



VOLUNTARY DISCLOSURE AND COMPANY
CHARACTERISTICS OF INDONESIAN LISTED
COMPANIES: COMPARISON OF SHARIAH AND
NON-SHARIAH COMPLIANT COMPANIES

BY

PENI NUGRAHANI

A dissertation submitted in fulfilment of the requirement
for the degree of Master of Science in Accounting

Kulliyyah of Economics and Management Sciences

International Islamic University
Malaysia

JANUARY 2012

ABSTRACT

Recently, the growth of *Shariah* business organizations is not only dominated by Islamic banking but also by public companies that begin to operate based on *Shariah* compliance. The growth of *Shariah* compliant companies provides good opportunity for shareholders, especially religious shareholders to engage in investment activities without being fear of violating *Shariah* principles. As listed companies, of course *Shariah* compliant companies must comply with the regulation issued by capital market, including the information that should be published in the annual report as part of their responsibility toward their stakeholders. This research attempts to investigate the quantity and quality of voluntary disclosure in the annual reports of *Shariah* compliant companies listed in Indonesian Stock Exchange and compare it with non-*Shariah* compliant companies. Further, the study examined the relationship between voluntary disclosure and company characteristics (i.e. size of company, profitability, type of auditor, type of industry, and ownership structure). Voluntary disclosures were measured using 30 items of disclosure index developed by Khomsiah (2005). Based on content analysis of 2009 annual report of 55 Indonesian listed companies for each category, the findings revealed that there is 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 influence the quantity of voluntary disclosure while the quality of voluntary disclosure is affected by company size and type of industry.

مُلَخَّصُ البَحْثِ

إنَّ نُمُوَّ منظماتِ الأعمالِ الشَّرِيعِيَّةِ في الأونةِ الأخيرةِ لا يَنحصرُ في المِصرْفِيَّةِ الإسلاميَّةِ وحَدها، ولكنَّ ذلكَ النُمُوَّ يحدثُ كذلكَ في الشركاتِ العامَّةِ، حيثُ جاءتْ مظاهرها في مبادرة تلكَ الشركاتِ بتتفيذِ مشاريعها وفُوقَ تعاليمِ الشريعةِ الإسلاميَّةِ. علمًا بأنَّ نموَّ الشركاتِ التي طبَّقتْ الشريعةَ الإسلاميَّةَ مَنَحَ فرصةً جيِّدةً للمساهمينِ وحَمَلَةَ الأُسهُمِ وخاصَّةً الزبائنَ المُتَدَبِّينَ منهمُ للإسهامِ في الأنشطةِ الاستثمارِيَّةِ دونَ خوفٍ من الوُفُوعِ في مخالفةِ أحكامِ الشريعةِ الإسلاميَّةِ. وبطبيعةِ الحالِ، فإنَّ الشركاتِ المسجَّلةَ قانونيًّا يجبُ أن تتوافقَ مع أحكامِ الشريعةِ الإسلاميَّةِ كما يجبُ عليها أن تتفَقَّ القواعدَ الصادرةَ عن سوقِ رأسِ المالِ، بما في ذلكَ المعلوماتِ التي ينبغي أن تنشرَ في التقريرِ السنويِّ كجزءٍ من مسؤوليتها تجاهَ أصحابِ الزبائنِ والمساهمينِ وأصحابِ المصالحِ فيها. فهذهِ الدراسةُ تحاولُ التحقيقَ في كميَّةِ الكَشْفِ الطَّوعِيِّ ونوعِيَّةِ في التقاريرِ السنويَّةِ للشركاتِ المتوافقةِ مع أحكامِ الشريعةِ الإسلاميَّةِ المسجَّلةِ في النُورِصَةِ الإندونيسيَّةِ ومقارنتها مع الشركاتِ التي لا تطبِّقُ أحكامَ الشريعةِ الإسلاميَّةِ. كذلكَ، قامتِ الدراسةُ بالبحثِ في العلاقةَ بين الإفصاحِ الطَّوعِيِّ وخصائصِ الشركةِ (أي حجمِ الشركةِ وربحها، ونوعِ من المراجعِ، ونوعِ الصناعةِ، وهيكلِ الملكيةِ). وقد تمَّ قياسُ الإفصاحِ الطَّوعِيِّ باستخدامِ 30 بندًا من مؤشِّرِ الكَشْفِ التي طوَّرتها الباحثةُ السيدةُ خَمْسِيَّةُ (Khomsiah) (2005). وذلكَ استنادًا إلى تحليلِ مضمونِ التقريرِ السنويِّ لعامِ 2009 للشركاتِ المسجَّلةِ الإندونيسيَّةِ من 55 شركةٍ لكلِ فئةٍ، وكشفتِ نتائجُ الدراسةِ أن هناكَ فروقًا ذاتَ دلالةٍ إحصائيَّةٍ في كميَّةِ قيمةِ الكَشْفِ الطَّوعِيِّ ونوعيتها للشركاتِ المتوافقةِ مع أحكامِ الشريعةِ الإسلاميَّةِ والتي لا تطبِّقُ أحكامَ الشريعةِ، وكشفتِ الدراسةُ أيضًا أنَّ حجمَ الشركةِ يؤثرُ في نتائجِ الانحدارِ تأثيرًا كبيرًا على كميَّةِ الكَشْفِ الطَّوعِيِّ في حينِ تتأثَّرُ نوعيَّةُ الكَشْفِ الطَّوعِيِّ حَسَبَ حجمِ الشركةِ ونوعِ صناعتها.

