



## **Corporate Governance Attributes as Determinants of the Islamic Social Reporting of Shariah-compliant Companies in Malaysia**

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### **ABSTRACT**

An increase in the number of Shariah-compliant companies in Malaysia has greatly contributed to stabilising the Islamic Capital Market (ICM). The aim of this study is to examine the nature and extent of Islamic Social Reporting (ISR) practices among Shariah-compliant companies listed on the ACE Market in Malaysia. The study also examines the potential existence of a relationship between corporate governance attributes and ISR. The study focuses on four attributes of corporate governance: Shariah supervisory board size, Audit quality, Audit committee and Muslim ownership. A sample was selected comprising 53 Shariah-compliant companies listed on the ACE Market of Bursa Malaysia during the three-year period of 2015–2017. The study uses content analysis, with ISR coded according to a modified Islamic Social Disclosure Index. The results show significant relationships between the corporate governance attributes of board size, audit quality and audit committee, and ISR. This may reflect the benefits of having more board members with a range of expertise and experience in terms of the ability to make better reporting decisions. The appointment of auditors from the Big 4 firms indicates more transparent reporting practices, while an audit committee, serving as a management watchdog, may encourage more transparent reporting in annual reports. The findings may help to strengthen the understanding of parties such as regulators, practitioners and potential investors of the attributes of effective governance among growing companies in Malaysia.

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## INTRODUCTION

As awareness of Shariah regulations grows, companies should not limit themselves to conventional reporting requirements in terms of the information they provide but should instead seek to include information that is useful from the Islamic perspective. In many Muslim countries, Islam goes beyond a mere personal belief to become integrated into all aspects of society, such as business, law and the community. Nowadays, Muslim decision makers and potential investors expect companies to provide extensive information to help them fulfil their needs (Othman and Thani, 2010). Haniffa and Hudaib (2001) suggested that good reporting practices would not only aid companies in making business decisions but would also help them in fulfilling their accountability to Allah. In Islam, the concept of full disclosure is derived from the concept of social accountability (*ukhuwwah*). *Ukhuwwah* literally defines the concept of brotherhood by which Muslims should be responsible towards each other. The concept of full disclosure means that companies must provide all information that could facilitate their Muslim stakeholders, particularly in relation to the investment decision-making process (Ben, 2017; Haniffa and Hudaib, 2002). Therefore, the users of the annual reports of Shariah-compliant companies are entitled to expect the voluntary disclosure of information to include Islamic-related information such as that pertaining to zakat, Shariah-compliant transactions and value added. Additionally, Muslim stakeholders nowadays demand the provision of greater amounts of information to facilitate their spiritual needs (Othman and Thani, 2010).

The need for greater public disclosure of information has arisen in the wake of a series of corporate scandals that have consequently had an impact on the dealings of capital markets (The Edge Weekly, 2009). In the current 'age of information', stakeholders are making ever greater demands for increased levels of transparency. The reporting practices literature contains many studies in this area, with one frequent topic of study being the determinants of corporate social reporting. Previous studies have identified governance characteristics as the main factor influencing corporate social reporting; however, relatively few such studies have been conducted in the context of Islamic Social Reporting (ISR).

Following the rapid growth of the Islamic Capital Market (ICM), the annual reports of Shariah-compliant companies are expected to contain religious elements for the benefit of their Muslim stakeholders. Moreover, Shariah-compliant companies making the claim that they operate in line with Islamic principles are expected to adopt more transparent reporting practices (Aman, 2016; Haniffa and Hudaib, 2002). However, previous studies have tended to find a low level of voluntary disclosure by Shariah-compliant companies (Che Azmi, et al. 2016; Ousama and Fatima, 2010). Haniffa and Cooke (2002), on the other hand, suggested that companies with Malays (mainly Muslims) as their majority shareholders provided a high level of voluntary disclosure during the 1997 East Asian financial crisis.

