

# The Relationship between Islamic Corporate Social Responsibility and Firm's Performance: Empirical Evidence from Shari'ah Compliant Companies

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## Abstract

Shari'ah Compliant Companies (*ShCC*) are companies that conduct activities which are not contrary to the Islamic principle. Numbers of *ShCC* in Bursa Malaysia increase tremendously since the introduction of Islamic Capital Market and it was in line with the Ninth Malaysia Plan that wanted Malaysia to become global hub for Islamic Capital Market. Based on the Islamic theoretical foundation of social accountability and full disclosure, social activities are becoming common practice among *ShCC* and social reporting are beginning to present in the annual report. The objectives of this paper are to assess the level of Islamic Corporate Social Responsibility (*i-CSR*) disclosure for the *ShCC* and examine the relationship between *i-CSR* disclosure and firm performance. The study used weighted disclosure analyses approach, a self-constructed disclosure checklist was developed to measure the level of *i-CSR* disclosure that been classified according to five dimension of *Maqasid Al-Shari'ah* and *Maslahah*. The study examines the annual reports of sample of 114 *ShCCs* which selected based on market capitalization ended 2008 for two years period of 2010 and 2011. In this study, Smart PLS was applied to test the relationship between *i-CSR* disclosure and firm performance. Subsequently bootstrapping was conducted to investigate the standard error of the estimate and t-values. The result indicates that the level of *i-CSR* disclosure in overall was low and lacking of Islamic values and principles or under protection of faith (*Al-Din*). The result was consistent with prior studies. It was found that there was a significant relationship between *i-CSR* disclosure and firm performance. The findings are limited to the *ShCCs* which selected based on market capitalization ended 2008 for two years period of 2010 and 2011. The source of data used in this study is the companies' annual report only. This study has brought up several implications which may be applied in many countries irrespective of whether they are developing or developed countries. Firstly, it provides strong evidence to show that boards of directors and human capital are significant variables in the extent of disclosure. Secondly, the study is expected to alert the Securities Commission with regards to the definition of Shariah-compliant status which should not just include "good public perception and Image Company" but also the extent of the application of Islamic values and Shariah principles in the conduct of their businesses. The study extends the previous studies by providing a new benchmark of an Ideal Islamic Corporate Social Responsibility Index based on the *Maqasid Al-Shariah* and the application of *Maslahah* in Shariah Compliant Companies. However this study focuses on *i-CSR* disclosure in *ShCC* annual reports for 2010 and 2011 only. Hence, future research may consider analyzing other forms of communication channels such as the company's web site, standalone sustainability reports, newspapers and in-house magazine. Future research could also include data for more than two years period.

**Keywords:** *Islamic Corporate Social Responsibility (i-CSR), Shari'ah Compliant Companies, Firm's performance, Islamic Perspectives*

## 1. Introduction

Corporate social responsibility (CSR) has proven to be a powerful or effective tool motivating the success of many companies nationally and internationally. Corporate Social Responsibility (CSR) covers three key areas namely: environmental performance, economic performance and social performance. Environmental issues include the impact of production processes, products and services on air, land, biodiversity and human health.

Economic performance, covers wages and benefits, productivity, job creation, outsourcing expenditures, Research and Development investments, and investments in training and other forms of human capital. Social performance include traditional topics such as health and safety, employee satisfaction and corporate philanthropy, as well as more external topics such as labour and human rights, diversity of the workforce and supplier relations. CSR therefore focuses beyond financial (economic performance) as the bottom line figure. It also looks at how the company has performed in terms of its environmental and social performance. Hence, CSR essentially constitutes Triple Bottom Line.

Nevertheless, in Islam the Corporate Social Responsibility is not only restricted to meeting the benchmark set by the Shariah Advisory Council (SAC), it in fact encompasses a broader meaning by acceptance the value of God-consciousness (*Taqwa*) in all situations. Hence, everybody in the organization must play their roles and responsibility as servants and vicegerents in all situations (Asyraf, 2008). A person with *Taqwa* value understands that their role in this life span is to manage and develop the world in accordance with the Shariah principle and value in order to achieve the barakah and al-falah. Shariah is described as Islamic Law which sets a system of ethics and value that covers all aspects of life including personal, social, politics, economics and intellectual dimensions of human being which cannot be separated or isolated from Islam's basic beliefs, values and objectives (Ziauddin, 2003). Therefore, any companies that claim as a Shariah-compliant should practice Corporate Social Responsibility as it is clearly defined that it should cover all aspects of life. Accounting in Islamic perspective is a process of providing appropriate information which is not limited to the financial data to the stakeholders of an entity (Hammed, 2000). This will enable them to ensure that the entity is continuously operating within the bounds of the Islamic *Shari'ah* and delivering on its socioeconomic objectives. In order to be in line with the Islamic accounting, *ShCC* must get involved in the activities that can show their accountability to the environment, society and community. This type of activities was known as Corporate Social Responsibility (CSR) and it had become an obligation for every organization beyond the requirement by law and economics to portray its unique roles as a business organization in contributing their interest to the need of community and society. This activities have been supported by Malaysian Prime Minister, Dato' Sri Najib Tun Abdul Razak. He claimed that good CSR is the key towards ensuring the sustainability of business and Malaysian companies in the years ahead (Nor Mohamed Yakcop, 2004). Even though Corporate Social Responsibility Disclosure (CSRD) is a voluntary disclosure as it not required by any accounting regulation in Malaysia, but by participating and disclosing CSR activities will represent an expression of the corporation accountability to the society (Manasseh, 2004). More specifically, companies that operate within the bounds of Islamic principles are expected to be more transparent in reporting their corporate activities.

