

# **SOCIAL REPORTING DISCLOSURE : AN ISLAMIC PERSPECTIVE**

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**Abstract:** This paper highlights some limitations in conventional social reporting particularly the lack of spiritual consideration and as such, proposes a conceptual framework of Islamic social reporting based on Shari'a Islammiyah not only to aid Muslim decision makers but also help companies especially Islamic enterprises to fulfil their obligations to God and the community.

**Keywords:** Social reporting disclosure, Islamic accounting, Shariah.

## **Introduction**

Disclosure is to make something known or to reveal something. In the case of accounting, disclosures are seen as motivational devices used to stimulate actions by certain people who are referred to as decision makers (Bedford, 1973). Based on the principle of full-disclosure, no information of substance or of interest to an average rational investor should be omitted or concealed as this may affect judgement.

Over the years, companies have been pressured by various users to expand accounting information disclosed in the annual reports. This has caused companies to take into account the various needs of decision makers in the environment within which they operate when formulating their disclosure policy. Although it is impossible to identify and cater to the needs of all decision makers, it is the responsibility of companies to provide information to all parties who may be affected by their activities either directly or indirectly. In addition, there has been calls for information flows to be beyond those required by existing laws and regulations and also for companies to reduce their obsession of disclosing for the aggregation of capital with a view to only maximising profit.

The traditional emphasis on reporting for a stewardship function has now extended to encompass other types of information concerning employees, community and the environment as a result of a change in the perception of the role of business in society. Companies must now assume broader responsibilities (beyond 'economic responsibility') and respond to the changing expectations of the society. In short, companies' disclosure policies need to change because the values, norms, beliefs and attitudes of individuals in society are always changing and there is no consistency in what will be demanded from companies by society from one period of time to the next (Haniffa, 1999). The Muslim community [1] is no exception.

Following Islamic resurgence, Muslim decision makers may expect companies to disclose certain information at least voluntarily to help them fulfil their spiritual needs. Although current corporate social reporting may be seen as appropriate for companies to demonstrate their accountability to a wider audience including the Muslim community, the most pertinent items of information from an Islamic perspective is often lacking. This may impair the judgement of Muslim decision makers which in turn could have adverse effects on their spiritual being.

Hence, this paper attempts to address this issue by proposing a framework for Islamic social reporting based on *Shari'a Islammiyah* [2] which would not only aid Muslim decision makers but also help companies especially Islamic enterprises to fulfil their obligations to God and the community. The paper is organised as follows. The next section will briefly discuss the nature of social reporting practices and the various framework suggested in the literature. This is followed by a discussion of the *Shari'a* framework, which would form the basis in developing Islamic Social Reports (ISRs). Five themes in the

framework will be elaborated by quoting from the *Qur'an* (the word of God) and the *Hadith* (sayings, approvals and actions of the Prophet Muhammad during his lifetime) [3]. As such, the paper is not just normative but also positive. This is the contribution of this paper.

### *Nature of Social Reporting*

Corporate social reporting has been defined by Gray, Owen and Maunders (1987, p:ix) as:

*"...the process of communicating the social and environmental effects of organisation's economic actions to particular interest groups within society and to society at large. As such, it involves extending the accountability of organisations (particularly companies), beyond the traditional role of providing a financial account to the owners of capital, in particular, shareholders. Such an extension is predicated upon the assumption that companies do have wider responsibilities than simply to make money for their shareholders."*

In other words, social reporting is an extension of the financial reporting system which reflects the new and broader expectation of society with regard to the role of the business community in the economy. It may be seen as a means of communicating information about social reality for use by decision makers both inside and outside the reporting corporation (Guthrie and Parker, 1988) as well as potentially delivering a more adequate reflection of the non-market effects of corporate behaviour (Preston, 1981; Epstein, Flamholtz and McDonough, 1976). In addition, companies that disclose social and environmental information of their activities may be perceived as having appropriately discharged their accountability to the affected parties. In short, there is a strong case for companies to include social reporting as suggested in the literature which can be summarised as follows: providing a thorough picture of the enterprise to users of accounting reports; lessening the chance of intervention by government and societal restrictions on the enterprise; recognising that society has certain rights to information; serving as good public relations to report the firm's achievements and costs; useful for exploring future policy and internal performance evaluation as well as for decision making, internally by management and externally by various stakeholder groups (Haniffa, 1999).