APPROVAL PAGE

I certify that I have supervised and read this study and that in my opinion, it conforms to acceptable standards of scholarly presentation and is fully adequate, in scope and quality, as a dissertation for the degree of Master of Science in Accounting.

.....
Hairul Azlan Annuar
Supervisor

I certify that I have read this study that in my opinion, it conforms to acceptable standards of scholarly presentation and is fully adequate, in scope and quality, as a dissertation for the degree of Master of Science (Accounting).

.....
Hafiz-Majdi Ab. Rashid
Examiner

This dissertation was submitted to the Department of Accounting and is accepted as a fulfilment of the requirement for the degree of Master of Science in Accounting.

.....
Hafiz-Majdi Ab. Rashid
Head, Department of Accounting

This dissertation was submitted to the Kulliyah of Economics and Management Sciences and is accepted as a fulfilment of the requirement for the degree of Master of Science in Accounting.

.....
Khaliq Ahmad
Dean, Kulliyah of Economics and
Management Sciences

DECLARATION

I hereby declare that this thesis is the result of my own investigations except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for any other degrees at IIUM or other institutions.

Peni Nugraheni

Signature:

Date:

INTERNATIONAL ISLAMIC UNIVERSITY MALAYSIA

**DECLARATION OF COPYRIGHT AND AFFIRMATION
OF FAIR USE OF UNPUBLISHED RESEARCH**

Copyright © 2012 by Peni Nugraheni. All rights reserved.

**VOLUNTARY DISCLOSURE AND COMPANY CHARACTERISTICS OF
INDONESIAN LISTED COMPANIES: COMPARISON OF SHARIAH AND
NON-SHARIAH COMPLIANT COMPANIES**

No part of this unpublished research may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording or otherwise without prior written permission of the copyright holder except as provided below.

1. Any material contained in or derived from this unpublished research may only be used by others in their writing with due acknowledgement.
2. IIUM or its library will have the right to make and transmit copies (print or electronic) for institutional and academic purposes.
3. The IIUM library will have the right to make, store in a retrieval system and supply copies of this unpublished research if requested by other universities and research libraries.

Affirmed by Peni Nugraheni

.....
Signature

.....
Date

Dedicated

To

My beloved parents, my family and the Muslim Ummah

ACKNOWLEDGEMENTS

In the name of Allah, the Most Compassionate, the Most Merciful. Praise to Allah, the Lord of Universe and His Messenger, Muhammad PBUH.

Firstly, I am very grateful to Allah, the Most Merciful for giving me the strength, health, and courage in facing challenges in my life in achieving the dream of my beloved family and parents. Besides, I am also grateful to Allah for giving me easiness in every aspect of my life. *Alhamdulillah*.