However, Haniffa and Cooke (2002) went on to explain that, despite the provision of more information via reporting practices, there remained insufficient emphasis on Islamic perspectives and elements, thus failing to meet the spiritual needs of Muslim decision makers. This study therefore attempts to measure the level of ISR by Shariah-compliant companies in Malaysia owing to the fact that these companies are expected to demonstrate greater accountability in term of their disclosure.

The main objective of the study is to examine the nature and extent of voluntary disclosure in the annual reports of Shariah-compliant companies listed on the ACE Market of Bursa Malaysia. The study also attempts to examine the determinants of ISR practices among Shariah-compliant companies in Malaysia from the perspective of corporate governance. There is a focus on the following five characteristics of governance with regard to the Shariah Supervisory Board: board capability, board size, audit quality, board composition and Muslim ownership.

The paper is structured as follows. The second section contains a review of the literature on corporate governance and ISR, in addition to the development and description of the study's hypotheses. The third section details the methodology used and discusses the modified Islamic Social Disclosure Index and the operationalisation of variables. The fourth section presents and interprets the results of the hypothesis testing, while the final section contains the concluding comments.

## LITERATURE REVIEW

### Overview of Shariah-compliant Companies in Malaysia

ISR comprises not only conventional disclosure but also pertains to the society's holistic expectation of the company's role within it based on the spiritual perspective (Haniffa and Hudaib, 2002). ISR aims not only to show that a company is Shariah-compliant but also how its operations will affect the society as a whole in terms of increasing the transparency of its business activities through the reporting of relevant information that conforms to the spiritual needs of Muslims.

In the case of Malaysia, investments in financial products that are allowed under Islamic law pertain to the literal meaning of moral investments for Muslims (based on Shariah principles). The ICM was established in Malaysia due to growing concern about Shariah-approved output. The ICM applies wherever activities are pursued by Islamic law and the religion of Islam itself. A host of capital market products currently make the claim to be Islamic products in an effort to secure access to the ICM. Today's shareholders, specifically Muslim shareholders, in seeking to ensure their compliance with Shariah law, should review whether or not an organisation is attempting to conduct its operations in line with Shariah requirements based on the fact that their shareholding confers on them a degree of ownership in the company in question. This is vital in assisting Muslims to identify Shariah-compliant organisations prior to the making of economic decisions.

The total number of Shariah-compliant companies listed on Bursa Malaysia has shown a dramatic increase since the development of the ICM in 1999. The Shariah Advisory Council (SAC) of the Securities Commission Malaysia recently published a list of Shariah-compliant securities. While few securities were newly classified by the SAC as being Shariah-compliant, a total of 30 securities were removed from the previous list. The complete revised list thus contains 672 Shariah-compliant securities.

### Islamic Social Reporting

Past research has noted the need for ISR, in contrast to conventional social reporting practices, to incorporate information on obligations and responsibility according to Islamic law, thus demanding information on zakat, charity (sadaqa), joint ventures and environmental protection activities (Othman and Thani, 2010). Under the concept of Amanah, business entities are deemed to be trustees and to have a responsibility towards their owner or stakeholders. Besides, Islam prohibits all transactions that may be construed as riba (usury), uncertainty (gharar), fraud, hoarding and price manipulation (Che Azmi et al., 2016). Zakat is an important tool in Islam that demonstrates the importance of wealth sharing for the purpose of abolishing poverty. According to Islam, when conducting business, an individual should consider three things: their relationship with Allah, their relationship with humans and the conservation of the natural environment for future generations (Marsidi, et al.2017).

In some of the earliest studies in this area, Baydoun and Willet (2000) and Marsidi et al. (2017) suggested that a value-added statement should be included in Islamic corporate reports to meet the expectation by Muslim investors of a greater level of social impact awareness on the part of companies (Baydoun and Willet, 2000). These authors argued that Islamic corporate reports should provide more information on the potential societal impact of companies' activities. They outlined the following two general requirements of Islamic bookkeeping: the idea of social responsibility and the notion of full divulgence (Baydoun and Willett, 2000).

