

## CORPORATE SOCIAL RESPONSIBILITY DISCLOSURE: A TAWHIDIC APPROACH

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### Abstract

*Sejak akhir-akhir ini, isu mengenai pendedahan tanggungjawab sosial korporat (CSR) semakin mendapat perhatian di kalangan komuniti perniagaan. Para pemimpin korporat menegaskan bahawa sesebuah perniagaan dianggap sebagai efisien, memperolehi keuntungan dan mempunyai tanggungjawab sosial sekiranya memberikan sumbangan penuh kepada masyarakat. CSR merupakan satu komitmen berterusan oleh organisasi perniagaan untuk bertindak secara beretika dan menyumbang kepada tanggungjawab sosial. Islam, sebagai satu cara hidup lengkap melihat CSR sebagai satu dimensi penting yang perlu dititikberatkan oleh organisasi perniagaan Islam. Tujuan utama artikel ini ialah untuk mengklasifikasikan semua item maklumat dalam pendedahan tanggungjawab sosial korporat Islam (ICSR) yang telah dibincangkan oleh kajian-kajian lepas berdasarkan kepada tiga hubungan Tawhīd. Hubungan yang dimaksudkan ialah hubungan dengan Allah, hubungan dengan manusia dan hubungan dengan persekitaran. Klasifikasi tersebut penting kerana Tauhīd adalah asas penentu keimanan seseorang Muslim.*

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## INTRODUCTION

Corporate social responsibility disclosure (CSR/D) is about the way in which companies meet their obligations both to the employees and to wider community. CSR/D is defined as the provision of financial and non-financial information relating to an organization's interaction with its physical and social environment, as stated in corporate annual reports or separate social reports.<sup>1</sup> Gray *et al.* defined corporate social disclosure "... as the process of communicating the social and environmental effects of organizations' economic actions to particular interest groups within society at large". As such, it involves extending the accountability of organization (particularly companies) beyond the traditional role of providing a financial account to the owners of capital, in particular, shareholders. Such an extension is predicted upon the assumption that companies do have wider responsibilities than simply to make money for their shareholders."<sup>2</sup>

Following Islamic resurgence and the increasing concern on the relationship between religion and economic activities, the Islamic perspective of accounting began to receive substantial attention. Islamic accounting is an "assurance function that seeks to establish *al-'adl* (socioeconomic justice), and *al-falāḥ* (success in the world and hereafter) through its formalized procedures, routines, objective measurement, control and reporting, in accordance with *Sharī'ah Islāmiyyah*."<sup>3</sup> Under the concept of Islamic accounting, each organization has the obligation to disclose every organizational activity to ensure that it follows the Islamic rules and caters the social needs as CSR/D. Baydoun and Willett<sup>4</sup> argued that financial accounting statement for Islamic business organizations (IBOs)<sup>5</sup> may need to be changed and replaced because conventional CSR/D may be

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<sup>1</sup> Guthrie, J. E. and Mathews, M. R. (1985), "Corporate Social Accounting in Australia", *Research in Corporate Social Performance and Policy*, Vol. 7, pp. 251–277.

<sup>2</sup> Gray, R., Owen, D. and Maunders, K. (1987), *Corporate Social Reporting: Accounting and Accountability*. New Jersey: Prentice-Hall, p. 4.

<sup>3</sup> Haniffa, R. and Hudaib, M. (2002), "A Theoretical Framework for the Development of the Islamic Perspective of Accounting", *Accounting, Commerce and Finance: The Islamic Perspective Journal*, Vol. 6, No. 1/2, p. 6.

<sup>4</sup> Baydoun, N. and Willett, R. (1994), "Islamic Accounting Theory", (in *Accounting, Commerce and Finance: The Islamic Perspective International Conference I*, Sydney, Australia, 18-20 February 1997), pp. 24–25.

<sup>5</sup> IBOs are bound by the ethical rules of the *Sharī'ah Islāmiyyah*. The objective of IBOs will be two-fold; (i) profit maximization, and (ii) *al-falāḥ* maximization. An Islamic business organization will consider the benefit of the whole society as well as the other priorities of the Islamic state. See Sarker, M. A. A. (1999), "Islamic Business Contracts, Agency Problem and the Theory of the Islamic Firms", *International Journal of Islamic Financial Services*, Vol. 1, No. 2, p. 12.

inappropriate due to the following reasons;<sup>6</sup> (i) the models do not recognize responsibility of companies beyond human society especially to God, (ii) the models are based on human faith and such, may be flawed, and (iii) the models only address the materials and some moral aspect but not spiritual consideration. Therefore, the primary objective of this study is to develop CSR model from Islamic perspective base on *Tawhīdic* approach.

The article is organized as follows. First part is a description of Islam as a *Shumūl* religion. It is also discuss the concept of *Tawhīd* in Islam and the role of *Sharī'ah Islamīyyah* in Muslim actions. Second part is an explanation of corporate social responsibility from Islamic perspective. Third part is a discussion of ICSR. Fourth part states the conclusion.