Second, the highest gratitude to my supervisor, Dr. Hairul Azlan Annuar, for his patience and precious guidance in supervising me throughout the study period. It is a great honor and pleasure to be under his supervision.

My special appreciation is dedicated to all lecturers in Department of Accounting, Kulliyah of Economics and Management Sciences. Especially to Prof. Dr. Abdul Rahim Abdul Rahman, Assoc. Prof. Dr. Hafiz Majdi Ab. Rashid, and Dr Fatimah Abdul Hamid, for their advices and encouragement throughout my study.

Finally, I would like to express my sincere gratitude to my beloved family: My husband Rifqi Muhammad and my daughters (Rasyida Hanum Nabila and Nadhifah Arrania Yumna); my parents (Hartono and Supartini); my father and mother in-laws (Abu Ubaidah and Sri Lestari). Their encouragement, spirit and love had motivated me to be strong and never give up in facing all challenges ahead.

TABLE OF CONTENTS

Abstract	ii
Abstract in Arabic	iii
Approval Page.....	iv
Declaration Page	v
Copyright Page.....	vi
Dedication Page	vii
Acknowledgements.....	viii
List of Tables	xii
List of Figures	xiv
List of Abbreviations	xv

CHAPTER ONE: INTRODUCTION	1
1.1 Introduction.....	1
1.2 Background	1
1.3 Motivation of the Study	3
1.4 Research Objectives	5
1.5 Contribution of the Study	7
1.6 The Organization of the Dissertation.....	8
CHAPTER TWO: LITERATURE REVIEW.....	10
2.1 Introduction	10
2.2 Accountability Theory	10
2.2.1 Accountability in Islamic Perspective.....	13
2.3 Voluntary Disclosure	16
2.3.1 Voluntary Disclosure and Islamic Perspective	18
2.3.2 Voluntary Disclosure in Indonesia.....	19
2.4 Shariah Compliant Company	23
2.4.1 Shariah based Capital Market	23
2.4.2 Shariah Compliant Company	24
2.5 Voluntary Disclosure and Shariah Compliant Company	27
2.6 Hypotheses Development.....	30
2.6.1 Voluntary Disclosure and Shariah Compliant Company	30
2.6.2 Voluntary Disclosure and Company Characteristics	31
2.6.2.1 Company Size	32
2.6.2.2 Profitability	33
2.6.2.3 Type of Audit Firm	34
2.6.2.4 Type of Industry	35
2.6.2.5 Ownership Structure	36
2.6.3 Test for Equality of Regression Parameter	38
2.7 Conclusion	39

CHAPTER THREE: RESEARCH METHODOLOGY	40
3.1 Introduction	40
3.2 Research Question	40
3.3 Research Design	41
3.3.1 Data Collection.....	42
3.3.2 Description Variables	43
3.3.2.1 Dependent Variables: Voluntary Disclosure.....	43
3.3.2.2 Independent Variables	46
3.3.3 Measurement of Voluntary Disclosure Index	46
3.3.4 Reliability of Data	48
3.3.5 Data Analysis	49
3.3.5.1 Descriptive Statistics	49
3.3.5.2 Statistical Test to Compare Group	49
3.3.5.3 Regression Method	50
3.3.5.4 Chow Test	51
3.4 Conclusion.....	54
CHAPTER FOUR: ANALYSIS, RESULT AND DISCUSSION FINDING. 55	55
4.1 Introduction	55
4.2 Sample Selection	55
4.3 Reliability of Data.....	56
4.4 Descriptive Statistics	56
4.4.1 Voluntary Disclosure Practices	57
4.4.2 Independent and Dependent Variables	65
4.5 Research Finding	67
4.5.1 Hypothesis 1a and 1b	67
4.5.2 Regression Statistical Test	69
4.5.2.1 Regression Assumption	70
4.5.2.1.1 Multicollinearity Assumption	70
4.5.2.1.2 Linearity Assumption	71
4.5.2.1.3 Normality Assumption	72
4.5.2.1.4 Homocedasticity Assumption	73
4.5.2.2 Discussion of the Regression Result	75
4.5.2.3 Evaluation each of the Independent Variables	76
4.5.2.3.1 Company Size	78
4.5.2.3.2 Profitability	79
4.5.2.3.3 Type of Audit Firm	80
4.5.2.3.4 Type of Industry	81
4.5.2.3.5 Ownership Stucture.....	82
4.5.2.4 Chow Test	83
4.6 Conclusion	86
CHAPTER FIVE: CONCLUSION, IMPLICATION, LIMITATION AND SUGGESTION FOR FUTURE RESEARCH	88
5.1 Introduction	88
5.2 Conclusion and Discussion of the Finding	88