The number of Shariah-compliant companies in Bursa Malaysia has increased tremendously since the introduction of Islamic Capital Market by Malaysian Securities Commission in year 1999. This phenomenon is in line with the Ninth Malaysia Plan which requires Malaysia to become a global hub for Islamic Capital Market. In an attempt to win the trust and confidence of their Muslim investors and stakeholders especially from oil rich Arab Gulf Region who currently have flush of funds, the Shariah-compliant companies must portray not only their sincerity but also their earnestness in complying with the Islamic values or Shariah principles. To date, the Shariah-compliant status in Malaysia is determined by referring to the simple benchmarks of percentage (5%, 10%, 20% and 25%) established by the Shariah Advisory Council (SAC). In trying to sustain this momentum as being the leader in the Islamic Capital Market, the Malaysian government has set the Capital Market Master Plan 2001 as outlined by the Securities Commission in 2001. To further strengthen the Islamic Capital Market, Malaysia realize that it needs to promote transparency and accountability by gaining trust and confidence of the investors by putting in place a comprehensive accounting, tax and regulatory framework (ICM, March 2010). What we are still lacking is a comprehensive Islamic Corporate Social Responsibility (i-CSR) Reporting Model in the Sha'riah Compliant Companies in Malaysia.

Therefore, this study sets out to develop an Islamic Corporate Social Responsibility Reporting Model based on the Maqasid Al-Shariah (Objective of Islamic Law) and the application of Maslahah (Public interest) in Shariah-compliant companies and to investigate its relations towards form's performance.

## 2. 0 Review of Previous Studies

### 2.1 CSR in Islamic Perspectives

From the Islamic perspective, CSR encompasses a broader meaning embracing the value of God-consciousness (*Taqwa*) in all situations, by which everybody in the organization must play their roles and responsibility as

servants and vicegerents in all situations (Dusuki, 2008). A person with *Taqwa* value understands that their role in this worldly life is to manage and develop the world in accordance with the *Sha'riah* principle and value. *Sha'riah* is a system of ethics and value covers all aspects of life including personal, social, politics, economics and intellectual dimensions of human being which cannot be separated or isolated from Islam's basic beliefs, values and objectives (Ziauddin, 2003). For example, economic or trading aspects cannot be isolated from moral and spiritual aspects. This complete integrated code of life will be implemented now and hereafter. As a *ShCC*, all the activities must be complied and achieved the objective of *Sha'riah*. According to Imam al-Ghazali, the objective (*maqasid*) of *Sha'riah* is (See Chapra, 2000, p.118).

“ to promote the well-being of all mankind, which lies in safeguarding their faith (din), their human self (nafs), their intellect (aql), their posterity (nasl) and their wealth (mal). Whatever ensures the safeguard of these five serves public interest and is desirable”

The five values of these objectives must be the basis for every *ShCC* in conducting daily activities including CSR. Furthermore, it can help to facilitate the improvement and perfection of human life in this world and Hereafter. In the Qu'ran (Yunus: 57), *Shari'ah* has been described as a healing, as well as a guidance and mercy for mankind:

*O mankind! There has come to you a good advice from your Lord (i.e. the Qu'ran, ordering all that is good and forbidding all that is evil), and a healing for that (disease of ignorance, doubt, hypocrisy and differences, etc.) in your hearts, - a guidance and a mercy (explaining lawful and unlawful things, etc.) for the believers.* (Yunus:57)

Therefore, core principles of CSR in Islamic perspectives are derived from Qur'an and Sunnah (the Prophet's saying and practices), while the major foundational principles of CSR in Islamic perspectives are unity, vicegerency and trusteeship, justice and equilibrium and rights and responsibilities (Mohammed Shamim & Md.Nesarul, 2011). The foundational principles above should be a guideline for *ShCC* in every activity undertaken.

a) Unity

Unity of Allah (SWT) is the first principle in Islam. Allah (SWT) is the One and absolutely One Who created the earth and universe. The Quran (57:5) states that Allah (SWT) is the ultimate owner of everything on earth and universe and man is ultimately accountable to Allah. It means that by accepting Unity of Allah (SWT), all commercial activities must be in accordance to *Sha'riah* principle and value (Haniffa, Hudaib & Malik, 2002).

b) Vicegerency and Trusteeship

Man is a vicegerent (*khalifah*) or representative of Allah (SWT) on earth and trustee of Allah resources. As a *khalifah* or leader in organization, they have greater responsibility to utilize things that belongs to Allah (SWT) such as possession, wealth, expertise, abilities, positions, and power. Furthermore, they also must see themselves as a stewards or caretakers to everybody and holding the property and utilize all given facilities by Allah to best of their abilities to create maximum added value to the organization itself and to the whole community (Bardai, 2002). By doing so, the firm will attaining a blessing from Allah and will achieve ultimate happiness in this world and in the Hereafter.

