITERATUR REVIEW

The basic difference between the Islamic Capital Market (ICM) and the conventional capital market is the application of the Shari'ah principles (Shari'ah-compliance) in the ICM. In the ICM, special provisions of Shari'ah capital should not be violated. According to Nathie (2008), at least five principles should be applied in ICM. These principles are the prohibition of riba prohibition of maysir and gharar, hence, the ShCC core business must be following the Shari'ah principles, and the majority of their assets must be illiquid, and the number of non-halal revenues should be under the specific threshold.

The development of ICM to the next level in Islamic finance is partly due to the emergence of ShCCs (Shari'ah stocks) in Indonesia as one of the ICM products; such products are different from those offered in Islamic financial institutions, specifically by Islamic banks. The background and purposes of their establishment hold bold noticeable differences. Islamic banks are established with a specific principle that adheres to the Shari'ah regulations. At the same time, ShCCs has no specific regulations in complying with Shari'ah guidelines and principles, despite engaging in transactions that are still considered Shari'ah-compliant (Che Azmi *et al.,* 2016).

In addition, regarding the issue of ShCCs and Islamic financial institutions, they all should have a special body within the institution to monitor and evaluate the business activities to ensure that the company does not engage in any prohibited activities. This special body is known as the Shari'ah supervisory board. The Shari'ah supervisory board has been generally found in Islamic banks. However, it was found that there is a lower number of boards in ShCCs compared to Islamic banks (Al-Shammari, 2013). Thus, despite the ShCCs having been selected as a company that operates within accepted activities, they still cannot be justified as similar to Islamic banks and other Islamic institutions as they were established in a fully conventional setting rather than an Islamic setting (Che Azmi *et al.,* 2016).

ShCCs in Indonesia represents a bigger proportion of listed companies on the IDX than non-ShCCs. Of the 507 companies listed on the IDX, 322 are ShCCs, almost 64% of the total listed companies (IDX, 2014). On the other hand, ShCCs in Indonesia are still operating without the monitoring of a particular Shari'ah supervisory board to ensure the practice of Islamic values within the business activities and accountability practice as ShCCs are expected to implement those principles, compared to the Islamic banks that have Shari'ah supervisory board (Ridwan and Mayapada, 2020). Consequently, since the status of the company has been changed become ShCCs, there is a demand from the public and Muslim investors for the Islamic principles practiced by the companies to be included in their annual reports.

In addition, there is no standardization of disclosure practice that could satisfy the needs of Muslim investors and annual report users to be informed about Islamic principle practices. For this particular concern, the department of ICM on the Indonesia Stock Exchange (IDX), the ICM division of the Indonesia Financial Services Authority, and the National Shari'ah Board play an important role in addressing this issue in order to enhance the growth of ICM in Indonesia and bring it to the next level. Meanwhile, a Shari'ah supervisory board has been established for the Kuwait ICM (Al-Shammari, 2013). This initiative of the Kuwait ICM should motivate the Indonesia ICM to evaluate its recent policy regarding the need for the Shari'ah supervisory board to enhance social accountability practices and transparency in annual reports.

ShCCs are subjected to perform social reporting disclosure and emphasize the perspectives of social accountability and transparency (Baydoun and Willet, 1997; Haniffa, 2002; Maali *et al.,* 2006). Since the ShCCs are considered Islamic institutions, the concept of social accountability and transparency need to be embedded in its corporate social reporting. Several prior studies (Baydoun and Willet, 1997; Haniffa, 2002 and Maali *et al.,* 2006) have used the concept of social accountability and transparency as theories in order to explain how the Islamic institutions perform their reporting disclosure, particularly with items that should be disclosed in their annual reports. Furthermore, Haniffa (2002) indicated that the CSR disclosure practice of ShCCs should differ from non-ShCCs. It is because the objective and information disclosed by ShCCs differ from non-ShCCs.

According to Haniffa (2002), the objective of CSR disclosure practice has two points. The first objective is to demonstrate accountability to God and the community, and the second is to increase the transparency of business activities by providing relevant information conformance to Muslim decision-makers spiritual needs. In order to reach the objective of accountability, the ShCCs should strive to provide lawful products and services as God's trustee (Amanah), fulfill the obligation to God and society, be just to employees and the community, and ensure the business activities are environmentally friendly.

In addition, to achieve objective transparency, ShCCs should provide all information regarding all lawful and unlawful activities undertaken, financing and investment policy, employee policy, relationship with communities, and the use of resources and protection of the environment. Thus, from the objective of CSR disclosure in Haniffa (2002), it can be summarized that five aspects should be included in the CSR disclosure practice in ShCCs annual reports: finance and investment, products and services, employees, society, and environment.