Later, Haniffa and Hudaib (2002) introduced ISR, highlighting the various limitations of traditional and conventional reporting practices. They suggested that ISR may help Muslim investors make better decisions, in addition to assisting companies to comply with Shariah laws and meet their obligations to society. Haniffa and Hudaib (2002) suggested that good reporting practices would not only facilitate them in making business decisions but also help them in fulfilling their accountability to Allah. Thus, from an Islamic view, emphasis is placed directly on the inclusion of the appropriate exposure as opposed to estimation strategies.

In a recent study, Issalih, et al.(2015) proposed a model of Islamic corporate social reporting with its roots in the conventional framework. It is contended that proper governance should be applied to such economic activities as a way of ensuring accountability and transparency based on the three fundamental elements of Maqasid Al-Shariah in the context of meeting social responsibility goals.

A number of empirical studies have examined the level of voluntary disclosure and factors influencing ISR, including Ousama and Fatima (2010); Al-Shammari (2013); Ahmed and Mohd Ghazali (2013); Albawwat and Basah (2015), and Habbash, et al.(2016). Ousama and Fatima (2010) developed an Islamic-based disclosure index to gauge the level of voluntary disclosure among Malaysian companies for both the conventional and Islamic

approaches. They noted the non-disclosure by Shariah-approved companies of much in the way of voluntarily Islamic information, with only 17% of such information reported to have been disclosed by such companies.

In a similar vein, Habbash et al. (2016) and Albawwat and Basah (2015) conducted studies in Kuwait and Jordan respectively. Their findings suggested there was less extensive voluntary disclosure of Islamic information in those countries in comparison to that of conventional information. Among the other factors identified that might influence the level of ISR were board compensation, number of shareholders, government ownership and status as a Shariah-approved company.

## **HYPOTHESES DEVELOPMENT**

### **Board Size and Islamic Social Reporting**

Empirical evidence from the corporate governance field suggests that board size can affect the level of control and monitoring exerted by the board, in addition to the company's level of disclosure (Akhtaruddin, et al. 2009, R. M. Haniffa and Cooke, 2005). As such, a larger board size would enable better monitoring and consistency with regard to the rules and principles of Shariah. According to Kamla, et al.(2006), a larger board size reduces the potential for information asymmetry. Furthermore, a larger number of board committees may also serve to reduce levels of uncertainty and a lack of information (Kent and Stewart, 2008). A large board size is preferable in order to have a positive effect on its ability to monitor and check that all of the company's transactions are Shariah-compliant, thereby ensuring that it complies with Shariah rules and principles. Also, the ability of the board members to monitor the company's activities will influence the well-being of the society, with this ability being much greater with a higher number of board members. More members means an increased level of cumulative knowledge and experience in Shariah issues, resulting in greater disclosure of CSR information (Hasan, et al. 2010; Kent and Stewart, 2008). This leads to the following hypothesis:

H1: There is a significant relationship between board size and the level of ISR.

### **Audit Quality and Islamic Social Reporting**

External auditors play an important role in ensuring that their clients comply with all of the relevant rules and regulations. In comparison to small and medium-sized audit firms, the Big 4 audit companies typically have more expertise, resources and knowledge regarding updates and new accounting requirements (Kent and Stewart, 2008). Aside from this, due to their larger client bases, it is important for them to protect their names; as a result, they tend to demand a higher level of disclosure from their clients (Kim, et al 2003; Krishnan, 2003).

It is expected that Shariah-compliant companies that are audited by one of the Big 4 firms will provide greater levels of voluntary disclosure in their annual reports. It is also assumed that companies audited by the Big 4 firms will be more transparent in terms of reporting their operational performance in their annual statements (Astami et. al, 2017). There are thus direct effects of audit quality on ISR (Al-Shammari, 2014). In addition, Clarkson, et al.(2003) found a strong positive relationship between the use of the Big 4 firms and a company's reporting practices. On the other hand, Kent and Stewart (2008) found a positive relationship between small audit firms and a company's reporting practices. This was due to the greater dependence on external auditors by the management of the company. Thus, the following hypothesis is developed:

H2: There is a significant relationship between audit quality and the level of ISR.