c) Justice and Equilibrium

According to Parvez (2000), human beings are equal and then the interactions among them should be based on trust, equity and justice. In Islam, everyone is a vicegerent (*khalifah*). In order to fulfill their role as a vicegerent, they should collaborate and support each other, be honest, sincere, kept the promises and truthful in their business dealings. At the same time, establishment of justice at all levels of life either in private, public, legal social, economic, politic, national and international without making any discrimination is very important. Even Quran also emphasizes of justice at all level of life. This been mention in Quran (4:135):

*“O believers! Stand out firmly for justice as witnesses to God, even if it be against yourself, your*

*parents and relatives and whether it be against rich or poor”*

Through justice, Islam wants establish equilibrium by treating people fairly and justly in wages distribution without discrimination, fulfilling rights and obligation by eliminating excess and disparity in all spheres of life. Through justice and equilibrium principle, organization can create harmonization life between societies.

d) Rights and Responsibilities

Every individual is accountable and responsible for his own actions. They are free or have a right to steer their own life because humans have been endowed with intellectual to choose either to be ethical or unethical (Mawdudi,1989). These rights however must always conform to *Sha'riah* rules and ethics as well as preserve and protect the interest of collective well-being (Iqbal & Mirakhor, 2004).

These Islamic principles act as the underpinning theoretical perspective of the study.

## 2.2 Dimensions of CSR Vs i-CSR

*ShCC* and *ShNAC* have dissimilar values and aspiration because the companies are operating in different philosophical grounds such as *Halal* (Lawful) and *Haram* (unlawful) in its economic system. For the earning and wealth that have been declared unlawful such as *riba* (interest), bribery, gambling, short weighing, short measuring and sales of *al-gharar* (uncertainty, risk, speculation) need to be considered seriously by *ShCC*.

However, the dimension and area of CSR as proposed by Bursa Malaysia are for all PLCs either *Shariah* or Non-*Shariah* compliant, but it can be applied to Islamic business firms since most of them are consistent with the spirit and teaching of Islam or predominately based on the Qu'ran and Sunnah. According to Mohammed Shamim and Md. Nesarul (2011), the dimensions of contemporary CSR and Islamic *Sha'riah* have a common objective, which is to achieve benefits and prevent harms in society. Dusuki and Nurdianawati (2007) conducted a study on the evolution of CSR and they found that the western humanistic theories<sup>1</sup> are lacking of a solid foundation or guiding principle of ethical and morality in conducting of CSR activities. This finding was consistent with Humber (2002,p.215) and he argued that:

“we should abandon the quest to develop a special moral theory for use in business and we should not attempt to impose the use of any moral theory upon business, but rather should allow corporation to determine their moral responsibility in any way they see fit”.

As a result, they found western humanistic theory have no adequate ethical guidance to the business executives been imposed and these was create a dilemma for them to decide way to be practice and to be committed.

In contrast with the western humanistic theory, Islam highly emphasized the importance of considering public interest and it was consistent with the objectives and rationale of the *Shari'ah* which are promoting *maslahah* (benefits) and repelling harm of the people. Al Khawarizmi defined *maslahah* as a preservation of *Maqasid Al-Shariah* (Al-Shawkani, 1995). According to Al-Ghazali (1997), *maslahah* is defined as an expression for acquisition of benefit and repulsion of harm by preservation the objective of the *Shariah*. While Ibn Ashur (2006) illustrated *maslahah* as the utmost righteousness and goodness of act that always give benefits to the public or individual. Hence, all the definition stress about the promoting a benefit and preventing of harm is part of *maslahah*.

Imam Al-Shatibi classified *maslahah* into three categories namely; *daruriyat* (the essential), *hajiyyat* (the complementary) and *tahsiniyat* (the embellishments). According to Dusuki and Nurdianawati (2007), these three categories reflect the different degree of responsibility fulfillment and decision making. Thus, it can be applied in the CSR dimension.

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<sup>1</sup> Western humanistic theories more aligned with the materialistic approach to life than with ethical concerns.

Table 21: *Maslahah* and the application

<i>Maslahah</i>	Description	Management Expectation	Example
Essentials ( <i>Daruriyyat</i> )	It is necessary because of the indispensable in sustaining and preserving the five principles of <i>Maqasid Al-Shariah</i> . The most fundamental responsibility to be fulfilled.	To preserve and protect stakeholders essential needs (religion, life, intellect, posterity and property) and public good in general.	<ul style="list-style-type: none"> <li>• Provide adequate prayer rooms ,</li> <li>• Provide safety and healthy workplace to employees</li> </ul>
Complementary ( <i>Hajiyyat</i> )	Supplement the essentials to remove hardship and impediments. If neglected, it would lead to hardship but not to total disruption of normal life.	To remove difficulties that may not pose a threat to the normal order's survival.	<ul style="list-style-type: none"> <li>• Provide training and enhanced human quality program.</li> </ul>
Embellishments ( <i>Tahsiniyyat</i> )	It refers to interest whose realization leads to refinement and perfection in the customs and conduct of people at all levels of achievement.	To engage in activities or programs that may lead to improved and attaining the perfection of public life.	<ul style="list-style-type: none"> <li>• Giving charity or donating to the poor and needy</li> <li>• Offering scholarships</li> </ul>

Source: Dusuki and Nurdianawati (2007), p. 31-33

Table 1 above shows the application of *Maslahah* in CSR activities. A *Daruriyat* is the lowest level and the most fundamental responsibility to be fulfilled by preserve and protect stakeholders' essential needs namely, faith (*din*), life (*nafs*), intellect (*aql*), posterity (*nasl*) and property (*mal*). Once the *daruriyat* level has been fulfilled, the companies must endeavor to improve their fulfillment of social responsibility to a better stage which is *hajiyyat*. Islam also motivates Muslim to continuously and consistently strive for excellence in order to gain a pleasure and better reward from Allah ( Mohd Kamal, 2002).