Most previous studies on social reporting disclosure were conducted in particular Islamic institutions in Islamic banks. For instance, Farook (2012), Aribi and Gao (2012), and Hassan and Harahap (2010) have been studied in the context of Islamic banks in Islamic countries. However, there is still a low number of research conducted on *ShCCs* compared to other Islamic institutions, such as Islamic banks. Some prior studies conducted in the context of *ShCCs* are Anuar *et al.* (2009) and Ousama & Fatima (2010). In addition, in terms of using items on an index, each study has a different number of items in the disclosure index. It shows that the item will be different in each context of a study.

Farook *et al.* (2011) conducted a study aiming to develop and examine a theoretical model of the element of Islamic banks' social disclosures. Islamic banks' annual reports and social disclosure were evaluated based on benchmarks copied from Islamic principles. The principles of system-oriented theories like political economy, legitimacy, stakeholder theory, and agency theory were assigned to linking Islamic social disclosure and its origin. 47 Islamic banks in

14 countries comprised the sample, and the data variable is composed essentially of the annual reports, whereas the independent variables are collected from some sources. This paper developed nine themes: *Sharia* opinion, *zakah* required to the bank, *zakah* not required, *quard Hassan,* charitable and social activities, employees, late repayment, and insolvent clients, environment, and other aspects of community involvement. To test the hypotheses, a regression analysis was conducted. Throughout the samples, Islamic banks' corporate social responsibility (CSR) shows significant variation. "Influence of the relevant publics" and "Sharia (SSB supervisory boards) corporate governance mechanism" was addressed as the best explanation of the variation according to the regression analysis. Additionally, the "level of social and political freedom" and "the proportion of investment account deposits to total assets" are being suggested as the important determinants of Islamic banks' CSR disclosure by the regression results using alternative variable measures.

The aim of the study conducted by Hasssan and Harahap (2010) is to seek the existence of disparity between the corporate social activities disclosed in the annual reports of Islamic banks and the corporate social responsibility (CSR) disclosure index, which has been developed based on the Islamic business ethics framework. Hasssan and Harahap (2010) have used an index containing eight categories with many items covered, which are (1) Ethical behavior, stakeholders' engagement, and customer relation, (2) Corporate governance – board of directors and top management, (3) *Sharia*-compliant corporate governance, (4) Product, services, and fair dealing with supply chain, (5) Environment, (6) Employees, (7) Strategic social development, and (8) Research, development, and training. Content analysis was used in this paper to report the survey of annual reports of seven Islamic banks to determine the volume of CSR disclosure. This paper used stakeholder theory. The stakeholder theory is used to explain that a company doing disclosure activities may be affecting or affected by the various stakeholders. The outcome presents the overall mean CSR disclosure index are above average from one Islamic bank out of seven. Also, for most Islamic banks, the issue of CSR is out of their significant interest.

The study conducted by Aribi and Gao (2012) has the purpose of testing the effect of Islam on corporate social responsibility (CSR) and CSR disclosure in Islamic financial institutions (IFIs) with an analysis of narrative reporting as the focus. As for analyzing the narrative disclosure of CSR of 21 IFIs operating in the Gulf region, this study used content analysis. The Islamic principles are being provided as evidence of Islamic influence on the CSR disclosure of IFIs. This paper used stakeholder theory. The stakeholder theory is used to explain that a company was doing disclosure activities may be affecting or affected by the various stakeholders. Aribi and Gao (2012) have used an index containing seven categories: employee, community, charity and *zakah*, product and services, customer, *Sharia* board report, and other disclosure. This study found that the disclosure of reports of the *Sharia* Supervisory Board is the largest part of CSR disclosure produced by the IFIs. Not only that, IFIs disclose other Islamic information, namely *zakah*, charity donation, and free interest loan, as well as reporting their compliance with Islam along with information about philanthropy, employees, and community.

Anuar *et al.* (2009) examined the practice of environmental disclosure by *ShCCs* in Malaysia and compared it to the non- *ShCCs*. This study used the sample of 87 *ShCCs* and 85 non- *ShCCs* by using the annual report of the year 2000 as an assessment. Some determinants used in the study are company size, level of profit, number of Muslim directors, and environmental sensitivity industry. The study's findings revealed that *ShCCs*has a higher level of environmental disclosure than non-*ShCCs*. In addition, only size and environmental sensitivity do not influence the environmental disclosure practice.

In other studies, Ousama & Fatima (2010) studied the voluntary disclosure practice. This study used firm characteristics such as company size, ownership structure, audit firm, and industry type to see the relationship with voluntary disclosure practice. For the sample, Ousama & Fatima (2010) used the 50 *ShCCs* for 2003. This study revealed that firms' size is related to voluntary disclosure in all categories; overall, conventional and Islamic disclosure. In addition, ownership has a relationship with only two categories of voluntary disclosure, such as overall and conventional. On the other hand, the audit firm has a relationship with overall and Islamic disclosure.

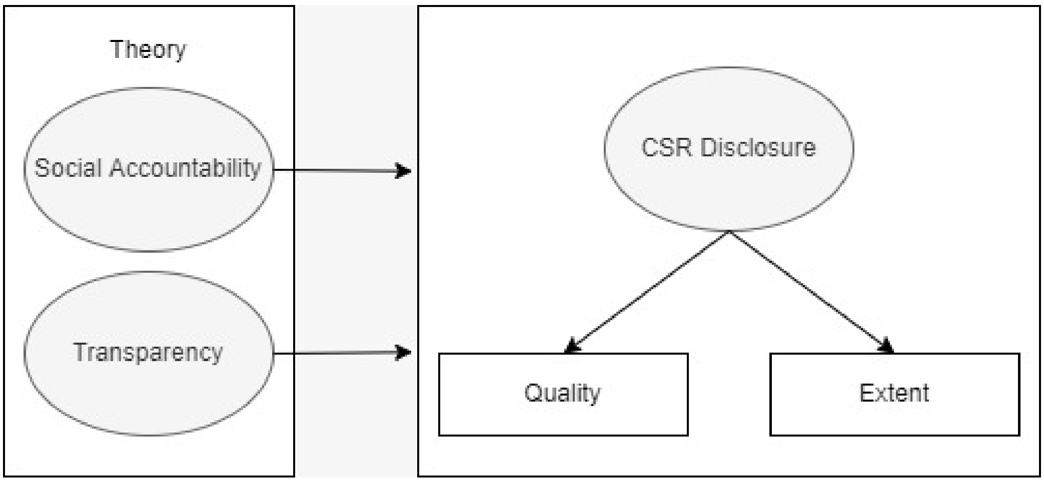
Ahmed Haji (2012) studied CSR disclosure of *ShCCs* in the Malaysian context. Ahmed Haji (2012) tested the trend of CSR disclosure while examining the role of corporate governance attributes to the practice of CSR disclosure. The trend was captured because some events contributed to the significant changes in Malaysia, such as the financial crisis and corporate governance restructuring. The result of the study highlighted that the extent and quality of CSR disclosure are overall low. In contrast, the study revealed an increasing trend in the extent and quality of CSR disclosure practice. In terms of factors influencing the extent and quality of disclosure index, this study shows that board size, profitability, and government ownership are associated with the extent and quality of CSR disclosure for the year 2006. In comparison, firm size and family members on board has associated with the extent and quality of CSR disclosure in 2009.

Theoretical Framework

Tawhid is the well-known cornerstone of Islam (Unity). There is only one God, according to this view. As a Muslim, each person should submit entirely to Allah's will and determination while following the Islamic teachings outlined in the Al Quran and the Sunnah as life guidance. As a result, each Muslim should act appropriately and take responsibility for his actions. Furthermore, every Muslim in the world is a Khilafah (vicegerency). This means that Muslims are accountable not just to themselves but also to the Ummah. Muslims, as Khilafah, is responsible for all of Allah's resources on the earth, and this trust implies that Muslims must be accountable (Ikhtisab). As a result, accountability is a vital component of life for a Muslim because accountability to Allah entails accountability to society.

In Islam, the concept of social accountability is broad. In Islam, Allah's rights come first, followed by the rights of society. As a result, Muslims must act and behave in accordance with Allah's rights. Every Muslim should make certain that everything they do, including their actions and words, adheres to Islamic principles. Muslims must build positive relationships with one another and with the Islamic society as a whole in order to ensure that their rights are realized. Once this is accomplished, Muslims will be urged to accept responsibility for their actions, particularly those affecting society.

Islam recognizes the concept of transparency, which is based on the belief that enterprises should inform the public about their acts and operations that have a direct impact on society. As a result, in order for all necessary information to be communicated, transparency is required (Maali *et al.*, 2006). Transparency, on the other hand, does not indicate that all information should be made public, but rather that only relevant and reliable information should be made public. Furthermore, conservatism in the revelation of information is not recognized by Islam because it may subtract from society's information. According to Haniffa (2002), transparency of relevant and credible information will help stakeholders in making not only business but also religious decisions. In addition to the companies, it is a form of satisfying the accountability to Allah and the society.