### **Audit Committee and Islamic Social Reporting**

Bradbury, et al.(2006) identified the existence of a relationship between audit committee size and greater financial reporting quality only with income-increasing abnormal accruals. Zheng and Cullinan (2010) demonstrated that companies with audit committees were more likely to employ incentives such as stock options in relation to executive compensation. Albawwat and Basah (2015), using a sample of non-financial S&P 500 companies representing 1,032 company years for the period 2003–2005, examined the impact of audit committee existence on the quality of financial reporting.

Furthermore, the quality of financial reporting by companies is increased if their audit committees comprise more members with accounting financial expertise and less non-accounting financial expertise. Krishnan (2005) identified that an audit committee comprising members with only financial accounting expertise, as opposed to non-accounting financial expertise, would affect the quality of financial reporting. Goh (2009), meanwhile, found only non-accounting financial expertise to be positively associated with companies' timeliness in remedying any

material weakness in internal control, whereby an audit committee was important for the production of quality financial reporting. Thus, the following hypothesis is developed:

H3: There is a significant relationship between the audit committee and the level of ISR.

#### **Muslim Ownership and Islamic Social Reporting**

With Muslim ownership concentration as an independent variable, the presence of a Muslim board has been shown to play an important role in influencing management's decision-making (Othman, 2009). It is thus expected that a board of directors containing more Muslim directors would positively influence the decision to provide ISR.

Prior studies have indicated that a dominance of Muslim directors (in terms of their numbers) may increase their ability to oblige management to provide greater disclosure, as long as they perform their monitoring role as opposed to their 'perceived' monitoring role (Haniffa and Cooke, 2002). Ownership concentration is thus found to be significant, which is consistent with the finding by Huafang and Jianguo (2007) that an increase in ownership concentration increases the level of corporate disclosure. A high proportion of Muslim directors on the board of directors would thus result in a higher level of ISR (Othman, 2009).

H4: There is a significant relationship between Muslim ownership concentration and the level of ISR.

#### **Control Variables: Company Size and Profitability**

Notably in large companies, previous researchers have identified a positive relationship between company size and the level of ISR (Othman, 2009) since size can be a factor that influences management to provide a higher level of voluntary disclosure (Ho and Mathews 2002, El-halaby and Hussainey 2015 and Ousama and Fatima 2010). Thus, a positive association is expected to be found between company size and the level of ISR.

Similar to size, various prior studies have demonstrated a positive relationship between company profitability and the level of voluntary disclosure (Juhmani, 2014 and Rahman, et al.2010). From the Islamic perspective, it can be stated that companies should provide comprehensive information to their stakeholders regardless of whether or not they are making a profit (Haniffa and Cooke, 2002).

## **RESEARCH METHODOLOGY**

This section explains the selection of the sample, the operationalisation of the independent, control and dependent variables, and the statistical analysis used to test the hypotheses proposed in the study.

This study uses the quantitative method of collecting data via the annual reports of the sampled companies. A period of three years from 2015 to 2017 was selected since this was deemed to yield the most up-to-date picture of the voluntary reporting practices of the sampled companies. The list of companies was downloaded from the Bursa Malaysia website. Content analysis was used to meet the objective of this study, which is to examine the voluntary reporting practices disclosed by Shariah-compliant companies in their annual reports by the types of voluntary reporting.

#### **Measurement of Islamic Social Reporting**

This study uses the checklist developed by Al-Shammari (2013) in its quest to examine the level of voluntary disclosure among Shariah-compliant companies, although Al-Shammari's study was conducted in Kuwait while this study reflects the Malaysian context. At this stage, 132 ISR items were identified.

Some of the disclosure items were removed based on the findings of previous studies by Othman and Thani (2010), Ahmed Haji and Mohd Ghazali (2013), Al-Shammari (2013) and Nuragheni (2011). This was done to ensure that those items that were included were suited to the local environment of the study.