However, social reporting has its pitfalls as well. As a form of communication process, social reporting needs to address the five elements of communication

(Holsti, 1969): source (who), channel (how), encoding process (why), message (what) and recipient (to whom). The two problematic elements (which are interrelated) in the communication process for corporate social reporting is the 'encoding process' and the 'message'; the former referring to the objective(s) of disclosing social responsibility information and the latter to the extent and format of disclosure.

Objectives of disclosure vary because corporate social responsibility has been interpreted differently and three concepts could be distinguished. The first which originates in the classical economic theory expressed that the responsibility of the firm is restricted to profit and shareholders wealth maximisation (Friedman, 1962). The second argues that the responsibility of the firm is to act justly as a proper citizen should i.e. to maximise profit and follow regulations (McGuire, 1963). The third recognises the significance of social objectives as constraints upon profit maximisation and as such, an equitable balance between social goals and maximisation of shareholders wealth will be incorporated in the companies' policies. This is termed as 'enlightened self-interest' (Wallich and McGowan, 1970).

Schreuder (1978, p:74) defined social responsibility as:

*"...the performance (or non-performance) of activities by a private enterprise without the expectation of direct economic gain or loss, for the purpose of improving the social well-being of the community or one of its constituent groups. These activities are generally recognised by society as beneficial to the well-being of society."*

Based on the above definition, identification of activities that companies 'should' and 'should not do' to improve the well-being of society is most often based on human ethical or moral reasoning. One of the problems with ethics being a basis in deciding the 'rights' and 'responsibilities' of users of accounting information and companies respectively, is due to the absence of a certain *communis opinio*, which thus increases conflicts of interest between different groups in society. Besides, as argued by Gray, Owen and Adams (1996), 'rights' and 'responsibilities' based on ethics could be 'absolute' (unvarying with time and place) or 'relative' (changing with time and place), depending on one's interpretation.

Similarly, in the absence of mandatory regulations, the prerogative still remains with the company to decide on the extent and type of disclosure. Mautz and

May (1978) suggest that the potential for a disclosure increases directly with the number and variety of interest groups finding the disclosed information useful and the extent to which disclosure relates to specific measures of market success. From the perspective of the information recipients, more disclosure means better ability to make optimal decisions regarding the allocation of resources within the economy which in turn helps to maximise economic welfare. However, in the real world, disclosure is not costless [4] and companies are generally unwilling to incur additional costs through expanded disclosures unless they are required to do so, or the potential benefits exceed the estimated costs (Gray, McSweeney and Shaw, 1984). Nevertheless, user groups still believe that users' needs should override cost as a disclosure veto and the challenge is for companies to find a proper balance between costs and benefits of disclosing social and environmental information.

Hence, the problems of social disclosure can be summarised as follows; finding the proper balance between the costs and benefits of disclosure, without neglecting the aspects of accountability and responsibility to all concerned, and also reaching a consensus on the type of information to be disclosed and how they should be measured and presented.

Several frameworks have been developed in addressing these issues. The basic elements of most of the conventional frameworks can be summarised as:

*"a formal account; prepared and communicated by an organisation; about social and environmental aspects of the organisation's activities; and communicated to the internal and external participants of the organisation"*  
(Gray et al., 1996; p:12).

However, one of the drawbacks in previous frameworks is that most companies do not explicitly state the reason(s) for disclosing and not disclosing some items of information and legitimacy and stakeholder theories have been proposed in explaining reasons for social reporting disclosure. Furthermore, social impact seemed to be discussed in isolation i.e. as if there is no interactions between the different elements in the eco-system. Gray et al. (1996) adopted the General Systems Theory (GST) which looks at the interactions of human, non-human, physical, planetary, metaphysical, etc. as consisting of subsystems within a suprasystem [5] as the basis of their framework in dealing with social reporting issues. However, they recognised that their framework as well as other frameworks may not be perfect as they are based on human faith and as such, may be flawed. In addition, most of these

frameworks only address the material and moral aspects and spiritual considerations are seen as having little relevance to accounting disclosure practice.

The *Shari'a* framework would be the answer in developing Islamic social reporting as it is the most comprehensive. It takes into account the material, moral and spiritual aspects and balances between these factors and forces. It also helps in progressing from a pseudo-value-neutrality towards manifestation of value-commitment and value-fulfilment as embodied in the *Qur'an* and *Hadith*.

## The *Shari'a* Framework

Before embarking on the content of ISRs, it is important to first understand the foundations of the *Shari'a*, the basis in the construction of ISRs. Figure 1 summarises the basic foundations of the *Shari'a*.