RESEARCH METHOD

This study is conducted by using the descriptive analysis approach with the content analysis to assess the CSR information from the annual reports. The assessment of CSR information disclosed by the ShCCs focuses on the extent and the quality. The extent of CSR disclosure is assessed by whether the ShCCs disclose the CSR information or not. Thus, it is to see the absence or presence. In comparison, the quality of CSR disclosure is assessed by how the ShCCs disclose the CSR information under three categories of scoring methods.

Sample Selection and Data Collection

This study has a sample of ShCCs listed in the Indonesia Shari'ah Stock Index (ISSI), which was identified from the 2014 Shari'ah index issued by the Indonesian Financial Services Authority (FSA) and Indonesia Stock Exchange (IDX). As the ISSI declared the ShCCs list twice a year, this study had to eliminate the companies that were not listed twice for 2014. Consequently, for several reasons, 100 ShCCs were chosen based on market capitalization. First, large companies are likely to disclose more information voluntarily, compared to small companies, as the larger companies have more resources than small companies. Second, large companies are perceived as trendsetters and are expected to come up with particular social reporting. Last, most previous studies on disclosure have used large companies as their sample. Hence, the results of the present study should be comparable to prior studies.

The primary data sources for this study are annual reports. The information was gathered from the selected companies' 2014 annual reports. These annual reports are available on the companies' official websites as well as the IDX website. Annual reports from 2014 were selected because they are the most updated, complete, and researchable when this study is started. In light of this, previous research on corporate disclosure has revealed that annual reports are the key means of communication between firms and their stakeholders (shareholders, society, investors, academics, employees and regulatory bodies) (Wiseman, 1982; Guthrie and Parker, 1989; Gray *et al.*, 1995).

Content Analysis

Previous studies of social reporting disclosure (Guthrie and Parker, 1990; Hackston and Milne, 1996; Maali *et al.*, 2006; Ousama and Fatima, 2010; Nugraheni and Anuar, 2014) used content analysis to analyze annual reports. Content analysis, as defined by Krippendorf (as cited by Nik Ahmad *et al.*, 2003), is "a method of codifying the text of a piece of writing into various groups or categories based on selected criteria." Furthermore, Krippendorf stressed the importance of document selection in content analysis, and this study chose to focus solely on annual reports.

In this study, the content analysis is performed by using the measurement of sentences as suggested by Anuar *et al.,* (2009); Ahmed Haji, (2012) and Anas *et al.*, (2015). According to Hackston and Milne (1996) that sentences can be assessed more precisely than words because sentences can communicate more meaning than words. Furthermore, as suggested by Unerman (2000), using sentences as the object for measuring the content of information in written material provides less biased information and judgement. Thus, in this study, sentences are used for the purpose of measurement, but it only focuses on whether the items in index is presence or absence, not counting the number of sentences.

Another issue regarding content analysis is the reliability issue. This study anticipates the reliability issues of the instrument used and the coded data, as suggested by Anas *et al.* (2015). This study used the Cronbach's alpha reliability test, which is used as a scale to extract data from the original sources (Anas *et al.,* 2015). To determine the reliability of the instrument used, Cronbach's alpha score should be greater than 0.80. Boesso and Kumar (2007 and Anas *et al.* (2015) suggested that the second coder should check 20 annual reports randomly for the first time. This could increase the reliability of the coded data.

Furthermore, before analyzing the annual report, the second coder will be briefed regarding the disclosure index and scoring methods. In this regard, if there is any discrepancy found, it will be reanalyzed, discussed, and resolved immediately (Anas *et al.,* 2015). However, for this study, there was a lack of resources to assign the second coder, hence, a modified method was used. The researcher worked on 20 annual reports at a time to familiarize with the content fo the annual report and identify the issue of CSR in the annual reports. Then, the researcher, as a coder, performs the data coding for the first time. After four weeks, the annual reports go through the second coding process to ensure there are no differences between the first and second coding. This measure could reduce issues on reliability.

CSR Disclosure Index

The disclosure index was used as the dependent variable of this study. The index was used to measure the extent and quality of CSR disclosure. The disclosure index will cover items from both Islamic and conventional perspective. This approach of combining both Islamic and conventional perspective follows the suggestion of Ousama and Fatima (2010). Ousama and Fatima (2010) highlighted that in constructing the index for study in Islamic context, should also need to add the conventional items, especially in a very initial stage developing a disclosure index. Thus, the self-constructed CSR disclosure index need to add the combination of Islamic and conventional items from the disclosure index of related previous studies. For the purpose of this study, index is divided into three parts - conventional, Islamic and general items.