5.3 Research Contribution and Implication	93
5.4 Limitation of the study	94
5.5 Suggestion for Future Research	95
5.6 Chapter Summary	96
BIBLIOGRAPHY	97
APPENDICES	104
APPENDIX I List of Companies.....	
APPENDIX II Descriptive Statistics of Dichotomous Variables	

LIST OF TABLES

<u>Table No.</u>		<u>Page No.</u>
2.1	Summary of Previous Research of Voluntary Disclosure and <i>Shariah</i> Compliant Company	29
3.1	Items in Disclosure Index by Khomsiah (2005)	45
3.2	Variables Measurement	46
3.3	Summary of Research Hypotheses	53
4.1	The Election of Sample Research	56
4.2	Descriptive Statistics of VD Quantity	57
4.3	Descriptive Statistics of VD Quality	58
4.4	Frequency of Voluntary Disclosure Practices for Indonesian Listed Company	59
4.5	Quantity of Voluntary Disclosure	61
4.6	Quality of Voluntary Disclosure	63
4.7	Descriptive Statistics of the Continuous Variables	65
4.8	Descriptive Statistics of Type of Audit Firm Variable	66
4.9	Descriptive Statistics of Type of Industry	67
4.10	Descriptive Statistics of Ownership Structure	67
4.11	One Sample K-S Test for Voluntary Disclosure	68
4.12	Statistics for VD Quantity	69
4.13	Statistics for VD Quality	69
4.14	Multicollinearity Test for <i>Shariah</i> Company	71
4.15	Multicollinearity Test for Non- <i>Shariah</i> Company	71

4.16	Test K-S of residual data of <i>Shariah</i> company	73
4.17	Test K-S of residual data of <i>non-Shariah</i> company	73
4.18	Park Test for Homocedasticity Test – Shariah Company	74
4.19	Park Test for Homocedasticity Test – Non-Shariah Company	75
4.20	Result of Model Summary and ANOVA	76
4.21	Result of Regression – Shariah Company	77
4.22	Result of Regression – Non-Shariah Company	78
4.23	Summary of Hypotheses Testing	85

LIST OF FIGURES

<u>Figure No.</u>		<u>Page No.</u>
4.1	Scatterplot: Dependent Variables:VD total – <i>Shariah</i> Company	72
4.2	Scatterplot: Dependent Variables:VD total – non- <i>Shariah</i> Company	72

LIST OF ABBREVIATIONS

AEI	Asosiasi Emiten Indonesia (Indonesia Public Listed Company Association)
ASEAN	Association of Southeast Asian Nation
BAPEPAM-LK	Badan Pengawas Pasar Modal dan Lembaga Keuangan (Capital Market Supervisory Agency and Financial Institution)
BOC	Board of Commissioner
BOD	Board of Director
CEO	Chief Executive Officers
CSD	Corporate Social Disclosure
CSR	Corporate Social Responsibility
DES	Daftar Efek <i>Shariah</i> (<i>Shariah</i> Securities List)
DSN-MUI	Dewan <i>Shariah</i> Nasional-Majelis Ulama Indonesia (National <i>Shariah</i> Board-Indonesian Council of Ulama)
e.g.	(<i>exempligrantia</i>): for example
et al.	(<i>et alia</i>): and others
EVD	Extent of Voluntary Disclosure
i.e.	(<i>id est</i>): that is
IAI	Ikatan Akuntan Indonesia (Indonesian Institute of Accountants)
IDX	Indonesian Stock Exchange
ISR	Islamic Social Reporting
JSX	Jakarta Stock Exchange
NED	Non-Executive Director
No.	Number
OECD	Organization for Economic Cooperation and Development
R&D	Research and Development
ROE	Return on Equity
ShAC	<i>Shariah</i> Approved Company
SPSS	Statistical Package for Social Sciences
VD	Voluntary Disclosure

