

Halal Related Information: Corporate Social Responsibility Disclosures by Malaysian Food Industries

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ABSTRACT

In addressing the lack of researches on disclosure of halal related information as part of Corporate Social Responsibility (CSR) disclosure, this study aims to narrow the gap by reviewing companies' annual reports to investigate the current state of Malaysian companies' involvement in providing information with regards to this halal issue. The research is exploratory and descriptive in nature where content analysis is deployed to determine the type and extensiveness of the information disclosed. Findings indicate that Malaysian companies do provide halal related information in their annual reports but the quantity is considered to be relatively very low. However, more than 60% of them addressed the importance of halal principle in their operations. Most of the information disclosed was to boost consumers' confidence on the companies' products and operations.

KEYWORDS: CSR, Malaysia, Halal, Annual Reports, Content Analysis.

INTRODUCTION

In 2011, the food manufacturing industry in Malaysia comprise of almost 3,200 manufacturers that contributed nearly 10% of the country manufacturing output [1]. Despite that, Malaysia is still need to import food products from other countries such as United States, Australia and New Zealand. These imports have been constantly growing in average of 23% for over the last few years. Undeniable, food are necessities for humankind. For Malaysia where majority of its population are Muslims, having halal food and products is not an option but it is an obligatory to being a Muslim. Consequently, halal business in Malaysia has grown significantly due to the increasing demand on the halal products and services from local as well as the international markets. The halal certification and regulation were then developed to help Muslim consumers to recognize any product that had satisfied the Islamic principles in the production processes as halal [2]. Unfortunately, there are businesses that unethically and irresponsibly forging the halal certification and logo set up by Malaysian Islamic Development Department (JAKIM) with the intention to dominate Muslim market and generate more profit.

However, maximising profit is no longer the sole objective of an enterprise when other entities' or individuals' wellbeing are at stake along the process. Companies are judged not only based on their financial success, but also non-financial areas such as halal consciousness [3]. Growing demand from stakeholders urges companies to extend their responsibility further, and fulfilling the demand from the stakeholders can be crucial to the survival of a company. In accordance to [4], companies need the stakeholders' support to be in existence for the foreseeable future since stakeholders have the power on the resources of the companies.

Hence, food manufacturers should then show their concern towards this halal issue. They do not just focusing on profit maximisation alone as paying attention to the welfare of other stakeholders might be crucial to the companies' survival [5]. Obtaining the halal certificate which require companies to follow the rules and regulations set by the Malaysian Islamic Development Department (JAKIM) would indicate that companies are not taking this halal matters lightly. Therefore, showing their awareness on the importance of halal to Muslim consumers would demonstrate that their companies are socially responsible and accountable for their actions.

There are numerous researches done on the corporate social responsibility (CSR) disclosures to examine the extent of disclosures, as well as the quality of CSR disclosures in the annual reports which focusing on community involvement and environment. However, researches on disclosures of halal information by companies as part of CSR disclosures are still lacking. In making sure companies are accountable for their actions and behaviours, companies are expected to give account of its action to other parties [6]. Whereby, they will need to be more transparent in its activities and operations. The shareholders as well as other stakeholders like consumers, creditors, and employees have the right to know not only about halal certified products but also the whole processes beginning from 'farm to table'. This concept is known as Halalan Toyyiban which incorporated of Halal and Toyyiban. Disclosures on these matters can serve as an assurance to the shareholders and other stakeholders to ensure they have chosen products which are truly fulfil the standards set by JAKIM.

Since there was very limited information on Malaysian companies' involvement in disclosing the information of halal practices and processes, this study set forth to investigate the current state of Malaysian companies' involvement in providing

information with regards to this halal issue. This investigation focused on identifying what kind of information was reported and the extensiveness of such information to enhance further research in this area.

LITERATURE REVIEW

The Halal Concept

Halal originates from an Arabic phrase that means allowed or permitted by Islamic law [7]. The Trade Description Order 1975 has stated that foods which have been defined as halal foods can be considered as follows:

- a. It does not consist any part of or item from animals that are prohibited to Muslims by Syariah Law such as pork, exotic animals and etc., or animals that have not been slaughtered according to Syariah Law;
- b. It does not contain any ingredient that is considered impure in Syariah Law;
- c. Is not prepared, processed or manufactured using equipment or utensils that are not free from impurities as defined by Syariah Law;
- d. In the preparation, processing or storage of the food, it does not processed or stored near any kind of food that does not meet the requirement of para (a), (b) or (c) or any substances that are considered impure by Syariah Law.

Similarly, Halal Industry Development Corporation (HDC) highlighted it in defining Halalan Toyyiban that underlined the importance of safety foods in determining the toyyiban which means wholesome. This includes the safety of ingredients used in the production of halal foods which is free from any harm and non-halal ingredients, the cleanliness of equipment and utensil used in the production processes which means it must not be shared with the production of non-halal foods.

