



Implications of *Shariah* on the voluntary disclosure of Indonesian listed companies

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Abstract

Purpose – The purpose of this paper is to investigate and compare the extent of voluntary disclosure in the annual reports of *Shariah*- and non-*Shariah*-compliant companies in Indonesia. Further, the study examines the relationship between voluntary disclosure and company characteristics (i.e. size of company, profitability, type of auditor, type of industry and ownership structure).

Design/methodology/approach – Voluntary disclosure was measured using a disclosure index with 30 items and content analysis of the 2009 annual report. Statistical analysis included descriptive, Mann-Whitney U and regression.

Findings – The result revealed that there is a statistically significant difference in the quantity and quality of voluntary disclosure value of *Shariah*- and non-*Shariah*-compliant companies. For regression results, the company size significantly influences the quantity of voluntary disclosure while the quality of voluntary disclosure is affected by company size and type of industry.

Research limitations/implications – Although this study only analyses voluntary disclosure in the annual report for a single year (2009), it is hoped to provide a description of the voluntary disclosure in *Shariah*- and non-*Shariah*-compliant companies.

Practical implications – The findings might be used by regulators to set regulations that encourage the quantity and quality of disclosure practice of *Shariah*-compliant companies to expand the scope of disclosure related to religious activities.

Originality/value – This study measures voluntary disclosure using the disclosure index based on Indonesian regulations and the quantity and quality measurement of *Shariah*-compliant companies, which may differ from previous Indonesian studies.

Keywords Voluntary disclosure, Company characteristics, *Shariah*- and non-*Shariah*-compliant companies

Paper type Research paper



1. Introduction

The establishment of the *Shariah*-based Capital Market on the Indonesian Capital Market (IDX) in 2003 was to help facilitate the trading of public companies according to the *Shariah* business code. As a developing country that has a large Muslim population, Indonesia is a prospective financial market (Schmith, 2007), including for *Shariah*-based