CHAPTER ONE

INTRODUCTION

1.1 INTRODUCTION

This research attempts to investigate the extent of voluntary disclosure in the annual reports of *Shariah* compliant companies listed in Indonesian Stock Exchange and compare it with non-*Shariah* compliant companies. Some company characteristics will also be examined in order to know their relation with voluntary disclosure. The second section of this chapter provides a brief background of this research and it is continued by motivation of the study and the research objectives in the third and the fourth section. The fifth section presents contribution on this study and finally the structures of this dissertation will be presented in section six.

1.2 BACKGROUND

Recently, the growth of *Shariah* business organizations is not only dominated by Islamic banking but also by public companies that begin to operate based on *Shariah* compliance. Indonesia, as a country that has majority Muslim population, gives response on this development by establishing *Shariah*-Based Capital Market on Indonesian Capital Market (IDX) in 2003 to help facilitating the trading of public companies according to *Shariah* business code. As a developing country that has large Muslim population, Indonesia is the prospective financial markets (Schmith, 2007), including for *Shariah*-based industries. The opinion is supported by Pricewaterhouse Coopers (2009, p.5) in its articles that said, “ Perhaps the single most important factor

behind the powerful growth of the *Shariah*-compliant funds industries lies in the simple fact that the Muslims represent about a quarter of the world's population”.

As listed companies, of course *Shariah* compliant companies must comply with the regulation issued by capital market, including the information that should be published in the annual report as part of their responsibility toward their stakeholders. However, Muslim stakeholders may have a higher demand on the institutions that have the label as *Shariah* compliant companies to further demonstrate their concern to society and the environment than to non-*Shariah* compliant companies. Society then expects similar thing about the disclosure practice of *Shariah* compliant company (Anuar et al., 2009). They may be aware of the social responsibility of the company in terms of its *Shariah* compliant status and therefore, demand the company to disclose more information (Othman et al., 2009).

Disclosure is one of the key areas of corporate governance principles. Based on Organization for Economic Cooperation and Development (OECD, 1999), disclosure and transparency means that the corporations should disclose all information regarding them such as financial situation, performance and governance of the corporation. The common tool to disclose the information is annual report (Smith et al., 2005). However, the regulations prescribe only minimum disclosure requirements. Disclosures beyond this minimum level are voluntary (Cooke, 1992). Hence, this study attempts to find out the practice of voluntary disclosure of the *Shariah* compliant companies, whether they differ from those of the non-*Shariah* compliant companies and to see the influence of companies' characteristics to the level of voluntary disclosure of *Shariah* and non-*Shariah* compliant companies in Indonesia.

1.3 MOTIVATION OF THE STUDY

The researcher is interested to study voluntary disclosure of *Shariah* compliant companies in Indonesia because of several reasons. First, the growth of business organizations based on *Shariah* compliance shows good progress. There were only 164 *Shariah* stocks in November 2007 when the list was introduced, but by May 2010, there were 194 *Shariah* compliant companies or 48% out of 404 companies listed in Indonesian Stock Exchange (IDX). Having a majority of Muslim population, the cash flow from other Muslim countries that are ready to be invested in *Shariah* financial instrument and many companies that offer *Shariah* capital market products indicate that Indonesia has a great potential to develop *Shariah* based capital market which may become a powerful pillar of Indonesian capital market industry (Bapepam 2004). Nevertheless, the study about these companies, in term of disclosure, is still inadequate. Most Indonesian papers discuss only about voluntary disclosure in listed companies generally, not specifically in *Shariah* compliant companies (Khomsiah, 2005; Nurhayati et al., 2006; Marwata, 2006; Gunawan, 2007; Achmad, 2007; Cahaya et al., 2007; Rahman and Widyasari, 2008).

Second, the growth of *Shariah* compliant companies provides good opportunity for shareholders, especially religious shareholders to engage in investment activities without being fear of violating *Shariah* principles. According to Karim (1999), there are three categories of shareholders based on their composition. The first is the shareholders who own enough shares, which enable them to control the companies' management. The second is the shareholders who have a strong commitment to Islam and therefore invest their resources in Islamic institutions. This second type always requires information explaining that company's activities are in accordance with *Shariah*. The third is the shareholders who invest in the shares of

Islamic institutions for economic reasons, without regarding the religious aspects of the institutions. For the Muslim, besides from the financial objective, other information regarding the compliance of the organization in applying *Shari`ah* rules is important (Harahap, 2003). Therefore, the businesses that have been stated as *Shariah* compliant companies are expected to perform more transparently in disclosing their information.

Third, corporate voluntary disclosure has been the focus of an increasing amount of attention in recent years. Many studies measure voluntary disclosure practices and relate it with several factors. The examples of those factors are corporate governance characteristics such as board composition, audit committee and CEO duality (Gul and Leung, 2004; Haniffa and Cooke, 2005; Chen, 2006; Haat et al., 2008), ownership structure (Achmad, 2007; Hutton, 2007), and company's characteristics such as size of company, profitability, and type of industry (Oussama and Fatima, 2010; Gunawan, 2007; Anuar et al, 2009; Haniffa and Cooke, 2000, 2005; M. Hossein et al, 1995).

Several researches tried to compare the level of voluntary disclosure of companies between countries (Smith et al, 2005; Craig and Diga, 1998; Williams, 1998; Buhr and Freedman, 2001) or between *Shariah* and non-*Shariah* compliant companies (Shahul Hameed et al., 2006; Anuar et al., 2009; Oussama and Fatimah, 2010). Special for comparison between *Shariah* and non-*Shariah* compliant companies, most of the researches took samples from Malaysian listed companies, a country with Muslim majority where its *Shariah* capital market is growing rapidly. To fill this gap, this study will examine the voluntary disclosure of *Shariah* compliant companies in Indonesia and compare it to non-*Shariah* compliant companies.

Fourth, the empirical studies on voluntary corporate disclosure in different countries around the world use different index to measure voluntary disclosure

practices of various country's listed companies. Many studies in voluntary disclosure in Indonesia adopted disclosure items from foreign studies (i.e. Gunawan, 2007; Nurhayati et al., 2006). One of the reasons is too many disclosure items involved in Indonesian regulation make it ineffective from academic and practical view (Khomsiah, 2005). Khomsiah (2005) then tried to construct the voluntary disclosure items based on Indonesian regulations in order to make suitable with Indonesian environment. Therefore, this study will adopt disclosure index constructed by Khomsiah (2005) rather than adopting items from foreign studies.

1.4 RESEARCH OBJECTIVES

This study discusses voluntary disclosure as major issues because of several reasons. The first is *Shariah* compliant companies have been evaluated tightly to ensure their activities to comply with *Shariah* rule. The consequence of this is those companies that automatically implement dual-functions in both economic and social simultaneously, including in their disclosure and transparency, should be better than conventional companies. According to the Islamic perspective, the disclosure of accounting means disclosing information that would aid economic as well as religious decision-making (Haniffa et al., 2002). The implication is that *Shariah* compliant companies should disclose all information necessary to advise *ummah* (the Muslim society) about their operation (Maali et al., 2003). Therefore, this study attempt to find out whether there is difference between *Shariah* compliant companies and non-*Shariah* compliant companies in term of voluntary disclosure.

The second objective of this study is to determine the extent and quality of voluntary disclosure practices by *Shariah* and non-*Shariah* compliant companies in their annual report. The rapid growth of Islamic oriented investments has placed an

increasing urgency to understand better their profile. It is clear that Islamic business organization has ethical and religious activities and this concern enhanced the belief that Islamic institutions need to improve the disclosure of their operation and added to the view that Islamic investments, in general, do not enjoy the same level of financial transparency as their traditional counterparts (Hakim and Rashidian, 1999). Moreover, individual, on behalf of the company, beside has accountability to God, should also be accountable to the society also (Sulaiman, 2005). This accountability can be in the form of information about company's activity through various media such as annual report, bulletin, press conference, or company's website. Therefore, how much the information disclosed and how is the information measured based on the perceived order of importance will be investigated in this study.