The list was screened to eliminate mandatory items as per the Malaysia Financial Reporting Standard (MFRS), Bursa Malaysia listing requirements, Company Act 1965, Malaysian Accounting Standards Board and the Malaysian Code on Corporate Governance as revised in 2012. The financial checklist eventually contained 74 voluntary items. ISR consists of the following seven themes: Corporate Environment, Social Responsibility, Information about zakat, Employee Information, Corporate Governance, Financial Information and Environment.

### Sample Selection

The population of this study comprises companies that operate in Malaysia. The final sample includes all Shariah-compliant companies listed on the ACE Market of Bursa Malaysia. A summary of the total sample is shown in Table 1 below.

Table 1 Summary of Total Sample

Initial Sample of Companies as at 31 Dec 2015 (Shariah-compliant companies listed on ACE Market Bursa Malaysia)	95
REIT and ETF	(8)
Unavailable Annual Report or Incomplete Data as at 31 Dec 2017	(34)
<b>Total Sample</b>	<b>53</b>
<b>Final Sample for 3 years (2015 to 2017)</b>	<b>159</b>

The data were collected from the annual reports of the sample companies. Annual reports were chosen as the data sources since they are the most commonly used medium by companies to convey information to external users (Nuragheni, 2011).

### Operationalisation of Independent and Control Variables

The data for the independent variables were gathered from the companies' annual reports and DataStream. Table 2 below summarises the independent variables and the measurements used to examine the relationships between them.

Table 2 Summary of the Measurements of the Independent Variables

Variable	Acronym	Measurements	Reference
Board Size	BSIZE	Number of board members	Ahmed Haji and Mohd Ghazali (2013)
Audit Quality	AUDQUAL	Dummy-coded 1 if the company has been audited by a Big 4 auditor; 0 if otherwise.	Al-Shammari (2011), Albawwat and Basah (2015)
Audit Committee	AUDCOM	Code 1 is assigned if an audit committee exists in the company; code 0 if there is no audit committee.	Albawwat and Basah (2015)
Muslim Ownership Concentration	MUSOWN	The ratio of shares held by Muslim investors to the total number of shares.	Ahmed Haji and Mohd Ghazali (2013)
Company Size	CSIZE	Total assets of a company at the end of a reporting year, in RM'000.	Othman (2009), Ahmed Haji and Mohd Ghazali (2013), Ousama and Fatima (2010)
Profitability	PROF	Profit before tax of a company at the end of a reporting year, in RM'000.	Othman (2009)

### Data Analysis

This study uses the content analysis method for its analysis of Islamic social information. This method has been widely employed by previous researchers when examining items contained within annual reports (Al-Shammari, 2011; Othman and Thani, 2010; Ousama and Fatima, 2010). Since the aim of the study is to determine the level of disclosure in financial reports based on aspects from both the Islamic and conventional perspectives, the use of disclosure indices comprising both Islamic items and conventional items was deemed appropriate as a means of fulfilling the study's objectives.

The study uses an equal weighting approach whereby each disclosure item is considered to be of equal importance (Othman and Thani, 2010; Ousama and Fatima, 2010). This equal weighting approach can help to avoid the subjectivity involved in assigning weights to items by different user groups (Al-Shammari, 2011; Othman and Thani, 2010). Besides, previous studies have suggested similar outcomes for both equal weighting and other weighting systems (Chow and Wong-Boren, 1987). A dichotomous procedure is used whereby a code of 1 is assigned if the item listed in the disclosure index is reported, with a code of 0 assigned if the item is not disclosed.

To ensure the relevance of the measure, the annual report was first read carefully in its entirety prior to scoring the disclosure index. This enabled the scorer to gain a better understanding of the company’s operations and environment before concluding whether or not unreported items clearly applied to the company.

Previous studies have indicated that the control variable of company size is significantly associated with ISR; for instance, Othman (2009), Mohd Shatari et al. (2004) and Ho and Mathews (2002). The result of profitability has also been found to be significant, consistent with prior studies by Othman (2009) and Singhvi and Desai (1971).

## RESULTS AND DISCUSSION

### Outlier Test and Diagnostic Check

Table 3 shows that no data are out of range for ISR in the case of outlying values.

		Case Number	Value
Highest	1	6	.8657
	2	59	.8657
	3	112	.8657
	4	2	.8358
	5	29	.8358 <sup>a</sup>
Lowest	1	115	.5672
	2	62	.5672
	3	9	.5672
	4	142	.5821
	5	125	.5821 <sup>b</sup>

Note: a. Only a partial list of cases with the value .8358 are shown in the table of upper extremes. b. Only a partial list of cases with the value .5821 are shown in the table of lower extremes.

Figure 1 shows that no boxplot outliers appear as small circles with a number attached. A small circle defines a point as an outlier if it extends more than 1.5 box-lengths from the edge of the box, while extreme points (indicated with an asterisk \*) are those that extend more than three box-lengths from the edge of the box. It also proves that the outlier’s score is genuine and free from error.

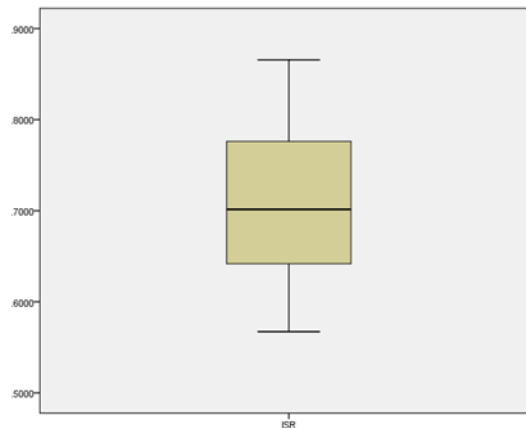


Figure 1 Boxplot for Islamic Social Reporting

Figure 2 displays the Normal Probability Plot running in a reasonably straight diagonal line from the bottom left to top right. This suggests no major deviations from normality.

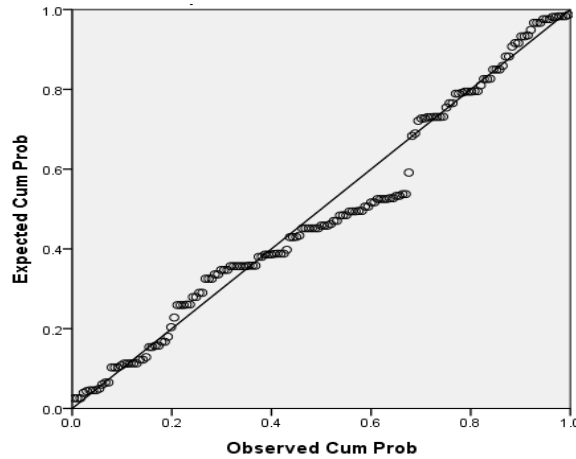


Figure 2 Normal P-P Plot of Regression Standardised Residual.  
Dependent Variable: Islamic Social Reporting

Figure 3 proves that the residuals are roughly distributed, with most of the scores concentrated in the centre (along with the 0 points). It defines outliers as cases that have a standardised residual (as displayed in the scatterplot) of more than 3.3 or less than  $-3.3$ . With large samples, it is not uncommon to find a number of outlying residuals.