While at the *tahsiniyat* level, companies are expected to discharge their social responsibility activities that may lead to improving and attaining the perfection of public life. These three categories of *maslahah* are interdependent between each other and may help to solve many problems to the companies itself and also to the state or country. But, the companies need to engage and manage their activities according to the priorities and cannot be focus on attaining the embellishments (*tahsiniyat*) while jeopardizing the essentials needs (*daruriyat*) of people. While, *Maqasid Al-Shariah* must be upheld at all times when conducting every activity either privately or publicly as Ruslinda (2011) highlighted that when conducting a holistic financial plan. Furthermore, in order to ensure their client been fulfillment with spiritual and worldly needed and upmost important is to gain God pleasure and *barakah*, the concept of *Maqasid Al-Shariah* must be upheld all the time.

Since Islam aims is to protect people, thus *Maslahah* and *Maqasid Al-Shariah* provide the relevant element ethical guidance and framework for good corporate governance, in which be made as well as the appropriate level of commitment should be taken in order to achieve benefit and remove harm for humankind. Consequently, companies CSR reporting also will portray the image of *ShCC* as an Islamic organization.

### 2.3 i-CSR Disclosure and Firm Performance

Manasseh (2004) found that CSR disclosure was a representation expression of the corporation accountability to the society. Several studies have found that CSR disclosure reflected the corporate image and performance of the company (Adams & Zutshi, 2006; Ferns, Emelianova, & Sethi, 2008; Friedman & Miles, 2001; Kolk, 2005). These finding was in line with the stakeholder theory which suggest that when corporations meet the expectations of various stakeholders, they are more capable in creating superior firm performance (Freeman, 1984). Since most of the listed companies in Bursa Malaysia are classified as *Shari'ah* compliant companies,

Muslim stakeholders expected the information that can facilitate them in making Islamic ethical decision. This required *ShCC* to increase *i*-CSR initiative and disclosure that could help to improve the stakeholders' relations. Consequently it will improve the firm performance and portrays the Islamic value as *ShCC*. Thus, it is hypothesized that:

*H1: There is a positive association between the i-CSR disclosure and firm performance.*

### 3. 0 Methodology

#### 3.1 Population and Sample Size

The top 100 largest *ShCC* were selected based on their market capitalization as at 31 December 2008 for the two year period from 2010-2011. According to Abdifatah and Nazli Anum (2013), larger firms tend to have greater visibility and impact on society. Thus, these firms are more likely to disclose organization activities in a way to respond to the public pressures. The following table illustrates the sampling procedure of this study.

**Table 22:** Sampling Procedure

Sampling procedure	No. of firm year observations
Firms that are positioned in top 100 companies (by market capitalisation) for the five-year period from 2010 to 2011	200
Firms that have not maintained their position in top 100 companies (by market capitalisation) for the five-year period from 2010 to 2011.	86
Final Sample	114

#### 3.2 Process of Constructing *i*-CSR Disclosure Index and Content analysis

The item of *i*-CSR checklist was constructed based on the previous studies done by Haniffa, 2002; Ousama and Fatima, 2006; Sulaiman, 2005; Baydoun and Willet, 2000. In addition, annual report from Middle East country and Malaysian companies which is the winners of Prime Minister's CSR Award in 2009 and 2010 such as Telekom Berhad had been selected in constructing *i*-CSR index. Since, *i*-CSR index is used to check the voluntary disclosure, all the mandatory items required by the approved Accounting Standard, Companies Act, 1965 and Bursa Malaysia Listing Requirement will be eliminated in the *i*-CSR checklist.

Although several studies had develop the items of *i*-CSR index, but there is no research yet classified the items into five dimension of *Maqasid Al-Sha'riah* namely protection of faith, protection of human life, protection of posterity, protection of intellect and protection of wealth. Thus, *i*-CSR index was send to the *Sha'riah* experts (academician and practitioners) to verify all the selected items according to the *Maqasid Al-Sha'riah*.

The preliminary *i*-CSR Disclosure index was developed by adding all the items of the four themes. In this study, *i*-CSR Disclosure index was developed by using the nominal score to record the absence (represented by "0") or the presence (represented by "1") of an item which was called the un-weighted approach. Next step, the researcher determine the entire item especially the presence items which was represented by "1" with the level of *Maslahah* namely essential (*Daruriyat*), complementary (*Hajiyat*) and embellishment (*Tahsiniyat*). These three categories of *Maslahah* reflect the different degree of responsibility fulfillment, thus it was represented in a 1 to 3 rating scale. Essential (*Daruriyyat*) is a very important element in the *Maslahah*, therefore the rating scale for essential (*Daruriyat*) was 3=very important. While, rating scale for complementary (*Hajiyat*) was 2=important and embellishment (*Tahsiniyat*) was 1 = slightly important. After that, each of the presence items be multiply with the scale of the *Maslahah*. Lastly, the process will add all the scores and equally weighted. The scores will be calculated as follows:

$$i\text{-CSRDI } j = \frac{n_j \sum_{t=1} X_{ij} * M_{ij}}{N_j * M_{ij}}$$

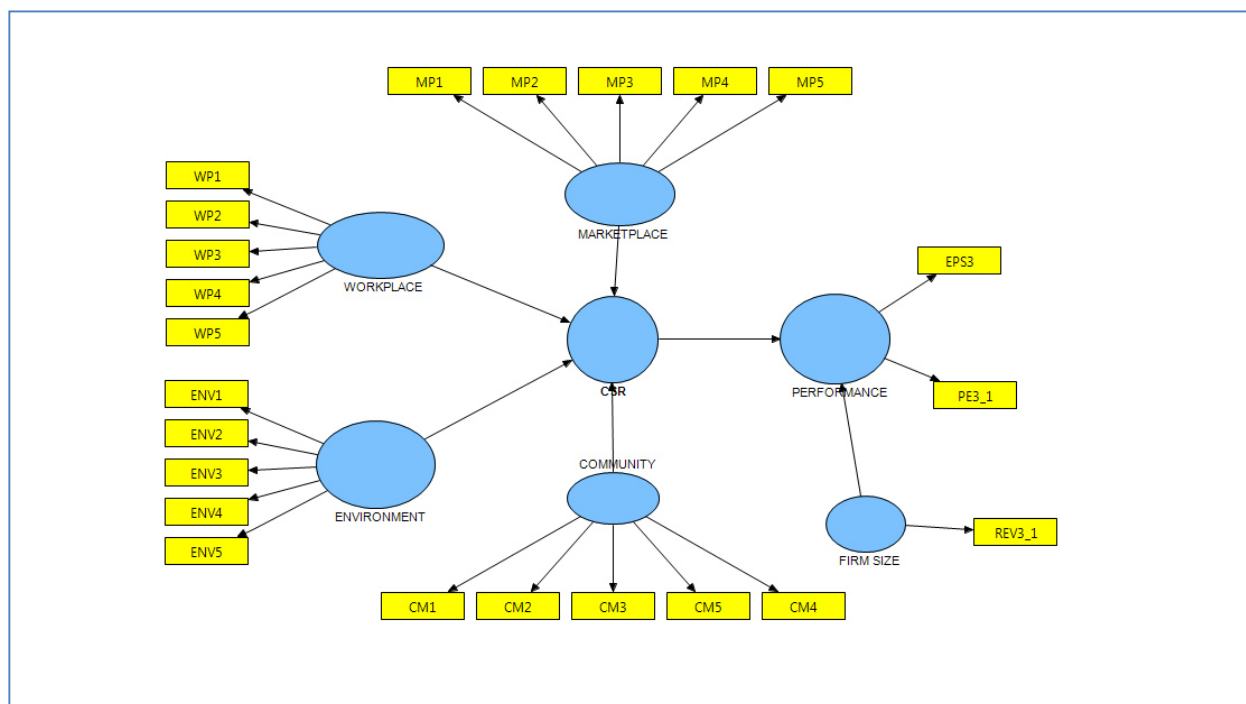
$i$ -CSRDI $j$	Islamic CSR Disclosure Index
$N_j$	Number of items expected for the company $n_j \leq 92$ items
$X_{ij}$	of “1” , if the company disclose the items and “0”, if it is not
$M_{ij}$	of”3” if the items is Essential, “2” if the items is Complementary and “1” if Embellishment

In order to construct  $i$ -CSR index, the content analysis method has been chosen. Thus, all the items in the  $i$ -CSR index will be identified in the annual report. The information regarding CSR can be find in the annual report at the chairman’s statement; notes to financial statement, corporate governance statement, director’s report, CEO statement, calendar of events, corporate achievement, CSR stand alone statement and internal control statement.

### 3.3 Statistical Techniques

In this study, Partial Least Square (PLS) based Structural Equation Modelling (SEM) was adopted for the data analysis. PLS is a second generation multivariate technique (Fornell and Cha, 1994) which can simultaneously evaluate the measurement model (the relationships between constructs and their corresponding indicators), and the structural model with the aim of minimizing the error variance (Chin, 1998; Gil-Garcia, 2008). PLS is based on the concept of path modelling and subsequently bootstrapping was conducted to investigate the standard error of the estimate and t-values (Chin, 1998; Tenenhau et al., 2005; Wetzels et al., 2009). The research model for this study is posited in Figure 1.

**Figure 1: Research Model**



## 4.0 Findings of the study

### 4.1 Descriptive statistics

Descriptive statistics through content analysis was used to describe the presence or absence of the 92  $i$ -CSR disclosure items. The descriptive statistics includes statistics such as minimum, maximum and mean for each of the dimension in the four themes of  $i$ -CSR Disclosure index. Table 3 represents the overall level of disclosure for the year ended 2010 and 2011. Table 3 reported that on average  $i$ -CSR disclosure is at a minimal level of 41% and 35% respectively for 2010 and 2011.

**Table 23:** Descriptive Statistics for *i*-CSR Disclosure

Descriptive Statistics				
	N	Minimum	Maximum	Mean
<b>YEAR2010</b>	57	0	0.70	0.41
<b>YEAR2011</b>	57	0	0.68	0.35
<b>Valid N (listwise)</b>	57			

The items of *i*-CSR disclosure were classified into five dimension of *Maqasid Al-Shari'ah*. Table 4 below was shown the result of *i*-CSR disclosure items that had been classified based on the *Maqasid Al-Shari'ah*.