Halal Industry in Malaysia

Global Halal industry has a great potential to grow in the near future since the size of Muslim population is growing. Muslim population worldwide in 2010 is 1.8 billion, and it is forecasted to grow at twice the rate by 2030 which representing 27% of global population [8]. In Malaysia, 6% of Malaysian companies export their products to Organisation of Islamic Cooperation (OIC) which worth USD1.3 billion of halal products in 2010 and grew to 9% in 2011 which worth USD7.3 billion.

Malaysian companies exported over 70% food and beverage products as well as ingredients to China worth USD1376 million in 2011, followed by United States (USD1101 million), Singapore (USD979 million), Netherland (USD760 million), and Japan (USD730 million). This had shown that food industries have made major contribution to Malaysian Economy. As a result, food industries are a good medium for Malaysian companies to promote halal products globally.

Additionally, HDC further stated that Malaysian food industries has a great opportunities to expand their business globally since many ASEAN countries still have low per capita tradable food consumption which indicates that strong future demand on halal food. Besides, halal certified companies also can market their halal products to six members of GCC in the Middle-East. This is because of the huge population about 40 million in 2011 and expected to increase 40% by year 2013. Furthermore, halal foods had received wider acceptance from non-Muslim countries as well. This evidence shows that halal products can now move forward to the new global market in European countries to promote Halalan Toyyiban products.

Corporate Social Responsibility (CSR) Disclosures

CSR is defined as “companies’ consideration and response to the issues that goes beyond the legal requirements, technical and economic of the firm” [9]. While [10] states CSR as “social responsibility of business encompasses the economic, legal, ethical and discretionary expectations that society has of organizations at a given point of time”. Furthermore, Sustainable Development defines CSR as “the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as the local community and society at large” [11].

Along with financial information businesses are also responsible to ‘furnish’ other information to their shareholders and the rightful stakeholders essentially for decision making purposes. An entity will need to be more transparent in its activities and operations to be accountable. Accountability theory discusses reporting practice in terms of rights and obligations of information providers and users of that information [12] beyond the traditional accounting role of providing information for decision making and traditional stewardship function [13]. Therefore, the stakeholders, especially the Muslims stakeholders need to know how companies addressed halal issue in their operations of generating profits.

Most previous researches on CSR disclosure focused on the theme and nature of disclosure [14]. Human resource, community, product and environment were the common themes of disclosures by most companies. Surprisingly, despite their close association with consumers and income generation, product information is relatively low as compared to other themes, as shown in Table 1.

Table 1: Quantity and themes of disclosure [12]

Theme	Number of Companies	Average Sentences	Max. Sentences
Human resources	67	7.53	38
Community	37	6.45	27
Environment	22	4.4	22
Product	38	2.37	16

Product and services were provided under General Statement, Product Quality and Safety, and Research and Development [15], where the information circulates on the (1) the types of products offered, (2) safety, (3) Environmental friendliness, (4) after sales service, (5) awards received and (6) research and development. Comparatively, halal information as part of the product information are relatively unique and become a major concern only in Muslims countries such as Malaysia which explained the lack of literature in the disclosure of halal related information.

RESEARCH METHODOLOGY

To review and examine the level of halal information disclosed by the Malaysian companies for the financial year ended 2012, this study considers the annual reports of sample from public companies listed in Bursa Malaysia. Food and beverage companies were segregated from the overall consumers' products.

Content analysis method is applied to quantify the amount of halal related information disclosed and to analyse the extensiveness of such information. Content analysis which is defined as 'a research method that uses a set of procedures to make valid inferences from text' [16] is the most acceptable and widely used method in corporate social responsibility and environmental disclosure studies worldwide. A set of decision rules is agreed upon during the study to allow for systematic, replicable and standardised process of analysing the annual reports [17]. Content analysis requires examining the reports for the presence or absence of statements to various areas [18] of halal related information. Halal was used as the keyword to search for any halal related information. Scale '1' is given to indicate an existence of halal information disclosed and '0' for non-existence. Its total then provide the number of companies that provide halal related information in their annual reports.

Words, sentences or pages count were commonly used as unit of measurement for most researches on CSR disclosure. This study will use sentence count to measure the extent of halal related information disclosed in each report. Apart being consistent with most previous studies, sentence count is considered to be appropriate for this study as opposed to pages and words where an inference of the narrative statement is necessary. Furthermore, sentences are easily identified and a more natural unit of written English to count than word [19]. In [20] had suggested earlier that sentences are far more reliable than any other unit of analysis.

All disclosures in the annual report were examined including Chairman's Statement, Business Review, Statement of CSR, Financial Reviews and notes to accounts since in [21] proposes that location of information is also important. Accordingly, information included in the Chairman's Statement is more likely to be read. The report that falls within the auditor's ambit such as Director's Report and Financial Statement demonstrates the high profile of the issue and its integration with the mainstreams matters of the company. