THE DEVELOPMENT OF ISLAMIC SOCIAL AND ENVIRONMENTAL REPORTING

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ABSTRACT

Given the fact that religion stands at the core of some cultures, and that Islam is a significant force influencing the manner in which Muslims conduct their public and private lives, the influence of Islam on accounting may be significant. Based on the Shari'ah, Islam has formulated a comprehensive ethic governing how business should be run, how accounting ought to be undertaken, and how banking and finance is to be arranged. All of these components pose unique challenges to Islamic accounting and reporting. This objectives of this paper is to reviews the movement of Islamic social and environmental accounting literature (from 2000-2014) in an attempt to evaluate the current position. From the review, the study will provide a structure to enable readers and intending researchers to organize the literature and to comment on trends which appear evident from a systematic study of the literature. The literature was classified into several sub-groups including empirical studies, normative statements, philosophical discussion, regulatory frameworks, and other reviews.

Key word: Islamic accounting, social and environmental reporting, *Shari'ah*

Introduction

This paper covers the theoretical and empirical studies published in English language accounting journals relating to the period 2000-2014 (15 years period). It does not include all published sources, for example, books, book chapters and research reports. We focused on journal articles as they are likely to provide most up to date and authoritative information in a particular field.

The recent economic and financial problem due to the Western financial system has contributed to alternative ways to overcome some of the weaknesses of the western model in the recent financial and social crisis. The above scenario provide strong urge for research in Islamic finance and accounting including Corporate Social Reporting. The growth of Islamic financial institutions has contributed to much attention of research in the field of Islamic perspective of accounting (Christopher Napier 2007; C. Napier 2009). Rapid development of Islamic financial institutions has created a great economic impact not just to the Muslim countries but to other countries as well (Ahmed, 2013).
Mathews (1997), in his paper "Twenty-Five Years of Social and Environmental Accounting Research: Is There a Silver Jubilee to Celebrate?" reviewed 25 years of scholarly literature in the area of social and environmental reporting. While Napier (2007) adopted the method to study on Islamic accounting theory and practice and the revolution of Islamic accounting for 25 years. According to Napier (2007) year 1981 which was selected is significant to Islamic accounting evolution when the first English literature by Abdel-Majid (1981) was published. This study to further review the evolution of Islamic accounting particularly in the social and environmental reporting. In this paper we address two interrelated topics: Islamic accounting theory and practice in general, and social and environmental reporting by Shariah approved companies.

The objectives of this paper are to review and document evolution of the literature in this area and to assess whether there is a consistent Islamic social reporting has emerged after 15 years. The past 15 years of Islamic social and environmental reporting literature and to offer a detailed bibliography as a starting point for those interested in this area.

For the past of 25 years, studies of Islamic accounting and accountability have been emerging tremendously. The previous studies such as Gambling and Karim (1986, 1991), Adnan and Gaffikin (1997), Alam (1998), Baydoun and Willett (1997, 2000), Sulaiman (2000) and Lewis (2001) focused more on general theories dealing with financial reporting by Islamic business entities. All the prior research focused on overall reporting of Islamic businesses, and not concerning specifically with social reporting. Western cultural values has affected and dominated Islamic societies including the business enterprises. The situation continues even though Western financial and social reporting frameworks may not be suitable for Islamic enterprises.

Literature Review

The year selected is 2000 because it is considered significant especially when Baydoun and Willet (2000) discussed the contents of Islamic corporate reports where Islamic business should issue the statement which fulfil the principles of full disclosure and social accountability. Although Baydoun and Willett's model of Islamic corporate financial reports was initiated in 1994, this research only the published literature since 2000, therefore it is not included in this review. Baydoun and Willet (2000) suggested that Islamic corporate report should consider a value added statement because they concerned that an Islamic society would expect for a greater awareness of the social impact of firm activities. Islamic corporate reports should contain more data and information about social costs and benefits contributed by the firm (Baydoun and Willett 2000). It is further supported and investigated by Sulaiman (2001) where the author tested that current value balance sheets and value added statements would serve needs of Muslims to a greater extent than historical cost balance sheet and income statements.

Lewis (2001) discussed the concept of full disclosure in the forms of window-dressing, creative accounting, and emphasis on legal form over substance. Lewis further studied the effect of Islam on accounting, and concluded that concepts of full disclosure and social accountability are important in Islamic accounting. From and Islamic point of view, the Islamic concept of social accountability representing clearly that Muslim primary obligation is for Islamic community and society.