In constructing the CSR index, this study has several steps to be done. For the first step, the study of Haniffa (2002) is used for the benchmark as her study is one of the seminal works on CSR in Islamic institution. It also had several adjustments by following previous studies in similar context of the current study, for example, study of Baydoun and Willet (2000), Sulaiman (2005), Ousama and Fatima (2010) and Maali *et al.* (2006), Ahmed Haji and Mohd Ghazali (2013), Nugraheni and Anuar (2014). Second step, this study used some annual reports which won the Indonesia Annual Report Award (ARA) to obtain the additional information for the index. Third step, ensuring the items in self-constructed CSR index is voluntary in nature by evaluating the Indonesian Stock Exchanges listing requirements. Lastly, CSR index is evaluated by some certified of Islamic capital market analysts for suggestion in develop the relevant and reliable of the items in the index.

Table 1. Corporate social reporting disclosure index

THEME	CONTENT
Finance and Investment	1. Information on the prohibited transaction/activities (Maysir, Ghara and Riba) * 2. Zakat * 3. The value-added statement or value-added information * 4. Current Value balance sheet *
Products and Services	1. Halal status of the product * 2. Product safety and quality 3. Responsiveness to customer complains 4. No involvement in non-permissible activities **

Employee	1. Nature of work: * • working hours • holidays 2. Education and training/Human capital development 3. Number of employees 4. Breakdown of an employee by education 5. Breakdown of an employee by gender 6. Breakdown of an employee by the line of a business department 7. Recruitment policy 8. Information on accident 9. Equal opportunities ** 10. Company's employee pension plan 11. Employee reward/appreciation 12. Employee welfare (Health and Safety) 13. Muslim employees are allowed to perform their obligatory prayers and fasting on their working day * 14. The proper place of worship for the employees *
Society	1. Charity ** 2. Waqf * 3. Qard Hassan /benevolent loan * 4. Donation/Gifts/Social activities 5. Sponsorship of sports and games 6. Sponsorship of art and cultural activities 7. Sponsorship of government program 8. Sponsorship of education and scientific/ research award 9. Improvement of social facilities
Environment	1. Use of resources 2. Pollution and environmental protection program

Source: Constructed by the authors

(*) Islamic item
(**) considered as both Islamic and conventional item

The self-constructed index contains five themes. The first theme is finance and investment. This theme covers four items and all items are considered to have an Islamic value. For instance, the item on prohibited transactions pointed out that information on maysir, gharar and riba activities should be disclosed in the annual report. These types of prohibited transactions were used by Haniffa (2002), Sulaiman (2005), Ousama and Fatima (2010) and Maali *et al.* (2006) in developing their index on Islamic disclosure items. In addition, Zakat was included along with a value-added statement or information and a current value balance sheet.

The second theme covers four items. From these four items, two items are related to the Islamic value -information about the halal status of the products and no involvement in non-permissible activities. For ShCCs, halal status for their product is a must, particularly for a company operating in a country with a Muslim majority, as shown by studies conducted by Haniffa (2002) and Sulaiman (2005). The company also needs to inform that there is no involvement of non-permissible activities of their services and product. In contrast, another two items are more conventional such as Product safety and quality and responsiveness to customer complaints. These items are usually listed in the conventional study of CSR disclosure.

The third theme is about the employees. This theme contains 14 items. Issues regarding an employee are often highly prioritized by companies in their annual reports. This is because the employee issue is one of the significant social reporting core information, besides the items on society. Four items in this theme are related to the Islamic value, which is the nature of work (Haniffa, 2002; Sulaiman, 2005), equal opportunities (Haniffa, 2002; Ousama and Fatima, 2010; Maali *et al.,* 2006), place of worship (Sulaiman, 2005) and the permit for performing prayer and fasting (Sulaiman, 2005). The other ten items are conventional items, such as information about education/training for employees, breakdown of an employee based on a background of the study, gender and business department, recruitment policy, rewards, and information on past accidents.

The fourth theme consists of items related to social information. In this theme, three out of nine items are put under the category of Islamic value. These are a charity, waqf, and Qard Hassan (benevolent loan). Charity is also considered a conventional item because it is known universally as a form of contributing to society, not only in the Islamic world. Besides charity, there are other conventional items, such as sponsorship, donation, and improvement of social facilities.