**Table 24:** Descriptive Statistics for *i*-CSR Disclosure by dimension

	2010				2011		
	N	Minimum	Maximum	Mean	Minimum	Maximum	Mean
<b>MARKETPLACE</b>							
<b>Protection of Faith (Al-Din)</b>	57	0	0.70	0.03	0	0.50	0.05
<b>Protection of human life (Al-Nafs)</b>	57	0	1.00	0.63	0	1.00	0.63
<b>Protection of intellect (Al-Aql)</b>	57	0	1.00	0.47	0	1.00	0.49
<b>Protection of posterity (Al-Nasl)</b>	57	0	0.00	0.00	0	0.00	0.00
<b>Protection of wealth (Al-Mal)</b>	57	0	0.70	0.26	0	0.76	0.32
<b>WORKPLACE</b>							
<b>Protection of Faith (Al-Din)</b>	57	0	0.80	0.04	0	0.80	0.08
<b>Protection of human life (Al-Nafs)</b>	57	0	0.80	0.42	0	0.88	0.43
<b>Protection of intellect (Al-Aql)</b>	57	0	1.00	0.39	0	1.00	0.37
<b>Protection of posterity (Al-Nasl)</b>	57	0	1.00	0.41	0	1.00	0.40
<b>Protection of wealth (Al-Mal)</b>	57	0	1.00	0.78	0	1.00	0.73
<b>ENVIRONMENT</b>							
<b>Protection of Faith (Al-Din)</b>	57	0	1.00	0.40	0	0.50	0.39
<b>Protection of human life (Al-Nafs)</b>	57	0	1.00	0.65	0	1.00	0.60
<b>Protection of intellect (Al-Aql)</b>	57	0	1.00	0.55	0	1.00	0.52
<b>Protection of posterity (Al-Nasl)</b>	57	0	1.00	0.48	0	1.00	0.54
<b>Protection of wealth (Al-Mal)</b>	57	0	1.00	0.57	0	1.00	0.58
<b>COMMUNITY</b>							
<b>Protection of Faith (Al-Din)</b>	57	0	1.00	0.33	0	1.00	0.38
<b>Protection of human life (Al-Nafs)</b>	57	0	1.00	0.60	0	3.33	0.70
<b>Protection of intellect (Al-Aql)</b>	57	0	1.00	0.65	0	1.00	0.58
<b>Protection of posterity (Al-Nasl)</b>	57	0	1.00	0.39	0	1.00	0.43
<b>Protection of wealth (Al-Mal)</b>	57	0	0.60	0.16	0	0.75	0.20
<b>Valid N (listwise)</b>	57						

Results of the descriptive analysis in Table 4 reported that that the highest mean for the *i*-CSR disclosure index for Marketplace of 2010 and 2011 Annual Report were 63% under dimension of protection of human life (*Al-Nafs*). Meanwhile, the highest mean for the disclosure level for workplace was under protection of wealth (*Al-Mal*) dimension. The score were 78 % (2010) and 73% (2011). Mean for environment theme also shown



protection of human life (*Al-Nafs*) score the highest mean at 65% (2010) and 60% (2011). However, community shown the disclosure was highest under protection of intellect (*Al-Aql*) at 65% in 2010 and 70% in year 2011 under protection of human life (*Al-Nafs*).

### Assessing the measurement model

In assessing the measurement model, confirmatory factor analysis (CFA) to assess reliability, convergent validity and discriminant validity of the scales are required. Since this study was based on the CSR index which is scoring method, there is no process of assessing the convergent validity and discriminant validity of the scales. Thus all the items were used to analyze the data. There was no elimination of data that had a loading factor below than 0.5 ( $p < 0.01$ ).