## LITERATURE REVIEW

### Islam is a *Shumūl* Religion

The Islamic concept of religion is unique in the broadest sense of the word.<sup>7</sup> Islam is not a religion in the common, confining its scope to the private life of man. Islam is *al-dīn* a complete way of life and its values are universal (*shumūl*) in character, transgressing across geographical, racial and linguistic differences, catering for all the fields of human existence in all phase of life.<sup>8</sup> A Muslim is one who resigns himself to *Allāh* and thereby professes the faith of Islam. To become a Muslim all that one has to do is to 'testify' by reciting the *shahādah*. This is the first of so-called five pillars of Islam, or fundamental observances, which form the basis of the Muslim faith:

- (i) Acceptance of the *shahādah* or witness of faith which consists of reciting the sentence *Lā ilāha illa Allāh, Muḥammad Rasūllullah*;
- (ii) *Ṣalāt*, or prayer, is prescribed to be performed five times per day;
- (iii) *Zakāt*, or alms. The *Qur'ān* stresses that the giving of *zakāt* is one of the chief virtues of the true believer;

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<sup>6</sup> Haniffa, R. M. (2002), "Social Responsibility Disclosure: An Islamic Perspective", *Indonesian Accounting and Management Journal*, Vol. 1, No. 2, p. 7.

<sup>7</sup> Hammudah Abdalati (1998), *Islam in Focus*. Kuala Lumpur: Islamic Book Trust, p. 33.

<sup>8</sup> Sheikh Ghazali Abod (2002), "Towards an Islamic Corporate Governance", *Corporate Governance from the Islamic Perspective*. Nik Mustapha Nik Hassan and Shaikh Mohd Saifuddeen Shaikh Mohd Selleh (eds.). Kuala Lumpur: Institute of Islamic Understanding Malaysia (IKIM), pp. 101–102.

- (iii) *Ṣawm*, or fasting. Refraining from food and drink during the month of *Ramaḍān* during daylight hours; and
- (v) *Ḥajj*, or pilgrimage to Mecca must be performed at least once in the life of every Muslim, if it can be afforded.

The first basic principle of Islam is belief in the existence of *Allāh* and the Prophethood of Muhammad (pbuh). This belief is realized by the *kalimah* (sentence) of *shahādah*; *Lā ilāha illa Allāh, Muḥammad Rasūlullāh* “there is no God but *Allāh*; Muhammad is His Messenger”. The *shahādah* means that in the whole of the universe, there is absolutely no being worthy to the worshipped other than *Allāh*, that it is only Him that heads should bow in submission and adoration, that He is the only Being possessing all powers, that we are all in need of his favor and that we are all obliged to seek His help. This belief in the Oneness of God is the key of Islamic faith as described in the *Qur’ān*:

“Say: He is Allah, the One and Only; Allah, the Eternal, Absolute; He begetteth not, nor is He begotten; And there is none like unto Him.”

(al-Ikhlās: 1–4)

### The *Tawḥīd*

The first sentence of *shahādah*; *Lā ilāha illa Allāh* implies the concept of *Tawḥīd* (unity of God). *Tawḥīd* implies *Allāh*, the sole Creator of all beings, the owner of everything<sup>9</sup> and the Absolute and the Ultimate as stated in the *Qur’ān*:

“Say: To God belongs exclusively (the right to grant) intercession: To Him belongs the domination of the heavens and the earth: and in the end, unto Him you will all be brought back.”

(al-Zumar: 44)

Each of the creation has its own function and responsibility in the Earth. The concept of *Tawḥīd* is build upon on the two basic elements which are:<sup>10</sup>

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<sup>9</sup> Ibn ‘Abd al-Wahhāb, Sulāḥmān Ibn ‘Abd Allāh, *Taysīr al-‘Azīz al-Ḥamīd, Fī Syarḥ Kitāb al-Tawḥīd*. Beirut: al-Maktab al-Islāmiy, p.39.

<sup>10</sup> Al-Shaykh, ‘Abd al-Raḥmān Ibn Ḥasan (1992), *Fath al-Majīd Sharḥ Kitāb al-Tawḥīd*. Beirut: Dār al-Fikr, p. 12; Aidit Haji Ghazali (1990), *Development in Islamic Perspective*. Petaling Jaya: Pelanduk Publication, p. 22.

- (i) *Tawhīd Ulūhiyyah* – This is the belief in the unity of God and all that is in the universe are His alone; and
- (ii) *Tawhīd Rubūbiyyah* – This is the belief that God alone determines the sustenance and nourishment of His creation and will direct those who belief in Him towards success.

These elements signify that under the concept of *Tawhīd*, man has to maintain a good relationship not only with *Allāh* (*ḥabl min Allāh*), but also with human beings (*ḥabl min al-nās*) and its environment.<sup>11</sup> These three different relationships will be discussed in more detail in the following part.

(i) Man and *Allāh*

The Muslim's relationship with *Allāh* is one of love and obedience, complete trust and thoughtfulness, peace and appreciation, steadfastness and active service. This relationship is strongly built from the essence of the six pillars of faith and five pillars of Islam. This relationship must free from any intermediaries and is explained clearly in the *Qur'ān*:

*“He knows what is in the heavens and on earth; And He knows what ye conceal and what ye reveal: yea Allah knows well the (secrets) of (all) hearts.”*

(al-Taghabun: 4)

One has to remember that *Allāh* is always watching the actions are compliance with Islamic rules and regulations or not. Therefore, IBOs have no choice unless to pursue the guidance and laws of Islamic *mu'āmalah*.

(ii) Man and human beings

Guided by the proper relation with *Allāh*, man relation with fellow human beings should be inspired by the values of trust, truthfulness, firmness, fairness, respect of the

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<sup>11</sup> Haji Faisal bin Haji Othman. (1994), “Attributes of Virtuous Executives and administrators in Islam”, In Syed Othman Alhabshi and Aidit Haji Ghazali (eds.), *Islamic Values and Management*. Kuala Lumpur: Institute of Islamic Understanding Malaysia (IKIM), pp. 31–32; Syed Othman Alhabshi (1994), “Islamic Values: Its Universal Nature and Applicability”, In Syed Othman Alhabshi and Aidit Haji Ghazali (eds.), *Islamic Values and Management*. Kuala Lumpur: Institute of Islamic Understanding Malaysia (IKIM), pp. 7–10.

law, kindness, tolerance, etc. Muslim has to develop a good sense of social consciousness and nourish a feeling of human response, provide for his dependents generosity without extravagance and meet their legitimate needs.<sup>12</sup> In the business operation, leaders must respect the *ḥaq* (right) of all parties such as shareholders, employees, suppliers, environment etc. Muslim action towards others must be in a form of *'amal ṣāliḥ* (good deeds) which is the key to the attainment of *al-falāḥ*.<sup>13</sup>

(iii) Man and environment

Islam teaches man that he should accept and protect everything in the world as a value. The philosophical background of the Islamic attitude to the environment is respect for plants and animals and the ecological balance of nature for the sake of *Allāh* who created all things which therefore have a value.<sup>14</sup> According to Islam, the protection of environment as well as utilization of natural resources for business purpose should be socially responsible. The right to utilize and harness natural resources, which *Allāh* has granted man, necessarily involves an obligation on man's part to conserve them both quantitatively and qualitatively.<sup>15</sup> As a *khalīfah*, Muslim businessman is expected to preserve and protect their natural environment.<sup>16</sup> *Allāh* says:

*“And remember how We made you inheritors after the `Ad people and gave you habitations in the land: ye build for yourselves palaces and castles in (open) plains, and carve out homes in the mountains: so bring to remembrance the benefits (ye have received) from Allah, and refrain from evil and mischief on the earth.”*

(al-A'rāf: 74)

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<sup>12</sup> Hammudah Abdalati (1998), *op. cit.*, p. 40.

<sup>13</sup> Nik Mustapha Nik Hassan (2002). “Business Social Responsibility from the Islamic Perspective”, In Nik Mustapha Nik Hassan. and Shaikh Mohd Saifuddeen Shaikh Mohd Salleh (eds.), *Corporate Governance from the Islamic Perspective*. Kuala Lumpur: Institute of Islamic Understanding Malaysia (IKIM), pp. 34–41.

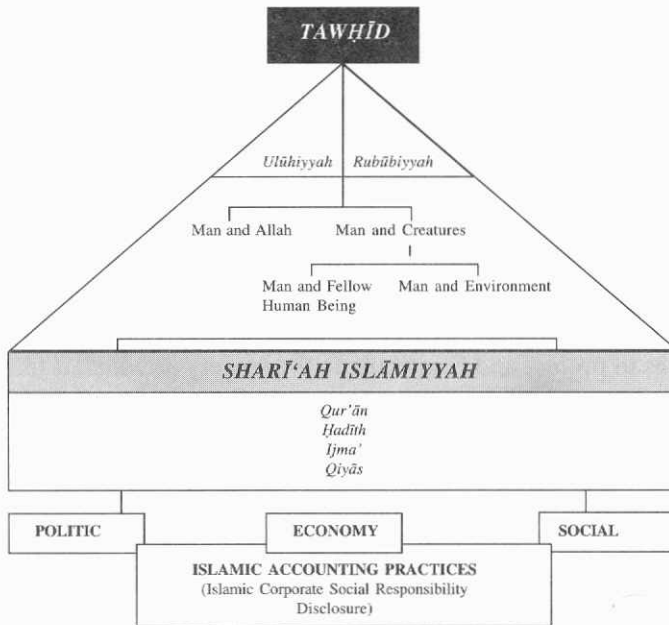
<sup>14</sup> Othman, F. and Sohaili, J. (1998), “Environmental Management – An Islamic Way”, (in International Conference on Islamic Development Management: Management of Economic Development in Islamic Perspective, Universiti Sains Malaysia, Pulau Pinang, Malaysia, 8–10 December 1998), p. 12.

<sup>15</sup> Bakadar, Abu Bakr Ahmed (1997), “Islamic Principles for the Conservation of the Natural Environment”, In A. R. Agwan (ed.), *Islam and the Environment*. Kuala Lumpur: Synergy Book International, pp. 71–108.

<sup>16</sup> Beekun, Rafik Issa (1997), *Islamic Business Ethics*. Virginia: International Institute of Islamic Thought, pp. 60–63.

To get blessing (*barākah*) from *Allāh*, the interaction of these relationships has to completely governed by the dictates of *Sharī'ah Islāmiyyah*.<sup>17</sup> In other words, *Sharī'ah* provides the framework and guideline for Muslim in his behavior and action whenever he is<sup>18</sup>. The *Sharī'ah Islāmiyyah* is based on four primary sources; (i) the Holy *Qur'ān* (revelation from *Allāh*), (ii) the *Hadīth* (the deeds, sayings or tacit approvals of the Prophet Muhammad (pbuh)), (iii) the *Ijma'* (consensus of opinion by the majority of Muslims scholars or *fuqahā'*) and (iv) *Qiyās* (Analogy reasoning deduced from the other three sources for contemporary issues that are not directly mentioned in those sources).

**Figure 1: The Framework of Tawhīd and Sharī'ah Islāmiyyah**



Source: Adapted from Bank Islam Malaysia Berhad (BIMB) (1994), *Islamic Banking Practice from the Practitioner's Perspective*. Kuala Lumpur: BIMB, p. 9.

<sup>17</sup> *Sharī'ah* literally means “a course to the watering place”, “a resort of drinkers” or “the clear straight path”. *Sharī'ah* is define as “the rules/legal decisions (*aḥkām*) which are ordained by Allah for its servants by sending His Messenger.

<sup>18</sup> Mohamed A. Kadir (1986), “The Role of Judiciary in the Development of Islamic Law in Thailand” (in International Shariah Conference on the Role of Judiciary in the Development of Islamic Law, 21–23 November 1986), p. 16.

Essentially, *Sharī'ah Islāmiyyah* can be classified into three main components namely 'Aqīdah, *Sharī'ah* and *Akhlāq*.<sup>19</sup> 'Aqīdah relates to the belief towards *Allāh* and the piousness of the believer. *Akhlāq* concern both the ethical and moral matters confronted by human beings. It is the individual personality reflected in an individual's behavior towards *Allāh* and other human beings, towards himself and other beings in accordance with the rules of *Allāh* and guidance of the Prophet Muhammad (pbuh). The final component, *Sharī'ah*, touches on the practical aspect of any activity in everyday life. *Sharī'ah* itself comprises of two elements, which are 'Ibādah and *Mu'āmalah*. 'Ibādah relates to practices devoted to *Allāh*, whereas *Mu'āmalah* involves the relationship among human beings for their benefit. *Mu'āmalah* covers three elements which are politic, social and economic. Since *Sharī'ah Islāmiyyah* covers all aspect of human life, it may be considered as 'ethics of action' as it is simultaneously a manifestation of divine will and that of human. The concept of *Tawhīd* and *Sharī'ah Islāmiyyah* is depicted in Figure 1.

#### CORPORATE SOCIAL RESPONSIBILITY FROM ISLAMIC POINT OF VIEW

Abeing stated that business organization has always played a vital role in the economic and social life of all people throughout the ages.<sup>20</sup> In Islam, business activities are not undertaken to satisfy only material needs and wants but more importantly it should be undertaken to fulfill religious obligation and to achieve other non-material objectives such as to secure social needs.<sup>21</sup> Social responsibility refers to the obligations that an organization has to protect and contribute to the society in which it function.<sup>22</sup> Social responsibility in Islam stems from the concept of brotherhood and social justice.<sup>23</sup> The practice of social justice will prevent Muslims from doing harm. *Allāh* reveals:

*"Allah commands justice, the doing of good and liberality to kith and kin, and He forbids all shameful deeds, and injustice and rebellion..."*

(al-Naḥl: 90)

<sup>19</sup> Zaidān, 'Abd al-Karīm. (1999), *al-Madkhal li Dirāsah al-Sharī'ah al-Islāmiyyah*. Beirut: Al-Risālah Publishers, p. 9.

<sup>20</sup> Abeng, T. (1997), "Business Ethics in Islamic Context: Perspectives of a Muslim business Leader", *Business Ethics Quarterly*, Vol. 7, No. 3, p. 49.

<sup>21</sup> al-Jawziyyah, I. Q. (1955), *I'lām al-Muwaqqi'in*. Kaherah; Rahman, A. R. A. and Goddard, A. (1998), "An Interpretive Inquiry of Accounting Practices in Religious Organisations", *Financial Accountability and Management*, Vol. 14, No. 3, pp. 184-190.

<sup>22</sup> Beekun, Rafik Issa (1997), *op. cit.*, p. 45.

<sup>23</sup> Naqvi, Syed Nawab Haider (1981), *Ethics and Economics: An Islamic Synthesis*. Leicester: The Islamic Foundation.



Social justice is strengthened through the concept of *ukhuwwah* (brotherhood).<sup>24</sup> Brotherhood makes Muslims responsible to each other. The commitment of Islam to justice and brotherhood demands that Muslim society take care of the basic need of the poor. The Prophet Muḥammad (pbuh) says:

*“A Muslim is a brother of another Muslim: he nether wrongs him, nor leaves him without help, nor humiliates him”*

(Muslim)

Based on the axiom of *Tawḥīd*, the main objectives of social responsibility should be to demonstrate responsibility not only to *Allāh* and human beings, but also to environment. *Tawḥīd*, which signifies the acceptance of unity of *Allāh*, provides one single direction in guaranteeing a unified spirit in adhering to *Sharī‘ah Islāmiyyah*.<sup>25</sup> The concept of *Tawḥīd* also signifies man’s role as that as *Allāh*’s *khalīfah* (vicegerent) on earth. *Allāh* says:

*“Behold, thy Lord said to the angels: “I will create a vicegerent on earth.”*

(al-Baqarah: 30)

As *khalīfah*, mankind is not free but responsible and accountable to *Allāh*.<sup>26</sup> In short, Hassan has summarized the dual function of man as follows;<sup>27</sup> (i) man as servant of *Allāh* and (ii) man as *khalīfah* on earth. As a servant of *Allāh*, man needs to worship God, seeks God’s pleasure, follow God’s laws, be good to all creatures of God and to refrain from doing *al-fasād* (destruction). On the other hand, as a *khalīfah* on earth, man needs to enforce the *Sharī‘ah Islāmiyyah* in his life, maintain the harmony and peace, protect the environment, and to fulfill the roles of *al-ṣifah al-maḥmūdah* (good manner).

As a *khalīfah*, leaders in IBOs are required to practice corporate social responsibility essentially from the principle of *Tawḥīd*. It must be remembered that all possessions,

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<sup>24</sup> Syed Othman Alhabshi (1994), *op. cit.*

<sup>25</sup> Moten, A. R. (1990), “Islamization of Knowledge”, *The American Journal of Islamic Social Science*, Vol. 7, No. 2, pp. 161–175.

<sup>26</sup> Haniffa, R. *et al.* (2002), “Accounting Policy Choice within the Sharī‘ah Islāmiyyah Framework”, [www.ex.ac.uk/sobe/research/discussionpaper](http://www.ex.ac.uk/sobe/research/discussionpaper), 25 February 2004, p. 8.

<sup>27</sup> Mohd Affandi Hassan (1992), *The Tawhidic Approach in Management and Administration: Concepts, Principles and an Alternative Model*. Kuala Lumpur: National Institute of Public Administration, p. 75.

wealth, expertise, abilities, positions and power belongs to *Allāh*. Mankind is only trustees to them. As trustees, it is imperative that we manage these possessions to the best of our abilities to create a maximum added value in corporate social responsibility by intention of creating benefit to the *ummah* (community).<sup>28</sup> The concept of *ummah* demonstrates that society has a right and stake in whatever a Muslim owns. In Islam, business organizations are considered as human institution which is part of the *ummah Islāmiyyah* (Islamic Community).<sup>29</sup> As a result, IBOs have to promote social responsibility. This view is equivalent with what has been described by Allāh:

*“It is not righteousness that ye turn your faces towards East or West; but it is righteousness to believe in Allah and the Last Day, and the Angels, and the book, and the Messengers, to spend of you substance, out of love for Him, for your kin, for orphans, for the needy, for the wayfarer, for those who ask, and for the ransom of slaves; to be steadfast in prayer, and practice regular charity, to fulfill the contracts which ye have made; and to be firm and patient, in pain (or suffering) and adversity, through out all periods of panic. Such are the people of truth, the God-fearing”*  
(al-Baqarah: 177)

### Islamic Corporate Social Responsibility Disclosure (ICSRD) Model

Related to the concept of social responsibility is the principle of full disclosure.<sup>30</sup> Baydoun and Willet argued that the Western financial statements do not fully satisfy the Muslim users in making decisions so as to be in line with *Shari‘ah Islāmiyyah*.<sup>31</sup> Financial statements or annual reports represent a business language that allows management to communicate the financial condition of their organizations. Financial accounting theory has identified the objective of financial statement is to give information to interested parties for used in decision making process.<sup>32</sup> CSRD may be

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<sup>28</sup> Barjoyai Bardai (2002), “Ethical Responsibility and the Role of CEOs and Board of Director in Business Corporations – An Islamic Perspectives”, In Nik Mustapha Nik Hassan and Shaikh Mohd Saifuddeen Shaikh Mohd Selleh (eds.), *Corporate Governance from the Islamic Perspective*. Kuala Lumpur: Institute of Islamic Understanding Malaysia (IKIM), pp. 31–34.

<sup>29</sup> Muhammad Ali Haji Hashim (1998), “Building a Learning Organisation – An Islamic Approach”, In Syed Othman Alhabshi and Nik Mustapha Nik Hassan (eds.), *Islam, Knowledge and Ethics: A Pertinent Culture for Managing Organisations*. Kuala Lumpur: Institute of Islamic Understanding Malaysia (IKIM), pp. 27–29.

<sup>30</sup> Lewis, M. K. (2001), “Islam and accounting”, *Accounting Forum*, Vol. 25, No 2, p. 114.

<sup>31</sup> Baydoun, N. and Willet, R. (1994), *op. cit.*

<sup>32</sup> Harahap, S. S. (2003), “The Disclosure of Islamic Value-Annual Report the Analysis of Bank Muamalat Indonesia’s Annual report”, *Managerial Finance*, Vol. 29, No. 7, p. 73.

seen as a means of communicating information about social reality for to be used by decision makers both inside and outside the reporting corporation as well as potentially delivering a more adequate reflection of the non-market affects of corporate behavior.<sup>33</sup>

Since in Islam, the concept of CSRD in financial statements of IBOs should be included a somewhat different set of requirement from the conventional western format. The main objective of ICSRD is to show compliance with Islamic *Sharī'ah*, i.e. to demonstrate accountability to *Allāh*.<sup>34</sup> Other objectives may include those known in the Western model, such as assisting decision makers in making economic decisions, but from an Islamic perspective, this is not the primary objective.<sup>35</sup> Disclosure from an Islamic perspective of accounting means disclosing information that would aid economics as well as religious decision-making. The information has to have the qualities of being relevant, objective and material.<sup>36</sup> Full disclosure does not mean that IBOs need to disclose everything, which of course is impractical. It means disclosing any information deem relevant and should be rightfully given to members of the *ummah* to facilitate their economic and religious decision-making. The implication of this position is that IBOs should disclose all information necessary to advise the Islamic *ummah* about their operations, even if such information would work against the firm itself. *Allāh* says:

“...and cover not the truth with falsehood nor conceal the truth when you know.”

(al-Baqarah: 42)

A review of the current literature on ICSRD model highlights some weaknesses in that there seem to be overemphasize on *Sharī'ah Islāmiyyah* framework and neglect of disclosure from a *Tawhīdic* approach. *Tawhīd* is a unique and distinguished relationship between human beings and *Allāh* as the Creator. Since *Tawhīd* comprises of three relationships, thus, it is an obligatory for IBOs to disclose all information related to these three relationships in order to obtain blessing (*barākah*) from *Allāh*.

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<sup>33</sup> Preston, L. E. (1981), “Research on Corporate Social Reporting: Directions for Development”, *Accounting, Organizations and Society*, Vol. 6, No. 3, pp. 1–24; Epstein, M., Flamholtz, E. and McDonough, G. (1976), Corporate Social Accounting in the United States of America: State of the Art and Future Prospects”, *Accounting, Organizations and Society*, Vol. 1, pp. 23–42.