The last theme focused on the environment. This theme only contains two items, which are the use of resources and pollution and environmental protection. Haniffa (2002), Sulaiman (2005), Haji and Mohd Ghazali (2013), and Nugraheni and Anuar (2014) highlighted the same items on their checklists and it is observed that the issue of environment mainly focused on maintaining the natural resources and ensuring that the resources are used by considering its impact to the environment, thus, there is a need for programs to manage the resources and protect the environment.

Measurement of Extent and Quality of CSR Disclosure

The extent of CSR disclosure (ECSRD) is mostly tested using the unweighted method. The unweighted approach is the most used method as it is considered more appropriate in many studies using a disclosure index (Cooke, 1991; Hossain *et al.,* 1994; Ousama and Fatima, 2010). The scoring method used a dichotomous basis, where a score of 0 will be given if the specific item on CSR disclosure is absent. Otherwise, a score of 1 is given if the specific item of CSR disclosure is present. As mentioned by Ousama and Fatima (2010), there are several reasons for this preference in choosing the unweighted approach. Firstly, avoid high subjectivity in assigning the weights of items from different user groups (Cooke, 1991; Hossain *et al.,* 1994; Raffournier; 1995). Second, the assumption in adequately treating the disclosure items will generate less bias than in using the weighted approach (Raffournier, 1995). Thus, this research will employ the unweighted approach in measuring the dependent variable. The formula of ECSRD in the unweighted approach is as follows:

$$\text{ECSRD} = \sum_{i=1}^{n} di$$

Where d scores one if the items are disclosed and 0 otherwise; and n is the number of items expected to be disclosed by the company ($n \leq 33$).

Unlike ECSRD, the quality of CSR disclosure (QCSRD) employs a weighted approach. In terms of scoring, this study employs a three-point scale for QCSRD. The item on CSR disclosure will receive a score of 0 if it is not disclosed, and a score of 1 if it contains information in qualitative or general terms. If the item contains quantitative or monetary information, it will receive a score of 2. The item will receive the highest score of 3 if both qualitative and quantitative information is disclosed. Prior research has widely used this weighted approach for the quality of disclosure (see, Wiseman, 1982; Ahmed Haji, 2012; Anas *et al.,* 2015). The formula of QCSRD in weighted approach is as follows:

$$QCSRD = \frac{AS}{TS}$$

QCSRD score was calculated as the ratio of actual scores (AS) awarded to a company to the total disclosure scores (TS). The calculation for the AS for a company is calculated as follows:

$$AS = \sum_{i=1,2,3}^{n} di$$

The formula above means that d score is given 0 if the item is not disclosed, score 1 is given if the item provides information in qualitative form or general terms. Score 2 is given if the item provides quantitative or monetary information. Score 3 is given if the item provides both qualitative and quantitative information; and n is the total number of items (n 33). TS is calculated by multiplying the total items with maximum score (i.e. 3 x 33 = 99).

RESULTS AND DISCUSSION

Descriptive Statistical Analysis

Table II. Descriptive Statistics of ECSRD and QCSRD

	Frequency	
ECSR Disclosure (%)	No. of Companies	%
1-9	0	0%
10-19	3	3%
20-29	6	6%
30-39	36	36%
40-49	23	23%
50-59	25	25%
60-69	5	5%
70-79	2	2%
Total	100	100%
	Descriptive Statistics	
Minimum (%)		12%
Maximum (%)		70%
Mean (%)		43%
SD		11.54
Kurtosis		-0.20
Skewness		-0.06

Frequency		
QCSR Disclosure (%)	No. of Companies	%
1-9	2	2%
10-19	39	39%
20-29	34	34%
30-39	20	20%
40-49	5	5%
50-59	0	0%
60-69	0	0%
70-79	0	0%
Total	100	100%
Descriptive Statistics		
Minimum (%)		4%
Maximum (%)		47%
Mean (%)		24%
SD		8.89
Kurtosis		-0.12
Skewness		0.61

Table II depicts the total percentage of CSR disclosure for both extent and quality. It is highlighted that 32 companies scored above 50 percent on the extent of CSR disclosure, while 68 companies' disclose rate is under 50 percent. It means that the disclosure level for the majority of ShCCs in Indonesia is considered low. In addition, it is found that only two companies have a score of 70 percent on CSR, as compared to the least score is 12 percent. In contrast, in terms of the quality of CSR disclosure, it is highlighted that there are no companies have scored above 50 percent. While most of the companies scored under 20 percent and the least disclosing score was 4 percent. It can be concluded that the quality of CSR disclosure is arguably lower compared to the extent of CSR disclosure. In other words, the ShCCS in Indonesia still needs to improve the level of their CSR disclosure.