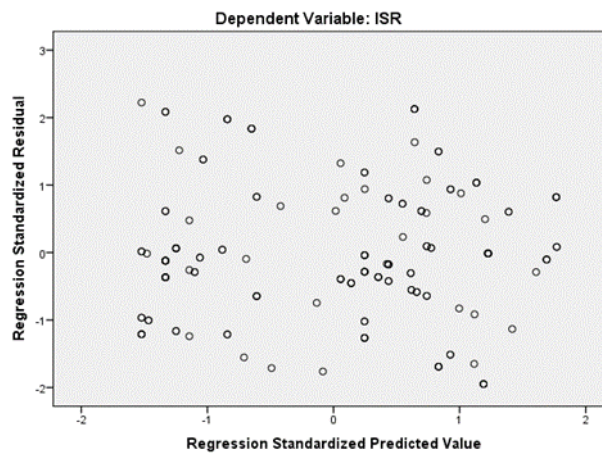


Figure 3 Scatterplot for Islamic Social Reporting

### Descriptive Statistics

Table 4 presents the descriptive statistics for all of the variables: Islamic Social Reporting, Board Size, Audit Committee, Audit Quality and Muslim Ownership. As shown in the table, the mean value for ISR is 0.71, with a minimum value of 0.57 and a maximum value of 0.87. This indicates that an average of 71% of the items from the disclosure checklist were reported by the companies under study. Since a total of 67 items are included in the disclosure index, this shows that on average, 48 out of the 67 items in the disclosure index were reported by the companies. By the same method, the lowest disclosure index score is 0.57, thus indicating that a company reported only 38 out of the 67 items on the disclosure index. Among the Shariah-compliant companies in the ACE Market, the highest value of 0.85 shows that the company in question reported 58 out of the 67 items in the disclosure index.

Table 4 also shows a mean value for board size of 6.69, with a range in the disclosure index of 4.00–12.00 for company board of directors size in terms of its number of members. The mean value score shows that there is an average of six people on the board of directors for this item on the disclosure checklist, as reported by the companies. The minimum value of 4.00 means that the lowest number of members on a company’s board of directors was 4, while the highest value of 12.00 indicates one or more Shariah-compliant companies in the ACE Market with 12 members on their board of directors, as per the item on the disclosure index.

Next, the mean value for audit quality is 0.58, with a minimum value of 0.00 and the highest of 1.00. This score shows that an average of 58% of the items on the disclosure checklist were reported by the companies under



study. The index numbers for audit quality of between 1 and 0 refer to audits being conducted by either the Big 4 or non-Big 4 firms for the 76 companies in question. Hence, the score shows that an average of 31 companies were audited by the Big 4 in the disclosure index, as reported by the companies.

The mean value for the audit committee is 3.25, with the values ranging from a minimum value of 2.00 to a maximum of 5.00. This indicates that an average of 3 members serve on the audit committee, as per the disclosure checklist reported by the companies. The maximum score for this item on the disclosure index was 5.00, while the lowest value, as indicated in Table 4, was 2.00, meaning that the company in question reported only two audit committee members in the disclosure index.

The mean value for Muslim ownership is 19.68, with a minimum value of 0.00 and the highest score being 83.00. The mean value shows that an average of 19% of the companies' ownership positions were held by Muslims, as reported by the companies for this checklist item. The maximum score for this item was 86.00, thus indicating that 86% of the directors are Muslims.

Table 4 Descriptive Statistics for Islamic Social Reporting, Board Size, Audit Committee, Audit Quality and Muslim Ownership

	N	Missing	Minimum	Maximum	Mean	Std. Deviation
ISR	159	0	.57	.87	.7078	.07452
BSIZE	159	0	4.00	12.00	6.69	1.462
AUDQUAL	159	0	.00	1.00	.58	.494
AUDCOM	159	0	2.00	5.00	3.25	.582
MUSOWN	159	0	.00	83.00	19.6792	22.52574
Valid N (listwise)	159					

### Multiple Regression Analysis

The following model is developed to examine hypotheses H1 to H4 that predict the relationship between the corporate governance attributes of board size, audit quality, audit committee and Muslim ownership, and ISR practices among the Shariah-compliant companies listed on the ACE Market of Bursa Malaysia.

The model will generate the coefficients and measures of goodness of fit for multiple regressions. It will show the predictive power of board size, audit quality, audit committee and Muslim ownership and assess the relative contribution of each. The model is presented as follows:

$$ISR = \beta_0 + \beta_1SSB + \beta_2BSIZE + \beta_3AUDQUAL + \beta_4AUDCOM + \beta_5MUSOWN + \beta_6SIZE + \beta_7PROF + \varepsilon$$

Where:

ISR = Islamic Social Reporting

BSIZE = Board Size

AUDQUAL = Audit Quality

AUDCOM = Audit Committee

MUSOWN = Muslim Ownership

SIZE = Company size

PROFIT = Profitability

### Factors Affecting Islamic Social Reporting

As presented in Table 5, the explanatory power (R-squared of 36.4%) of the model serves to highlight those independent variables that have an impact on the overall model ( $p < .000$ ), where the corporate governance attributes are significantly useful in predicting the possible effects on ISR.