<sup>34</sup> Haniffa, R. M. (2002), *op. cit.*, pp. 15–17.

<sup>35</sup> Maali, B. *et al.* (2003), “Social Reporting by Islamic Banks” (Discussion Paper in Accounting and Finance, September 2003), pp. 10–11.

<sup>36</sup> Haniffa, R. *et al.* (2002), *op. cit.*, p. 16.

More importantly, *Tawhīd* is considered as the main element in determining Muslim happiness because it is signified from the *kalimah* of *shahādah* which signify the Muslim faith (*īmān*). Therefore, it requires businesses to disclose all information in line with the *Tawhīdic* approach which cover the relationship with *Allāh* (*ḥabl min Allāh*), with the society (*ḥabl min al-nās*) as well as the environment. Based on the axiom of *Tawhīd* as described in the preceding section, it was concluded that the following items should form the main element of ICSRD for IBOs.

#### (1) Disclosure of Corporate Mission Statement

From the Islamic perspective, the mission statement must be aligned with the concept of accountability to *Allāh* and thus, should lead IBOs to the right direction.<sup>37</sup> As far as ICSRD is concerned, IBOs are expected to state that their goals and objectives is to operate in accordance with the *Sharī'ah* ideals and principles.<sup>38</sup> Among others, disclosure on the mission statement should provide; (i) a statement stating that the company's operations are based on *Sharī'ah* principles, and (ii) mission statement stating that the main objective of the company is to achieve *barākah* (blessing) and *al-falāḥ* (successful in the world and the hereafter) – emphasizing on the importance of earning *ḥalāl* (permissible) profit.

#### (2) Disclosure of Information Related to the Top Management

In Islam, each Muslim is considered as *khalīfah* (vicegerent) on this earth. In the Islamic business context, leaders/managers must possess certain qualities to enable them to carry out duties as an 'agent' of *Allāh*. The main purpose is to promote *'amal ma'rūf nahī munkar* and refrain themselves and others from doing *al-fasād* (destructive). Because leaders are accountable to *Allāh* in the hereafter, they are responsible to carry out the *amānah* entrusted to them, thus are required to manage the business operation in an effective and efficient manner. Hence, the details of those people (i.e. the top management) entrusted to conduct the business would provide relevant information to the Muslim users of annual reports in making investment decision. Among others, disclosure of information related to the top management would include

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<sup>37</sup> Syed Omar Syed Agil (1998), "Accountability of Corporate Managers", In Syed Othman Alhabshi *et al.* (eds.), *Islamic Management for Excellent: Revitalizing People for the Future*. Kuala Lumpur: Institute of Islamic Understanding Malaysia (IKIM), pp. 49–54.

<sup>38</sup> Haniffa, R. and Hudaib, M. (2004), "Disclosure Practices of Islamic Financial Institutions: An Exploratory Study", (in Accounting, Commerce and Finance: The Islamic Perspective International Conference V, Brisbane, Australian, 15–17 June 2004), pp. 10–11.

the followings: (i) a detail of names and profile of BOD/management team, (ii) details regarding the qualifications of management team, (iii) a statement on remuneration of management team, and (iv) a statement on policy in appointing, re-appointment and dismissal of BOD/management team.

### (3) Disclosure of Unlawful (*ḥarām*) Operations

IBOs should not involve in any operation that violates Islamic *Sharī'ah* principles. The *Sharī'ah* prohibits business operations involving *ribā'* (interest), *gharār* (uncertainty) and *maysīr* (gambling), however, it encourage *ḥalāl* trade.<sup>39</sup> Nevertheless, in some situations, IBOs may not be able to avoid such operations, for example, Islamic bank may have to deal in letter of credit transactions with non-Islamic bank and the bank is required to pay interest on that transaction. Thus, IBOs are required to disclose truthfully the details of their operations by properly describing what are considered *ḥalāl*, and what are considered *ḥarām*. Failure to explicitly disclose such information might give misleading and inaccurate picture of the business activities.<sup>40</sup> Therefore, IBOs should disclose the following information regarding to matters related to possible involvement in unlawful operations; (i) a description on the nature of unlawful operations such as *ribā'* (interest) and *gharār* (uncertainty) activities, (ii) explanation on the reasons for undertaking unlawful operations, (iii) disclosure of the amount of revenues (expenses) earned (paid) from unlawful operations, and (iv) the opinion of SAB regarding the necessity of undertaking unlawful operations.

### (4) Disclosure of *Sharī'ah* Advisory Board (SAB)

SAB is “in-house religious advisor”. The appointment of SAB members is important to serve as a check and balance and to provide assurance and assertion that the products and services produced by the organizations are in agreement with the will of *Allāh*.<sup>41</sup> SAB is responsible to monitor that business operations are compliance with the *Sharī'ah* principles and Islamic ethical standard. In addition, Karim point out that the SAB have responsibility to issue a report to the users of the financial statements

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<sup>39</sup> Saker, Md. Abdul Awwal (1999), “Islamic Business Contracts, Agency Problem and the Theory of the Islamic Firm”, *International Journal of Islamic Financial Services*, Vol. 1, No. 2, pp. 12-13.