**Figure 2:** Results of the path analysis

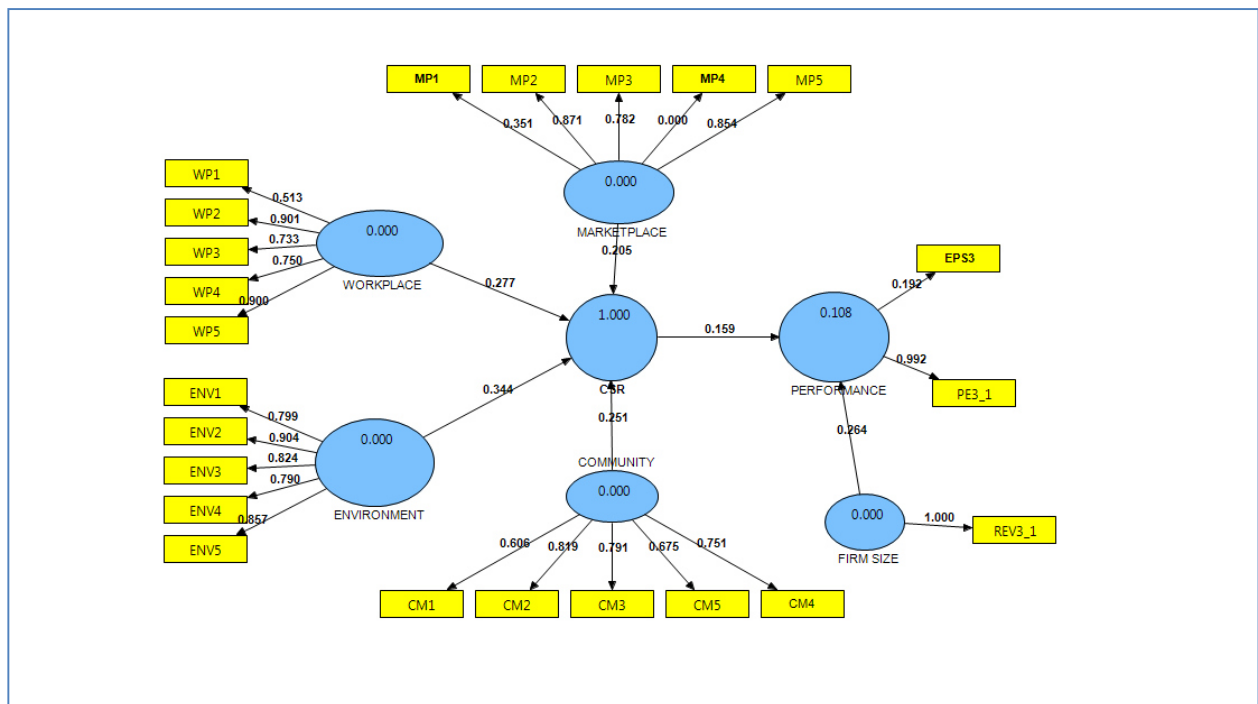


Figure 2 demonstrates the loading for each item and beta values for the studied variables. It can be seen there is a second order construct. Thus we followed the method suggested in the past literature which is the repeated indicator approach to model the second order factors in the PLS analysis (Correia, Moital, da Costa and Peres, 2008; Song, Li, Veen and Chen, 2011). Table 5 presents the result of the measurement model that consists of first order and second order values.

**Table 25:** Results of Reliability Test

Model Construct	Measurement item	Cronbachs Alpha	Loading range	*No. of items
<b>First Order</b>				
<b>COMMUNITY</b>	Protection of Faith (Al-Din)	0.781	0.606-0.819	5(5)
	Protection of human life (Al-Nafs)			
	Protection of intellect (Al-Aql)			
	Protection of posterity (Al-Nasl)			
	Protection of wealth (Al-Mal)			
<b>ENVIRONMENT</b>	Protection of Faith (Al-Din)	0.891	0.857-0.904	5(5)
	Protection of human life (Al-Nafs)			
	Protection of intellect (Al-Aql)			
	Protection of posterity (Al-Nasl)			
	Protection of wealth (Al-Mal)			
<b>MARKETPLACE</b>	Protection of Faith (Al-Din)	0.595	0.000-0.871	5(5)
	Protection of human life (Al-Nafs)			
	Protection of intellect (Al-Aql)			
	Protection of posterity (Al-Nasl)			
	Protection of wealth (Al-Mal)			
<b>WORKPLACE</b>	Protection of Faith (Al-Din)	0.823	0.513-0.901	5(5)
	Protection of human life (Al-Nafs)			
	Protection of intellect (Al-Aql)			
	Protection of posterity (Al-Nasl)			
	Protection of wealth (Al-Mal)			
<b>Second Order</b>				
<b>CSR</b>	Community	0.935	0.560-0.747	5(5)
	Environment		0.705-0.870	5(5)
	Marketplace		0.000-0.852	5(5)
	Workplace		0.425-0.916	5(5)
<b>Control Variable</b>				
<b>FIRM SIZE</b>	Revenue	1.000	Nil	1(1)
<b>Endogenous</b>				
<b>PERFORMANCE</b>	Price Earnings Ratio	0.122	0.192-0.992	2(2)
	Earnings Per Share			

\*Final items numbers (initial numbers)

#### Assessing the structural model

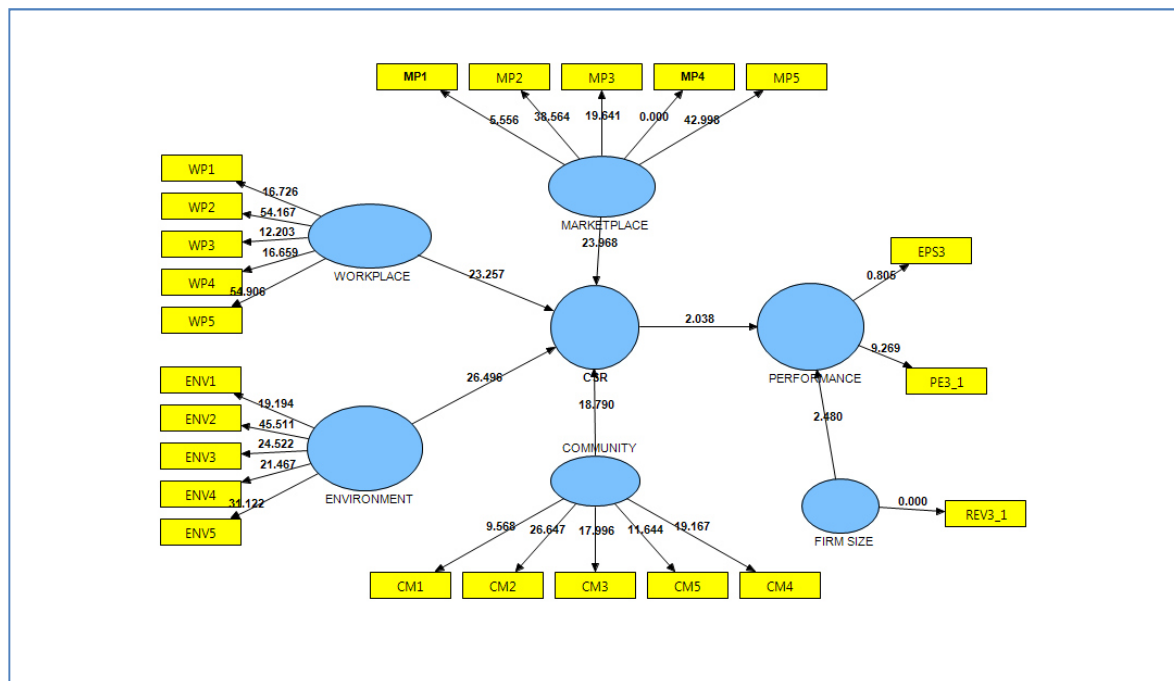
To evaluate the structural models' bootstrapping technique was used with a 114 cases and re-sampling of 500. Thus the path estimates and t-statistics were calculated for the hypothesized relationships. Table 6 presents the results of the hypotheses testing. H1 was examining the relationship between *i*-CSR disclosure and firm performance. It is significant at  $\beta = 0.165$ ,  $p < 0.05$ . Hence, this concludes that the hypothesis is supported.