Haniffa (2001) suggested the use of the Islamic Shariah framework in developing Islamic social disclosure to fulfill both accountability and transparency objectives. The concept addresses the relationships between man and Allah, man and man and also man and nature. He suggested six themes which are finance & investment, product, employees, product, society, and environment. Haniffa also indicates the importance of taking care of the environment in *Shariah Islamiah* and stress the concepts of *mizan* (balance), *i'tidal* (moderation) and *khilafah* (responsibility) to maintain the environment and any act utilisation of environment is strongly condemned in Islam. Moreover, to disclose social and environmental responsibility information, Haniffa suggested that a qualitative report with some quantitative data addressing the important items in the six themes mentioned above.

The other conceptual study is by Sulaiman and Willett (2003). This study suggested that social responsibility and environmental accounting issues are importance elements that need to be highlighted in Islamic corporate reports. The research further interpret the Global Reporting Initiative (GRI) sustainability reporting guidelines as a basis for providing social and environmental performance indicators of an Islamic corporate reporting model, since the GRI provide a very comprehensive list of social and environmental issues that a company needs to disclose (Sulaiman and Willet, 2003). In the case of Islamic corporate reporting, Sulaiman and Maliah suggested that Shariah elements is required to be added to the GRI to fulfil the Islamic needs.

Maali and Napier (2004) determined how the accounting practices by Jordan Islamic bank influenced by the when this bank was established in the late 1970s. The study identified that the sacred concerns were essential to be established in the initial setting of accounting practices of financial institution. There were also strong pressure to compete with conventional banks. Maali (2005) investigated the effect of Islam on the accounting practices of Jordan Islamic Bank for the first 24 years of its operations and found that the significance of religious considerations for these practices substantially reduced over time. The empirical evidence on the effect of Islam on accounting practices does not provide much support for the normative literature.

The following researches dealt with mainly empirical studies that tried to investigate the influence of Islamic Shariah on social disclosure practice of those organizations which conduct their business according to Shariah (e.g. Yahya, Abul Rahman and Tayib, 2005; Maali et al., 2006 ; Farook S, Lanis R , 2007; Kamla and Hussain ; 2010; Hassan I and Harahap S; 2010; Aribi and Gao. S; 2010; Ousama.A and Fatima,A.,2010). Yahya et al., (2005) examined the level of corporate social disclosure in Shariah approved companies in Malaysia. Only 102 companies out of the 194 companies in their sample disclose their social activities in the annual reports. They further investigated the relationship between the level of corporate social disclosure and the number of Islamic equity fund holding shares in the same companies.

Islamic social reporting continues to evolve with further study by Rohana et.al (2009) which investigated the Shariah approved companies in Bursa Malaysia. The purpose of the study which to identify the factors that may influence a company to provide Islamic social reporting using four variables which are size, profitability, board composition and type of industry. The findings shown that the size of the firm is very much significant with the level of disclosure social information in their annual report. This study is consistent with the previous research by Ousama and Fatima (2006) and Mohd Shatari et. Al (2004). Rohana and Azlan (2010) further investigate on the Shariah approved companies by developing disclosure index of Islamic social reporting by adopting the model proposed by Haniffa (2002). A total of 43 items of disclosures index were developed and then categorised into six themes; Finance and Investment, product/ervices, employee, society, environment and corporate governance.

Another empirical study that dealt with Shariah Approved Companies listed on Bursa Malaysia is the study of Ousama and Fatima (2010) which investigate the extent of voluntary disclosure (conventional, and Islamic disclosure) in the annual reports of these companies. A disclosure index was developed, which consists of 59 items (including items related to the Shariah, i.e. Islamic items), to measure the extent of voluntary disclosure in the annual reports. Maali et al, (2006) also attempted to investigate the influence of Islam on social reporting and develop a benchmark set of social disclosures to Islamic banks. The actual social disclosures contained in the annual reports of twenty-nine Islamic banks (located in sixteen countries) was content analysis to measure the volume of social disclosures. The findings suggests that social reporting by Islamic banks falls significantly short of the expectations. This is also consistent with findings by Farook S, Lanis R ,(2007) which measured the social disclosure levels of 47 Islamic banks, operating in 14 countries.

A more recent study by Kamla and Hussain, (2010) which investigate the reporting by ten Islamic banks which focusing on the role of social justice role in societies where business run. They explore the related themes to social justice whether present or absent from their annual reports and websites. Ten Islamic banks' annual reports and websites were explored. The study focus on detailed content analysis that concentrates on the quality and nature of disclosures and their meaning rather than an emphasis on quantitative dimensions such as number of words, sentences and/or pages to measure the levels of disclosure quality (Kamla and Hussain, 2010) . The study suggested that disclosures by Islamic banks explored were not giving much attention at any scheme or initiative to eliminate poverty or promote social justice in community.