<sup>40</sup> Shahul Hameed Mohd Ibrahim *et al.* (2004), “Alternative Disclosure and Performance Measures for Islamic Banks” (in Second Conference on Administrative Sciences: Meeting the Challenges of the Globalization Age, King Fahd University of Petroleum & Minerals, Dhahran, Saudi Arabia, 19-21 April 2004), pp. 5-7

certifying that business operations have adhere to Islamic precepts.<sup>42</sup> Therefore, the disclosure of SAB should reflect all the stated relationships arise under the *Tawhīdic* framework as explained in the preceding sections. IBOs are suggested to disclose the followings pertaining to SAB; (i) details regarding the qualifications of SAB members, (ii) details regarding the members of the SAB, (iii) a statement on remuneration of the SAB members, (iv) a statement certifying distribution of profits and losses are made according to *Sharī'ah* law, and (v) statement of recommendations to rectify defects in products/services.

#### (5) Disclosure of *zakāt*

Business organizations are obliged to pay *zakāt* as it is one of the five pillars of Islam.<sup>43</sup> *Zakāt* is actually a means of purification for all Muslims, so unlike taxes, it has spiritual connotations<sup>44</sup> as stated in the *Qur'ān*:

“Of their goods take alms, that so thou mightest purify and sanctify them...”

(*Qur'ān*, 9:103)

The devout Muslim who pays *zakāt* does so out of a sense of spiritual fulfillment and is glad to satisfy the obligation.<sup>45</sup> Technically, it means a contribution of a proportion of wealth for the use of the poor and needy as sanctification for the remainder of the property. Thus, *zakāt* is the cornerstone of the financial structure in an Islamic economy. The payment of *zakāt* is to signify responsibility to *Allāh* as well as to the society. The disclosure on *zakāt* should includes the followings; (i) a statement showing the sources

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<sup>41</sup> Rusnah Muhamad and Mohd Rizal Muwazir (2005), “Corporate Social Responsibility and Islamic Business Organizations: A Proposed Model” (in the International Conference of Global Business in Services: Challenges, Uncertainty and Opportunities, Bali, Indonesia, 27–29 July 2005), pp. 4–6.

<sup>42</sup> Karim, R. A. A. (1990), “Standard Setting for the Financial Reporting Religious Business Organizations: The Case of Islamic Banks”, *Accounting and Business Research*, Vol. 20. No. 80, p. 300.

<sup>43</sup> Rizal Yaya and Shahul Hameed Mohd Ibrahim (undated), “Objectives and Characteristics of Islamic Accounting: Perception of Muslim Accounting Academicians in Yogyakarta, Indonesia”, <file:///F:/PaperProject/Islamicacc2.htm>, 1<sup>st</sup> April 2005, p. 12.

<sup>44</sup> Gambling, T. E. and Karim, R. A. A. (1986), “Islam and Social Accounting”, *Journal of Business Finance and Accounting*, Vol. 13, No. 1, p. 43.

<sup>45</sup> Baydoun, N. and Willet, R. (2000), “Islamic Corporate Report”, *ABACUS*, Vol. 36, No. 1, pp. 75–77.

and uses of *zakāt* funds, (ii) a statement showing the amount of *zakāt* paid and its computation, (iii) the details on the balance of the *zakāt* fund not yet distributed and the reason for the delay in distribution, and (iv) the attestation by the SAB regarding the computation and distribution of the *zakāt* funds.

## (6) Employees

Islam strongly emphasize on social justice in dealing with employees. The Prophet Muhammad (pbuh) says:

*“Those who work for you are your brothers. Allah has made them your assistant.”*

*(Bukhāri and Muslim)*

It is the social responsibility of IBOs to take care of the welfare and betterment of their employees and do not treat employees unfairly. According to Ahmad, employees should be treated as human being (i.e. as assistance) and not merely as machine and tools.<sup>46</sup> Among others information considered relevant to be disclosed to the Muslim users of annual reports are as follows; (i) a statement disclosing information regarding employees’ remuneration (salaries/bonuses), (ii) a statement detailing the company’s policy on training/education opportunities for employees, (iii) a statement detailing the company’s policy on employees’ welfare and benefit such as religious provision, holidays and medical benefits, (iv) a statement detailing the company’s policy on equal opportunities towards women and minorities, and (v) a statement detailing the company’s policy on working environment that are conducive to Islamic ethical values.

## (7) Disclosure of Products and Services

Islam requires IBOs to produce products/services that free from harmful consequences in this world and the hereafter. Hence, transparency on products/services-related information is relevant and useful to users to enable them to assess and judge the business conduct and its responsibility towards the society. IBOs are recommended to disclose the following information regarding the products and services; (i) a statement stating all products/services are approved by SAB, (ii) description regarding the basis

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<sup>46</sup> Ahmad, Syaid Fayyaz (2001), “The Ethical Responsibility in Business: Islamic Principles and Implications”, In Khaliq Ahmad and AbulHasan M. Sadeq (eds.), *Ethics in Business and Management: Islamic and Mainstream Approaches*. London: Asean Academic Press, p. 203.

of *Sharī'ah* concepts for each product/service, (iii) a statement describing details of products/services produced by the company and their side effects, and (v) a statement indicating that the company's policy on marketing is in compliance with Islamic ethical values.

#### (8) Disclosure of community involvement

Islam enjoins the removal of hardship so as to improve the standards of living of the community.<sup>47</sup> The Islamic perspective of accounting emphasized on social justice and thus, CSR/D should turn the main element of full reporting in Islam.<sup>48</sup> IBOs are expected to contribute towards the betterment of well-being of the society in which they operate and generate money. Therefore, it is expected that there will be more disclosure on the relationship between IBOs and its society. Among others, disclosure related to the relationship of IBOs with the society include; (i) description of company's contribution towards the betterment of society such as programs in helping to overcome social problems like poverty, illiteracy etc., (ii) a statement on contributions made to support acts by other organizations for the betterment of the society, (iii) a description of company's participation in government social activities, and (iv) description of company's involvement in charity such as *ṣadaqah* and *waqf* (religious endowment).

