

International Conference on Economics and Business Research 2013 (ICEBR 2013)

## Probing Corporate Ethical Identity of *Shari'ah* Compliant Companies

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### Abstract

The need for Islamic financial system in Malaysia arose from the fact that more than 51 per cent of the population is made up of Muslims. From Islamic perspectives, ethics oversees all aspects of life. Islam places the highest importance on ethical values and principles in all aspects of human life. Ethical norms and moral codes evident from the verses of the *Qur'an* and *Sunnah* are numerous and comprehensive (Khan, 2009). Since the awareness and demand for investing in accordance to Islamic principle is increasing, the number of *Shari'ah* Compliant companies in Malaysia has increased tremendously over the years. *Shari'ah* Compliant companies are seen to incorporate Islamic ethical identity, thus the organization should depict the true Islamic Values of corporate strategy, structure, communication and culture embracing both tangible and intangible elements that make them distinctive. Thus this study is trying to assess the extent of Corporate Ethical Identity (CEI) that are being embraced by these *Shari'ah* compliant companies via company's annual report. The CEI checklist was developed and sent to experts (auditors and academia) to verify all the selected items. Initially, the checklist consists of 88 items, and after taking into consideration the experts' opinions (academia and practitioners), the final checklist with 83 items has been established. Content analysis was used in order to construct the CEI Index. The unit of analysis for this study is the annual report of 153 *Shari'ah* Compliant public listed companies on Main Board companies of Bursa Malaysia for the year ended 2009. The findings of the study show that the level of CEI of selected companies is lower with the average of below 25 per cent. Furthermore, this study adds to prior related studies on corporate identity that focused mainly on Islamic perspectives.

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Selection and peer-review under responsibility of ICEBR 2013

**Keywords :** Corporate Ethical Identity; Islamic Ethics; Shari'ah Compliant Companies; Content Analysis

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## 1. Introduction

Malaysia's aspiration to persist as the leader of the Islamic Capital Market entails its *Shari'ah* compliant companies to embrace Islamic Business Ethics and values in an attempt to win the trust and confidence of its Muslim investors and stakeholders, by portraying their sincerity and earnestness in complying with Islamic values. Through promotion of extensive transparency and accountability will enable Malaysia to set up a comprehensive accounting, tax and regulatory framework to reinforce further its objectives as the champion of the Islamic Capital Market. Furthermore, in the midst of rising corporate failures and fraud, it is hoped that by incorporating Islamic Business Ethics may improve the problems of ethics and values and corporate culture. Corporate identity as defined in the Marketing field as the distinct attributes of the corporation (Balmer, 1998). Berrone *et al.*, 2007, stated that a corporate ethical identity has informational worth and enhances shareholder value by having positive impact on stakeholder satisfaction. Rahman, 1994, stated the positive Islamic business ethics to be practiced are *'Iqtisad* (moderation), *adl* (justice), *ihsan* (compassion), *amanah* (honesty), *infaq* (spending to meet social obligations), *sabr* (patience) and *istislah* (public interest) and the negative values to be avoided are *zulm* (tyranny), *bukhl* (miserliness), *hirs* (greed), *iktinaz* (hoarding of wealth) and *israf* (extravagance). In Malaysia the numbers of *Shari'ah* compliant securities had increased tremendously year by year. About more than 80 per cent of the securities listed on Bursa Malaysia are *Shari'ah*-compliant (Bursa Malaysia, 2011). The existence of *Shari'ah* compliant securities had made Malaysia as one of the best Islamic Capital Market in Asia (Bursa Malaysia, 2011). Besides that *Shari'ah* compliant securities are more ethical and transparent over product profitability activities because they are bound by Islamic *Shari'ah* principles. As such, *Shari'ah* compliant companies are responsible to provide true and fair view information to the investors particularly on the companies' investments activities and transactions. The combination of Islamic values in business transaction will hopefully develop a long run overall positive companies value and performance. Since the *Shari'ah* compliant companies are seen to assimilate the Islamic Values identity, thus this study is trying to assess the extent of the Corporate Ethical Identity (CEI) that are being embraced by these *Shari'ah* compliant companies.

## 2. Literature Review

Corporate identity as described by Gray and Balmer, 2001, is the reality and uniqueness of the organization, while Balmer, 1998, defined corporate entity as the uniqueness of the distinct attributes of the corporation. Haniffa and Hudaib, 2007, defined Islamic identity as an uniqueness features such as underlying philosophy and values, provision of interest-free products and services, restriction to Islamically acceptable deals, focus on developmental social goals, subjection to additional reviews by *Shari'ah* Supervisory Board (SSB). This study extended the work done by Haniffa and Hudaib, 2007, to investigate the ideal corporate ethical identity of *Shari'ah* Compliant companies based on *Shari'ah* principles and concept. The definition of Islamic Ethical Identity is based on Islamic underlying philosophy and values of the companies, interest-free and Islamically acceptable activities, developmental and social goals and the environment themes ( Haniffa and Hudaib, 2007; Roshima *et al.*, 2009). While, Balmer and Soenen, 1999, identified four distinctive features of corporate identity as actual, communicated, ideal and desired. Actual identity include business strategy, values and philosophy, corporate culture and structure while communicated identity is link to image and reputation.

Gray and Balmer, 2001, defined corporations as "whose social goals are as important as making profit is described as having ethical identity". As stated by Berrone *et al.*, 2005, a corporate ethical identity has informational worth and enhances shareholder value by having positive impact on stakeholder satisfaction. Rahman, 1994, in Lewis, 2001, explains that Islamic business ethics which have a positive values and be practiced to be *'Iqtisad* (moderation), *adl* (justice), *ihsan* (compassion), *amanah* (honesty), *infaq* (spending to meet social obligations), *sabr* (patience) and *istislah* (public interest). Those that have negative values and to

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