**Table 26:** Summary of the Structural Model

Hypothesis	Relationship	Standard Beta	Standard Error	T-Value	Decision
H1	CSR -> PERFORMANCE	0.159	0.078	2.038*	Supported

\*\*p<0.01, \*p<0.05

**Figure 3:** Results of the Structural Model



## 5. Discussion and conclusions

Protection of human life (*Al-Nafs*) was a *Maqasid Al-Shari'ah* dimension that was frequently disclosed by the entire corporation over the two year periods. For marketplace which emphasized on the green product disclosed the issues of health, safety, *halal* or *haram* and quality features of product to consumers, display the content of ingredient at the products and etc. This was consistent with today's customers that are concern on healthy life. Thus the issues that related to products and services should be disclosed directly and clearly. Meanwhile for environment, most of the corporation disclosed the item on the reduction of environmental pollution due to work processes, designing facilities harmonious with the environment and the existence of an environmental management system or policy. For community theme, the result between two year periods was not consistent. Only in year 2011, protection of human life (*Al-Nafs*) scores the highest dimension of disclosure. It can be seen that most of the corporation providing high quality preventive health care services to families, communities and school children. While, in 2010 the protection of intellect (*Al-Aql*) was the highest dimension of disclosure in 2010. It was found that most of the corporation was actively providing seminar or workshop and community activities.

Another finding was that protection of wealth (*Al-Mal*) was the highest dimension of disclosure under workplace. The issues on human capital development, employee health and safety should be highlighted. In this study, the items that were frequently disclosed were providing conducive environment for production activities,

employees are kept up to date with the information and development in the production , providing counselor, coaches or consultants to staff that facing personal or work-related problem.

Unfortunately, this study found that Islamic information was not frequently disclosed, namely the items such as *halal* products or services, providing Islamic friendly environment, Muslim employees are allowed to perform their obligatory prayers, providing training on *Sha'riah* awareness, Waqf public infrastructure, disclose activities which could be unfriendly to the environment and etc. This was indicative of a lack of transparency in term of items under protection of Faith (*Al-Din*). The results indicate *ShCC* require a specific guideline and awareness on matters relating to the concepts of accountability and full disclosure which could lead to the Islamic principles and values. Islamic information is important to *ShCC* because it can help the corporation to differentiate between *Shari'ah* and Non-*Shari'ah* companies. Consequently, it can increase the image and value as *ShCC*.

The positive association between *i*-CSR disclosure and firm performance was consistent with a stakeholder's theory and other previous studies. The significant result at  $p < 0.05$  indicate that information disclose were meet the expectation of various stakeholder. Thus, firm performance will be increase. In order to meet Muslim stakeholders locally and internationally, additional information that emphasized on protection of faith (*Al-Din*) are needed. Most of the prevailing literature has found that CSR disclosure practices by many *ShCC* is lacking of Islamic principles and value (Rohana & Azlan , 2010; Ousama & Fatima,2010; Abdifatah & Nazli Anum, 2013). The firm performance will be higher, if the level of information on protection of faith (*Al-Din*) is high. Unfortunately, the study also found that the level of Islamic value and principles is at low level.

Finally, there are some limitations in this study. This study focuses on *i*-CSR disclosure in *ShCC* annual reports for 2010 and 2011 only. Hence, future research may consider analyzing other forms of communication channels such as the company's web site, standalone sustainability reports, newspapers and in-house magazine. Future research could also include data for more than two years period. This study has brought up several implications which may be applied in many countries irrespective of whether they are developing or developed countries. Firstly, it provides strong evidence to show that boards of directors and human capital are significant variables in the extent of disclosure. Secondly, the study is expected to alert the Securities Commission with regards to the definition of Shariah-compliant status which should not just include "good public perception and Image Company" but also the extent of the application of Islamic values and Shariah principles in the conduct of their businesses

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