#### (9) Disclosure of *qard al-ḥasan* funds

*Qard al-ḥasan* is an alternative to interest-bearing loans, which Islamic financial institutions provide to individuals for socially beneficial purposes.<sup>49</sup> Literally, *qard* means loan, while *ḥasan* implies good or benevolent. A *qard al-ḥasan* loan therefore, expresses the spirit of *ta'āwun* (cooperation) and *ukhuwwah* (brotherhood) between debtors and creditors.<sup>50</sup> The Prophet Muhammad (pbuh) says:

*"The best amongst you is he who repays his debts in the most handsome manner."*

(*Bukhāri*)

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<sup>47</sup> Nik Mohamed Affandi Nik Yusoff, (2002), *op. cit.*

<sup>48</sup> Haniffa, R. and Hudaib, M. (2004), *op. cit.*, pp. 4-5.

<sup>49</sup> Maali, B. *et al.* (2003), *op. cit.*, pp. 20–21.

<sup>50</sup> Saiful Azhar Rosly (2005), *Critical Issues on Islamic Banking and Financial Markets: Islamic Economics, Banking & Finance, Investments, Takaful and Financial Planning*. Kuala Lumpur: Dinamas Publishing, p. 160.



*Qard al-ḥasan* is considered as one of the social contributions of IBOs toward the society. Therefore, it's recommended that IBOs should disclose a statement on the policy for providing *qard al-ḥasan* (non interest-bearing loans).

#### (11) Disclosure relating to the relationship with environment

The disclosure relating to the relationship with environment is significant as it is related to take care of *Allāh's* creation on earth. *Allāh's* wisdom has ordained that His creatures shall be of service to one another. Destruction, abuse, misused and pollution of natural resources are all transgression against the divine scheme.<sup>51</sup> Therefore, IBOs have to take necessary actions to ensure the environment is preserved and that they do not contribute to the environmental illness.<sup>52</sup> Among others, disclosure related to the relationship of IBOs with environment include; (i) description of company's contribution or activities undertaken to protect the environment, (ii) description of the nature and amount spend on conservation of natural environment and wildlife, (iii) a statement indicating that the company's operations are in compliance with environmental laws and regulation, (iv) a statement indicating that the company's operations are non-polluting, and (v) a statement describing employees training in relation to environmental issues.

## CONCLUSION

From the preceding explanation, it can be concluded that, ICSD model for IBOs can be classified into three different categories based on *Tawḥīdic* approach as illustrated in Figure 2.

A conceptual model of ICSRD based on *Tawḥīdic* approach is uniquely derived from the basic concept of Muslim responsibility and accountability to *Allah*. The development of ICSRD model based on *Tawḥīdic* approach has important implications on the role of IBOs as compared to the *Sharī'ah Islāmiyyah* framework, which can be summarized as follows:

1. Each activity conducted by IBOs must be based on three main relationships of *Tawḥīd*. Thus the classification will be used as a guideline for them to demonstrate and fulfill their obligations (responsibility and accountability) to

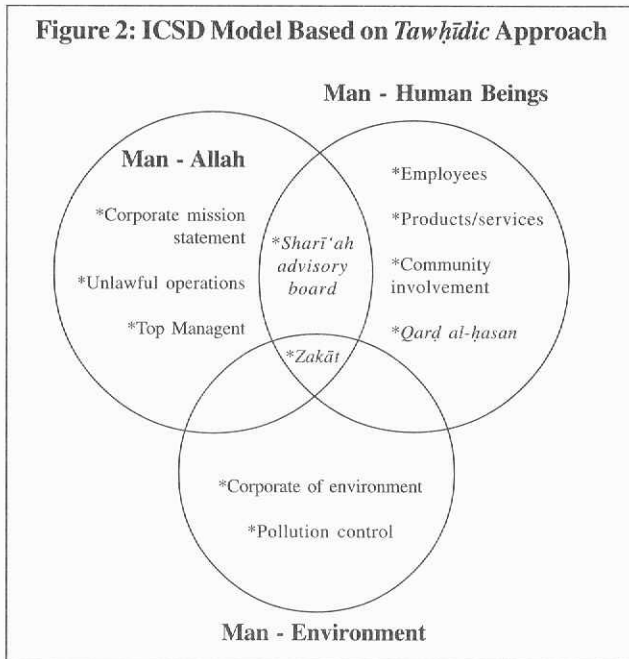
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<sup>51</sup> Bakadar, Abu Bakr Ahmed (1997), *op. cit.*

<sup>52</sup> Shahul Hameed Mohd Ibrahim *et al.* (2004), *op. cit.*, pp. 17-18.

*Allāh*, other human beings and the environment while operating business activities.

2. The classification will assist Muslim users of annual reports to evaluate the operations of IBOs, through evaluation of both financial and non-financial performance reported in a structured form such as statement on *zakāt*, *qard al-ḥasan*, unlawful operations, employees and environment.



This article proposed the classification of information items in ICSRD based on the relationship between IBOs and *Allāh*, IBOs and human beings and also IBOs and environment. In future empirical study could be conducted to; (i) examine whether the proposed classification is sufficient to fulfill the spiritual and economic needs of the Muslim users of annual reports, and (ii) examine the perception of Muslim users/managers towards the model.