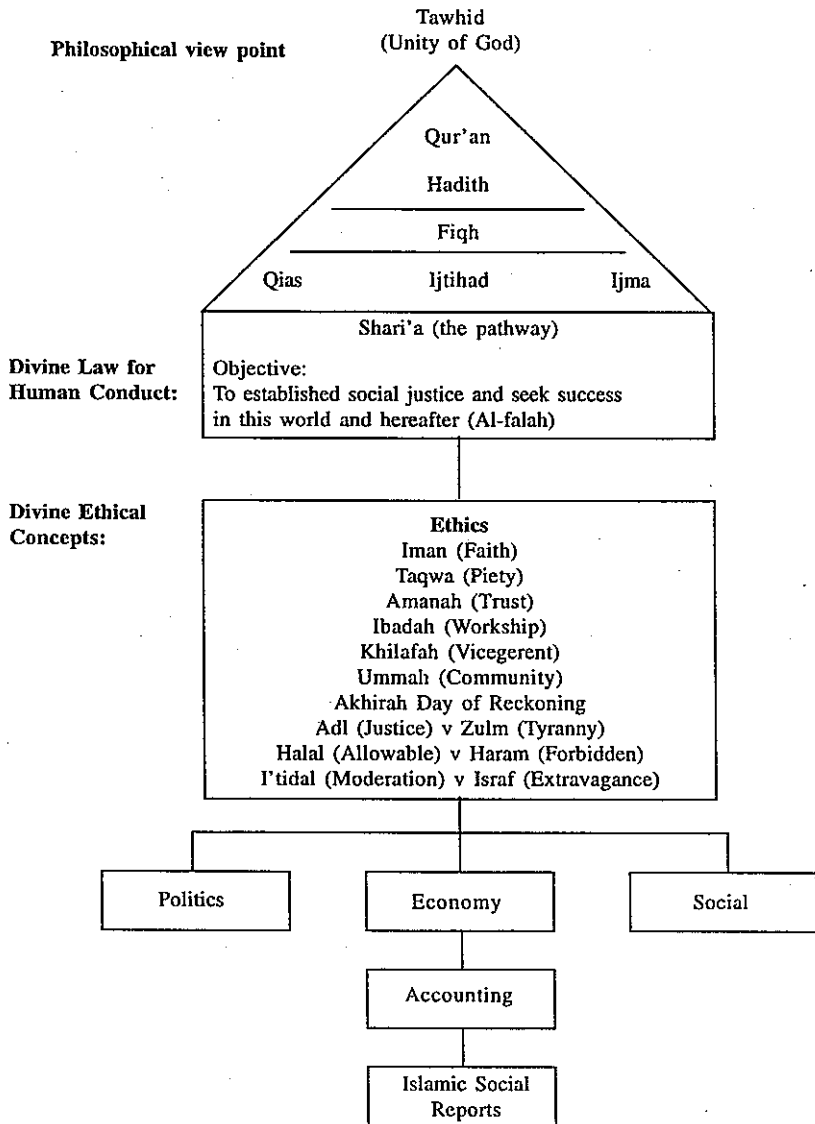
It can be seen that the *sine qua non* of the Islamic faith is *Tawhid* (unity of God), the unqualified belief and unconditional surrender to one God by making all desires, ambitions and actions subservient to His commands. It also means accepting that God is the ultimate owner of everything on earth and in the universe (*Qur'an*, 57:5) and that man is ultimately accountable to God (*Qur'an*, 2:28). It directs Muslim's vision to the perception of new vistas and it also means accepting the injunctions of *Shari'a Islamiyyah* which is derived from three sources; *Qur'an*, *Hadith* and *Fiqh* [6]. They are hierarchical i.e. the first reference is always to the *Qur'an*, followed by the *Hadith*, the *Fiqh* and so on. *Shari'a* is concerned mainly in promoting social justice and realising benefits for the people in this world and in the hereafter (*al-falah*) by setting the basic foundations in every aspect of a Muslim's life including the ethical philosophy.

In general, Islamic ethics are underpinned by ten values which govern the relationship between man and God, man and man as well as man and nature. Whilst the *Shari'a*, consisting of God's commands and prohibitions, governs man's external actions, human reasoning and intuition (*iha*) of what is 'right' and 'wrong', governs man's actions from within (Khadduri, 1984). These underlying values would influence disclosure policy and decision making.