Reliability and Validity

This study focuses on two reliability issues – the reliability of the instrument used and the validity of the coded data. In order to overcome these two reliability issues, this study employed the Cronbach's alpha for testing the reliability of the instrument and used a second coding process in which was conducted to ensure the reliability of the coded data as highlighted by previous studies (Boesso and Kumar, 2007 and Anas *et al.*, 2015).

Table III. Reliability Statistics of ECSRD and QCSRD

Extent		Quality	
Cronbach's Alpha	0.668	Cronbach's Alpha	0.767
N of Items	33	N of Items	33

This study employed a scale of 0 to 3. Based on the literature suggests, using Cronbach's alpha is to ensure the internal validity and consistency of the content of the index (Norusis, 2006). Table III shows that the Cronbach's alpha coefficient for all the 33 items ECSRD and QCSRD are 0.668 and 0.767, respectively. Moss *et al.* (1998) suggested that those values are acceptable, which supported the view that a Cronbach alpha value above 0.6 is generally acceptable. Hair (1998) also supported the view that in a study with a small sample size, low Cronbach alpha scores such as 0.6 can be taken as the measure of acceptable. Thus, the instrument used can be categorized as valid and consistent.

Prior studies suggested using a second coder to ascertain the validity of coded data (Boesso and Kumar, 2007). For this study, the second coder is the same. It employs the modified second coder considering that there is a limitation to assigning the second coder due to the lack of resources. As a result, the coder reviewed and familiarized 20 annual reports before performing data coding for 100 annual reports. Four weeks after the first coding, the second re-coding was conducted to ensure no discrepancy existed. The second re-coding was found that there is no discrepancy between the first and second coding. Thus, the issues on reliability are addressed.

The Extent and Quality of CSR Disclosure Practices

	No. of Companies	Min.	Max.	Mean	Std. Deviation
ECSRD					
Finance and Investment	100	0	75	28.5	21.91
Product and Services	100	0	100	44.3	19.42
Employee	100	21	86	52.4	14.77
Society	100	0	56	32	13.9
Environment	100	0	100	59.5	29.89
QCSRD					
	No. of Companies	Min.	Max	Mean	Std. Deviation
Finance and Investment	100	0	42	10.6	9.32
Product and Services	100	0	50	17.9	10.36
Employee	100	7	64	30.6	12.01
Society	100	0	48	19.1	11.43
Environment	100	0	100	32.8	23.41

Table IV shows the minimum, maximum, mean, and standard deviation scores based on each category of ECSRD and QCSRD themes. This table shows the percentage of items disclosed based on the theme. It shows that the highest mean score was obtained by environment and employee theme for both ECSRD and QCSRD. In the context of ECSRD, the environment theme shows the mean score of 59.50, followed by the employee, product and services, society, and finance and investment with 52.42, 44.25, 31.98, and 28.50, respectively. It shows that the environment theme is the most concerning aspect for the companies to disclose with all the items in the theme being disclosed. On the other hand, in the context of QCSRD, a similar pattern of disclosure occurs where the environment theme is the highest score of the mean (32.79), followed by the employee (30.64), society (19.10), product and services (17.88) and finance and investment (10.60). In the context of ECSRD, products and services obtained the third highest mean score, but in the context of QCSRD, society obtained the third highest mean score. The standard deviation for the environment theme in ECSRD and QCSRD obtained a similar high value.

Discussion

The findings are actually difficult to compare with previous studies as the themes used in this study are different from other studies on CSR disclosure. The theme used in this study is based on the framework developed by Haniffa (2002) with some consideration of Islamic values for the items. For example, the theme of finance and investment is rarely used for theme in the CSR disclosure. Most of the study has created the checklist index based on the suggested theme provided by the authorized body. For instance, Anas et al (2015) mentioned that their CSR checklist was developed by referring to the CSR framework provided by the Bursa Malaysia Berhad (BMB). The framework covers four themes - environment, community, workplace, and marketplace. In addition, there are other studies that construct the checklist for CSR disclosure without using themes to categorize the items on the checklist (Ahmed Haji, 2013).