Table 5 shows the results of the hypothesis testing for the relationship between the independent variables and ISR using two-tailed statistical tests. Two-tailed tests are used to test for the possibility of a relationship in two directions, i.e. a positive or negative relationship with ISR.

All of the independent variables, namely board size, audit quality, audit committee and Muslim ownership, were found to have a positive significant relationship with ISR, with the following results: board size ( $t=1.991$  and

$p < .05$ ); audit quality ( $t = 5.705$  and  $p < .001$ ); audit committee ( $t = 2.518$  and  $p < .05$ ); and Muslim ownership ( $t = 2.464$  and  $p < .05$ ). Thus, H1, H2, H3 and H4 are supported.

With regard to the control variables, neither of the control variables of company size or profitability result in a significant  $p$ -value, with such a value deemed to be one in excess of 10%. These results are inconsistent with those of previous studies (Haniffa and Cooke, 2005; Luo, et al.2006; Othman and Thani, 2010) that have indicated that the decision made by the board to disclose Islamic social information would not be influenced by company size or profitability.

Table 5 Multiple Regression Analysis

Model		DV: Islamic Social Reporting		
R			.603	
R <sup>2</sup>			.364	
F-statistic (p-value)			14.507	
Model Sig.			.000	
	$\beta$	t		Sig.
(Constant)		15.510		.000***
Board size	.145	1.991		.048**
Audit quality	.401	5.705		.000***
Audit committee	.166	2.518		.013**
Muslim ownership	.172	2.464		.015**
Company size	-.103	-1.569		.119
Profitability	-.067	-1.012		.313

Note: \* significant at 10% (2-tailed). \*\* significant at 5% (2-tailed). \*\*\* significant at 1% (2-tailed)

## CONCLUSION

This study contributes to the existing ISR literature by examining the factors affecting ISR practices among Shariah-compliant companies listed on the ACE Market of Bursa Malaysia. The main objective of the study was to determine the extent of the ISR practices conducted by Shariah-compliant companies in Malaysia. The second objective was to examine the effects of the corporate governance attributes of board size, audit quality, audit committee and Muslim ownership on ISR practices among Shariah-compliant companies in Malaysia.

The descriptive statistics reveal ISR practices in Malaysia to be at an acceptable level. It is shown that 71% of the companies are disclosing Islamic social information in line with the Islamic principle that encourages full disclosure and accountability. The extent of ISR among Shariah-compliant companies in Malaysia indicates a good response to the regulators' call for transparent reporting, with companies expected to provide more information voluntarily, particularly in relation to Islamic matters, in order to fulfil their accountabilities to shareholders.

The results of this study are consistent with the findings of previous studies that have suggested a large board size would benefit companies as the board members would bring more expertise and knowledge in both Islamic and corporate governance issues (Ahmed Haji and Mohd Ghazali, 2013; Al-Shammari, 2011). With regard to audit quality, those companies that were audited by internationally established audit firms or the Big 4 firms were most likely to demonstrate transparent practices via the reporting of their operational performance in their annual reports (Astami, et al. 2017). The existence of an audit committee would consequently increase the level of relevancy and reliability of the financial statements; thus, an audit committee would provide the best way of enhancing the dissemination of information between a company's shareholders and its management. In conclusion, the level of ISR conducted is greatly influenced by a company's attributes of corporate governance since these enable investors to demonstrate their accountability to God and society. It also helps them to ensure that their investments are conducted in accordance with Shariah principles.

As the findings of this study are limited to data from a three-year period, it would be beneficial for future studies to include data for a longer period. Any future collection of data could also be expanded to include other mediums such as company prospectuses, interim reports and websites, to facilitate the collection of more reliable data so as to provide better inferences in the future.

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