One of the six cardinal articles of *Iman* (faith) is the believe in the 'Books' which were sent to guide humankind. *Taqwa* (piety) demand that man acts in obedience to God out of love for Him by following His book of guidance as mentioned in the *Qur'an*:

*"This is the book; In it is guidance sure, without doubt, To those who fear Allah"* (*Qur'an*, 2:2).

Figure 1 The Shari'a Framework



*Amanah* (trust) is a mandate from the Creator which enables human beings to take from His creation enough to satisfy their need and not to abuse the fine 'balance' (*mizan*) He has established on earth (*Qur'an*, 7:56). Human has

also been entrusted as *Khalifah* (vicegerent) to safekeep the Earth which belongs to God (*Qur'an*, 2:30) and will be accountable for the way in which he/she uses or abuses the trust on the Day of Reckoning (*akhirah*) (*Qur'an*, 2:81). The recognition of the concept of *akhirah* also means believing in rewards and punishments in the hereafter. *Adl* (justice) may take three forms; justice in making decisions in accordance with God's saying (*Qur'an*, 4:61); justice in speech (*Qur'an*, 6:153); and justice in pursuit of salvation (*Qur'an*, 2:117). Hence, justice is "a combination of moral and social values denoting fairness, balance, temperance and straightforwardness" (Khadduri, 1984; p:8). The concept of *ummah* (religious community) as a system is characterised by a single goal of existence, which is Islamic social justice via a commitment to collective benefit over individual benefit (*Qur'an*, 2:143). In terms of actions, the *Shari'a* has defined the whole spectrum: the two extremes are *halal* (lawful) and *haram* (forbidden) and the intermediate positions, by degree, are *mandub* (recommended), *mubah* (indifferent) and *makruh* (reprehensible). As for things that are doubtful or 'grey areas', it is better for human to stay away from it as stated in the following *Hadith*:

*Allah has declared certain things obligatory; do not neglect them! He has declared certain things forbidden, do not commit them! He has set limits; do not go beyond them! About certain things He has been silent, and this is not out of forgetfulness; do not enquire into them!* (Bukhari)

The concept of *i'tidal* (moderation) as opposed to *israf* (extravagance), entails accepting the mandate of trusteeship and striving to be a moderate community (*ummah wastah*).

To summarise, based on man's Covenant with God, which is to worship Him (*ibadah*), man cannot escape from the responsibility (*fardh*) entrusted by God as He has provided assistance in the form of guidance (*Shari'a*). Since *Shari'a* covers all aspects of human life viz. economics, politics, social and moral philosophy, it may be considered as the 'ethics of action' as it is simultaneously a manifestation of divine will and that of human; it is 'eternal' as it is anchored in God's revelation, and 'temporal' as it is enacted in human history. Furthermore, it is both 'stable' (based on the *Qur'an* and *Hadith*) and 'dynamic' (based on *Fiqh*, Islamic jurisprudence). It works on universal postulates, has a very stringent and evolved methodology with answers given in terms of a strategy for action, thus, giving it universal validity (Manzoor, 1984). In short, any theoretical Muslim thinking must pass through the objective framework of *Shari'a* in order to become operative.



## Characteristics of Islamic Social Reporting

Since *Shari'a* addresses three interrelated dimensions: i) seeking God's pleasure as the primary objective in establishing socio-economic justice, ii) realising benefits to the community i.e. fulfilling obligations to community and iii) pursuing wealth i.e. fulfilling own needs, fulfilment of these three dimensions forms part of the act of worship. In other words, for accounting to qualify as an act of worship for Muslims, the three interrelated dimensions viz. fulfilment of God's, community and individual rights, based on the principles of the *Shari'a*, must be observed. Against the background discussed in the last section, the basic concepts of social reporting can now be linked to the *Shari'a*.