Previous studies advance several determinants to explain why firms are providing more information than the mandatory one. For example, the literature suggests that profitability as a determinant of voluntary disclosure (Haniffa and Cooke, 2000; Gul and Leung, 2004) or company size influenced corporate social disclosure (see Othman et al., 2009, Gunawan, 2007, Deepors, 2000). Further, according to Gunawan (2007), three major purposes of Indonesian companies to disclose their corporate social disclosure are meeting stakeholders demand, creating positive image and showing that companies are accountable or responsible in reporting. Therefore, it is important to examine the association between company characteristics and voluntary disclosure of companies in *Shariah* and non-*Shariah* compliant companies, which represents this third objective. Finally, the linear regression parameters in the two groups of companies above will be examined to find out whether it is equal or not.

In summary, the objectives of this study are to:

1. Find out whether there is a difference between *Shariah* compliant companies and non-*Shariah* compliant companies in term of voluntary disclosure.
2. Determine the extent and quality of voluntary disclosure practices by *Shariah* and non-*Shariah* compliant companies in their annual report.
3. Examine the association between company's characteristics (firm size, profitability, type of auditors, type of industries, and ownership structure) and voluntary disclosure in *Shariah* and non-*Shariah* compliant companies in Indonesia.
4. Find out whether there is equality on regression parameter in the influence of company' characteristics toward the level of voluntary disclosure in *Shariah* and non-*Shariah* compliant companies.

1.5 CONTRIBUTIONS OF STUDY

The researcher expects the study on voluntary disclosure in both *Shariah* and non-*Shariah* compliant companies will give contribution to some pertinent areas such as management, shareholders, regulators, and other stakeholders. For management, more voluntary disclosure increases the transparency of the company and it could promote management accountability, especially for attracting the investment from shareholders who prioritized company's activities that are in accordance with *Shariah*. For shareholders, it is important to improve their confidence in making decisions based on information disclosure, especially for religious shareholders. For regulator, understanding the factors influencing the extent of voluntary disclosure in Indonesia can be considered in making regulations to promote transparency of information to

stakeholders as well as to strengthen the role of Islamic capital market and capital market overall. The stakeholders' especially Muslim stakeholders, expect company's operations to be carried out in compliance with the principles of *Shariah*. The research on disclosure on *Shariah* compliant companies is expected to strengthen positive public valuation that the companies are able to prove their accountability through *Shariah* compliant activities as well as to protect their interest.

Further, this study measures voluntary disclosure using quantity and quality measurement, which may differ from previous Indonesian studies. Therefore, this study is expected to contribute more to the knowledge and understanding on the nature of Indonesian company's voluntary disclosure. Finally, this study will give contribution to the literature on disclosure in the Indonesian context, specially the level of disclosure of *Shariah* compliant companies in a Muslim country that is trying to develop its *Shariah* based capital market continuously.

1.6. THE ORGANIZATION OF THE DISSERTATION

The structure of the dissertation will be as follows:

Chapter 1: Introduction will cover the background, motivation of the study, research objective, contributions of the study, and organization of the dissertation.

Chapter 2: Literature review will present a review of prior literature related to accountability theory, voluntary disclosure, and *Shariah* compliant companies. This chapter also discusses the hypothesis development.

Chapter 3: Research methodology covers research questions, research design involving samples population, data collection method, variables description, measurement of voluntary disclosure index, and statistical tests.

Chapter 4: Research Findings will describe the results of statistical test and discuss the findings based on statistical test and theories discussed in previous chapter.

Chapter 5: Conclusion, Limitation, and Suggestion for Future Research. This chapter will summarize the results and answer the research questions, discuss the contribution and implications of the findings, provide the limitations of this study, and suggestions for future research.