This study's result indicates that ShCCs are more inclined to disclose environmental information is supported by Anuar *et al.* (2009) who found a similar result in the Malaysian context. Anas et al (2015) have also revealed that public listed companies (PLC) in Malaysia tend to have more disclosure on environmental issues. On the other hand, the theme of an employee, which in .this study is found to be most disclosed among other themes,(1989), and Nik Ahmad *et al.* (2003) have found that the theme of employee or workplace theme has been shown as a common theme disclosed by the PLCs in Malaysia.

As the context of this study is related to ShCCs, the results show that some items derived from Islamic values - information on the prohibited transaction/ activities (Maysir, Gharar and Riba), Zakat, value-added statement or value added information and current value balance sheet (all in the finance and investment theme) are items with the lowest level of disclosure. In justifying the low level of CSR disclosure for Islamic value items, there is a different assumption on the relevant and important issue that determines the rationale of whether the specific information should be disclosed or not, especially for Islamic value items. Some the practitioners on the Indonesian Islamic capital market argued that the Islamic value items are recognized as relevant items for ShCCs to be disclosed. However, their disclosure is perceived as not important due to reasons that there are no demands from the investors and the annual report users, and there are no ruling from the authority of the Islamic capital market which requires the ShCCs to disclose the related items.

For instance, prior studies (Sulaiman, 2005) suggested the inclusion of the items like Muslim employees are allowed to perform their obligatory prayers and fasting on their working day and proper place of worship for the employees, however, from the practitioners insights [2], these two items seem unimportant to be specifically disclosed in the annual report, and even though there is no regulation that imposes the items for disclosing, providing prayer facility and performing religious activity are the responsibility of the company and should be tolerated by others in the companies as majority of population in Indonesia is Muslim. Based on this issues, there is a need for further research to specifically understand the behavior of the ShCCs in disclosing the item.

The result of the study is consistent with the study done by Ahmed Haji (2012) that revealed the extent and quality of CSR disclosure of ShCCs is generally low and dominated by the narrative disclosure rather than a verifiable CSR information. This indicates that from the Islamic perspective on the theory of social accountability and transparency, the ShCCs are depending on the general business environment which affects the behavior of ShCCs in communicating their CSR activities (Ahmed Haji, 2012). Thus, the CSR disclosure practices is far from the expectation given in the theory of social accountability and transparency. This is also supported from study done by Che Azmi et al (2016) which argued that ShCCs are not similar with Islamic banks. While Islamic banks are established with a certain principle that comply to the Shari'ah rules, in contrast, ShCCs do not specify themselves as institutions that implement Shari'ah guidelines and principles, even though their activities are still considerably Shari'ah-compliant (Che Azmi et al, 2016). In addition, the Shari'ah advisory council has a low supervisory role in in Indonesian Islamic capital market, which probably contributed to the low level of CSR disclosure of ShCCs.

CONCLUSION

The results revealed that the ShCCs level of information disclosure is considered low. In terms of practicing CSR disclosure, the ShCCs had disclosed more information regarding the environment, which obtained the highest score for both the extent and the quality of CSR disclosure, followed by items related to the theme of employee. Unfortunately, items related to the Islamic value showed the least disclosure, despite being expected to be highly disclosed.

Furthermore, the narrative form indicating the practice of the disclosure needs some improvements. From here on, it is strongly felt that the role of regulators is really needed for the development of more suitable and relevant CSR framework. Such a framework could assist ShCCs in providing qualitative and quantitative information in a systematic and substantive approach, particularly towards the development of the Indonesian Islamic capital market. In addition, to ensure social accountability and transparency, the regulator needs to impose a mandatory requirement for ShCCs to establish a Shari'ah Supervisory Board in their respective company. The Shari'ah Supervisory Board has been used by ShCCs in the Islamic capital market of Kuwait, so such initiative can be adopted for the Indonesian Islamic capital market as well. This governance system, which employs Islamic scholars to be members of the Shari'ah Supervisory Board, has been generally practiced by Islamic banks. Therefore, implementing the similar governance system can at least propel the development of the Islamic capital market to the next level.

The current study offers some possible suggestions to be undertaken in future research. Firstly, a future CSR disclosure study may utilize other sources of data to assess the practices of disclosure instead of using the annual report only. Many sources of data could be utilized for the purpose of a CSR disclosure study, such as press releases, interim reports, bulletin, internet reporting, and stock market announcements. By expanding the source of data, the strength and comprehensiveness of the findings can be enhanced. Secondly, a future CSR disclosure study may include more companies by increasing the number of samples used or by incorporating the non-ShCCs for comparison study. By including more companies both large and small, the implication of the study can be fine-tuned and enhanced, due to a more eclectic sample. Hence, the findings can better justify the differences in any phenomenon investigated in the study.

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