Harahap and Hassan (2010) further explored the 7 Islamic banks in 7 countries using the model suggested by Haniffa and Hudaib (2007). Using the concept of Tawhidi and Shuratic, the study used content analysis method in identifying the social and environmental information in the company's annual report. The result found that there would be very few or none in advance society but in the underdeveloped country the bank shows more information and more transparent to their society.

Aribi. and Gao (2010) in their study entitle "Corporate social responsibility Disclosure "A comparison between Islamic and conventional financial institutions"; examine the influence of Islam on corporate social responsibility disclosure in Islamic financial institutions. Using the content analysis approach, they examine the influences of Islam on social disclosure by looking into the annual reports of 21 conventional financial institutions (CFIs) and 21 Islamic financial institutions (IFIs) operating in the Gulf region. The results show that there is a significant differences in the level and the extent of the disclosure between IFIs and CFIs, largely due to the disclosure made by IFIs which focuses mainly on the religions related themes and information, which include Shari'ah supervisory board reports, the "Zakah" and charity donation, and interest free loan.

The other studies conducted recently are more to empirical research and testing on focusing extensively on quantitative rather than qualitative (Aziah Abu Kasim 2012; Darus et al. 2013; Alsaadi, Jaafar, and Ebrahim 2013; Zainal, Zulkifli, and Saleh 2013). However, Mohamed et al (2010) examined the quality of disclosure of Shariah companies. With the adoption of Islamicity Disclosure index developed by Hameed et al (2004), Mohamed further investigate on the sustainability disclosure of Shariah companies.

This effort should be in the core value of their operation and eventually be disclosed to the stakeholder. Kamla, (2009) argued that one of the issues that are contributing to the failure of Islamic banks to fulfill their claim is its failure to place social justice as the core value of its operations. This finding was concluded based on the content analysis of the reporting. This implies that disclosure is vital as a medium for stakeholder to be informed of what Islamic bank have done. Failure to do that will leave bad impression especially is the current time where CSR is seriously practiced by the conventional banks. It is evident from the past studies that, there is no empirical study discusses about accountability issues and how Islamic CSR can be regarded as a mechanism through which accountability duties can be discharged. The past empirical studies mainly focuses on extent (number of words, sentences or pages) of social disclosure used to address the different social responsibility items (e.g., Maali et al, 2006; Farook and Lanis ,2007 ; Hassan and Harahap;2010; Aribi, Gou,2010). According to Beck et al. (2010), these kind of studies can only be used to assess the completeness of disclosure, i.e., the number of items disclosed. However, in order to serve as a valuable tool for assessing the level of accountability, a measurement must also capture the information types provided.

Summary And Conclusion

It is clear from the above review that there is lacking of study that look specifically into the Islamic CSR. The proposed framework by Haniffa (2001) was mainly based on the shariah concept which imply that it may not really covering the whole spectrum of CSR matters. Sulaiman and Willet (2003) tried to fill up the gap by suggesting to incorporate GRI guideline and the need to observe Shariah Islamiah. Such effort though seems to be completing each other but still does not really stand on the Islamic philosophy. This left Islamic CSR literature a big gap to work on.

Previous study in western CSR proved that social disclosure is used by organizations to justify their companies' continued existence, enhancing the corporate image or the reputation status of the corporate, and anticipate or avoid social pressure rather than using it as a reflection of their commitment to their social responsibility (Amran, 2006) as it should be in Islamic organizations. In the context of Islamic shariah organizations should operate in the shadow of Islamic economic system and consequently look into the holistic impact of their operation as what suggested by the concept of Maqasid Al Shariah (well being of all society).

The evolution of Islamic social and environmental reporting is not structured. There are somewhat gap of focusing the same issues between years. For example, in the issues of social reporting in the view of sustainability, the disclosure has been developed by Hameed et al (2004) and somewhat tested by Mohamed in 2010. The researcher also more concern on the Islamic finance institution rather than companies from other industries. This might be due to the Islamic finance institution is more important as it involved with the financial transaction and obliged under a few important rules and regulations. The recent studies are more to descriptive and empirical which trying to prove the existence index developed by previous researchers. Future research should further explored the other concept of social reporting which is sustainability as according to Shariah guidelines. The other aspects are voluntary and mandatory disclosure practice also need to be highlighted as this factor also somewhat relate to the behavior of human between man and their god.

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