Table I  
Objectives and Ethical Statements of Islamic Social Reports

<b>Objectives:</b>	
<ol style="list-style-type: none"> <li>1. To Demonstrate accountability to God and community</li> <li>2. To increase transparency of business activities by providing relevant information in conformance to the spiritual needs of Muslims decision makers</li> </ol>	
<b>Ethical Statements:</b>	
<b>To demonstrate accountability</b>	<ol style="list-style-type: none"> <li>1. To strive to provide excellent lawful products/service as trustee of God (<i>amanah</i>)</li> <li>2. To fulfil obligations to God (<i>haqoquillah</i>) and society (<i>haqoqulabad</i>)</li> <li>3. To create reasonable profits in conformance with Islamic principles</li> <li>4. To attain the objectives of the business venture</li> <li>5. To be just with employees and communities</li> <li>6. To ensure that business activities are ecologically sustainable</li> <li>7. To recognise work as form of workshop (<i>ibadah</i>)</li> </ol>
<b>To demonstrate transparency</b>	<ol style="list-style-type: none"> <li>1. To provide information regarding all Lawful and unlawful activities undertaken</li> <li>2. To provide relevant information regarding financing and investment policy</li> <li>3. To provide relevant information regarding employees policy</li> <li>4. To provide relevant information regarding relationships with communities</li> <li>5. To provide relevant information regarding the use of resources and protection of the environment</li> </ol>

As in the development of any disclosure framework, three elements will be addressed; objectives, scope and format of the report. The objectives of ISRs include:

- i) to demonstrate accountability of companies not only to God but also to the community;
- ii) to increase transparency of business activities by providing relevant information in conformance to the spiritual needs of Muslim decision makers.

As mentioned earlier, the concept of accountability in Islam is different as it extends beyond human superiors to God. Similarly, the concept of full-disclosure/transparency and the accounting principles of objectivity and materi-

**Table 2**  
**Summary of Ethical Principles and Contents of Islamic Social Report**  
**Based on Five Themes**

Theme	Ethics	Content
Finance & Investment	Tawhid Halal v Haram Wajib	Riba activities: Identify activities and % profit contribution  Gharar activities: Identify activities and % of profit contribution  Zakat: Amount and Beneficiaries
Product	Tawhid Halal v Haram	Nature of Product/service:  Identify activities and % of profit contribution
Employees	Tawhid Adl Amanah	Wages  Nature of work: Religious provisions; Holidays and leave; Working hours  Education and Training  Equal Opportunities
Society	Tawhid Ummah Amanah Adl	Saddaqa: Amount and Beneficiaries  Waqf: Type and Value  Qard Hassan: Amount and Beneficiaries
Environment	Tawhid Khilafah Mizan Akhirah I'tidal v Israf	Use of Resources: Description and amount  Conservation of Environment: Description and Amount Spent

ality has special meanings [7]. As such, the two broad objectives can be further broken down into more specific statements. Table I presents examples of statements covering these two aspects.

The objectives and statements thus spells out the essential characteristics of the report; recognising the importance of *Shari'a*, hence not distinguishing between secular and religious spheres of life; importance of the concept of *ummah* (religious community) and the obligations and prohibitions on matters related to commercial activities (Baydoun and Willett, 2000).

The scope of disclosure is confined to five main themes: finance and investment, product, employees, community and the environment. Although these five themes may not seem different than current conventional practices, the bits of information reported and emphasised are different as they are to serve the Islamic ethical principles. Table II summarises the information items that need to be addressed under each theme.

With regard to matters pertaining to finance and investment, the information of utmost importance to be disclosed is whether the sources of financing and investment of the company are interest-free (*riba*) [8] and speculative-free (*gharar*) [9] as they are strongly forbidden (*haram*) in Islam as mentioned in the *Qur'an*:

*O ye who believe ! Fear Allah; and give up what remains of your demand for usury, if ye are indeed believers. If ye do not, take notice of war from Allah and His Messenger: but if ye turn back, ye shall have your capital sums; deal not unjustly, and ye shall not be dealt with unjustly (Qur'an, 2:278-9)*

In current business environment, it is difficult for some companies not to be involved in such activities as it may be imposed externally by international organisations or even internally by the political and economic system prevailing in the country. In such circumstances (*dharurat*), one school of thought subscribing to the *Shari'a* maxim that 'necessity makes the unlawful permissible' contends that interest is temporarily permissible until such time when the economy is no longer dominated by capitalism while another school of thought argues that such an excuse (*dharurat*) is a sign of ignorance and weakness of faith as this maxim applies only in extreme circumstances (related to loss of life).

Nevertheless, to demonstrate accountability to the community, all sources of financing and investment that are not interest-free or of speculative nature and

the profit contribution from such activities should be clearly identified and reported. Similarly, for Islamic companies, the *zakat* payment and the beneficiaries should be disclosed as payment of *zakat* is a command from God:

*And be steadfast in prayer, practice regular charity and bow down your heads with those who bow down (in worship) (Qur'an, 2:43)*

These information are deemed important for Muslims in their decision making as they touched on the ethical concepts of *halal* and *haram* (for *riba* and *gharar* activities) and *wajib* (obligation) for *zakat*. They are God's law and non-fulfilment of these obligations results in sin and punishment in the hereafter. Furthermore, non-disclosure of such items is a deception to the community as they mainly rely on disclosure of information made by companies in making their decisions.

Similarly with product or service offered to consumers/customers. All products or services that fall into the category of *haram* (forbidden) such as liquor, pork, arms deal, gambling and entertainment should be identified together with the percentage of profit contribution from such activities disclosed. Such information are important for Muslim decision makers as evidenced from the following *Hadiths*:

*Verily Allah and His Messenger have forbidden the sale of wine, carcass, swine and idols... (Muslim).*

Since Muslims are forbidden from getting involved in such activities, the same caveats as discussed for financing and investment applies for this case.

Matters on employees should also be given due attention as they are related to the ethical concepts of *amanah* and *adl*. Employees should be treated and paid 'justly' / appropriately and employers are entrusted to fulfil their obligations to the employees in terms of basic as well as spiritual needs. As such, information regarding wages; nature of work (matters such as working hours per day, annual holidays and leave, health and welfare etc. of which religious provisions deserve greater attention); education and training support to employees and equal opportunities, should all be disclosed. Employers are expected to be generous in paying wages to employees as stated in the *Hadith*:

*By taking work from someone without paying him his legitimate wages is equivalent to pressing a free man into slavery and to produce goods from his labours, since, when he has reaped the benefit without offering compensation, he has purchased the labourer and in effect has regarded*

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*him as a slave whom he has purchased (Bukhari).*

Besides, it is the responsibility of the employers to ensure that employees are not overworked and not having the opportunity to fulfil their spiritual obligations (prayers) as mentioned in the following *Hadiths*:

*Do not tax the labourer with work which is beyond his powers (Bukhari).*

*Three kinds of people shall get double rewards. One of them is the worker, who is discharging his responsibilities towards his master and serving God as well (Mashkut).*

Education and training are important as Islam encourages seeking of knowledge and information related to this should be disclosed. The concept of equal opportunities also received attention and companies should disclose their policies regarding this matter as it has strong implications as mentioned in the following *Hadith*:

*He who has imposed, on a group of Muslims, a person who is inferior to another person who could be availed of, has behaved treacherously towards God, His Prophet, and the commonalty of Muslims (Ibn Taimiya).*

Public duties in Islam are seen as a part of the general meritorious and ethical tendency of the faith (Dien, 1992). The concepts of *ummah*, *amanah* and *adl* stress on the importance of sharing a common goal and removal of hardship (*daf al-haraj*) in society and this could be achieved via *saddaqa* (charities), *waqf* (trusts) and *Qard Hassan* (lending with no profit). As such, the amount and beneficiaries of these charities as well as other forms of contribution to community such as skill, time or effort should be disclosed as stated in the Qur'an:

*If ye disclose (acts of) charity, even so it is well, but if ye conceal them, and make them reach those (really) in need, that is best for you (Qur'an, 2:271)*

As for the last theme, there are about 500 verses in the *Qur'an* giving guidance on matters related to the environment and how to deal with it (Masri, 1992). This indicates the importance of taking care of the environment. The concepts of *mizan*, *i'tidal*, *khilafah* and *akhirah* stress on the concepts of balance, moderation and responsibility to upkeep the environment. As such, information

related to use of resources and programmes undertaken to protect the environment should be disclosed. The *Qur'an* and *Hadith* condemn exploitation of the environment:

*No sooner do they come to power, after leaving you, than they hasten to go about the earth spreading corruption and destroying the flora and fauna. God does not approve of corruption; and when they are told to fear God, their vanity takes the better of them. Such people end up with a life in hell-What a miserable end! (Qur'an, 2:205-206)*

*Corruption has appeared on the land and sea because of what men's hands have done (Qur'an, 30:41)*

*The merit of utilisation lies in the benefit it yields, in proportion to its harm (Tirmizi).*

Having identified the objectives, scope and information items that should be included in ISRs, the next issue that needs to be addressed is the format of the report as that is the thing that would distinguish ISRs from the conventional ones. At this stage, disclosure of information perceived as important for Muslim decision makers need not be sophisticated and presented only in the form of financial statements as not all decision makers are able to comprehend information presented in this format [10]. A qualitative report with some quantitative data addressing the important items in the five themes is sufficient for Muslim decision makers. However, this needs to be further researched to determine *de facto* the needs of Muslim decision makers.

## Summary and Conclusion

Islamic social disclosure practice should be different from conventional social reporting because the information items that need to be emphasised are different. Furthermore, the underlying principles are different although the basic concepts of social responsibility and accountability are addressed in both instances. Conventional social reporting frameworks only consider the material and moral aspects and an imbalance exists in terms of disclosure of social accounting information, depending on the group having the most power.

The paper suggests the use of the *Shari'a* framework in developing ISRs to fulfil both accountability and transparency objectives as it addresses the relationships between man and God, man and man and also man and nature.

As such, it takes into account the material, moral and spiritual aspects. Two broad objectives of ISRs were suggested and five disclosure themes were identified. Although the choices of items that may appear in the ISRs is a matter of corporate disclosure policy, certain specific items should be given due attention and disclosed appropriately as they have important consequences on Muslim decision makers. The quotations from the *Qur'an* and *Hadiths* indicate the importance of those commercial aspects from an Islamic perspective and consequently, on company's disclosure policy and practice.

There is no doubt that voluntary reporting on ethical issues such as that required by the Muslim community, is dependent on the social, political and economic environment in a country. In other words, a great deal depends on the relative power of the companies, government, the accounting profession and the Muslim community pressing for changes. Nevertheless, the proposed guideline in developing ISRs in this paper may be seen as an attempt to emphasise ethics in accounting disclosure practice.

Further research could be undertaken to test whether the proposed guideline of ISR is sufficient to fulfil the needs of Muslim decision makers.

## Endnotes

1. It is important to recognise the difference between society and community. The former refers to an external group of individuals connected or divided based on material needs and some other interests while the latter refers to an internal group of people brought together on the basis of spiritual needs, an aspiration and feeling of belonging. In addition, "*society is ruled by the laws of the fittest, laws of subjection, exploitation, or at its best, laws which share the interest... a community ... knows justice, mutual help, solidarity and brotherhood*" (Izetbegovic, 1991; pp:171). Hence, the term community is preferred in this paper.
2. The *Shari'a* law for Muslims is similar to the written and oral Torah for Jews and the Old Testament and the Gospels for Christians in that they are derived from religious laws (Wilson, 1997).
3. The *Hadith* helps to clarify rules in the *Qur'an* that are revealed in general terms e.g. the *Qur'an* only mentioned the payment of *zakat* to eight specific groups but did not mention the rate and method of payment which in turn was clarified further in the *Hadith*.

4. Two types of costs are associated with disclosure. Direct costs are associated with gathering, processing and reporting the information, which should not hinder companies from disclosing as it is reducing rapidly with the advancement in information technology; and indirect costs, relating to interference or regulation by government, competitive disadvantage and time of corporate directors especially in deciding on what to disclose.
5. The systems theory fits the description in the *Qur'an* (7:54, 56) about God's creation of the various system and the command not to alter the 'order' of the systems.
6. *Fiqh* (science of law) arises when there is no rule in the *Qur'an* or clarification in the *Hadith* regarding a particular emerging situation or issue. As such, Islamic jurists (*fuqaha*) will form opinions based on interpretation of individual Muslim scholars (*ijtihad*), extension of legal injunction found in a parallel case (*qias*) and the consensus of opinion (*ijma*).
7. See Haniffa and Hudaib (2001) for discussion on the accounting postulates and principles from an Islamic perspective.
8. *Riba al-fadl* (tampering with the freedom of the market) includes monopoly and monopsony, price control, taxation, imposed medium of exchange and exclusive rights of authors (copyrights) and inventors (patents). *Riba al-nasiah* (unequal advantage) includes renting of money, uncertainty in transactions and unfair advantages in transactions (Vadillo and Khalid, 1992).
9. *Gharar* means hazard, chance or risk (*khatar*). Based on the terminology of the *Fuqaha* (Islamic jurist), it is the sale of a thing which is not present at hand; or the sale of a thing whose consequences (*aqiba*) is not known; or a sale involving risk or hazard in which one does not know whether it will come to be or not (Haque, 1977).
10. This perhaps explain the reason for the findings of Sulaiman (2001) that Value Added Statements as proposed by Baydoun and Willet (2000) not being perceived by Muslim accounting users in Malaysia as increasing usefulness.



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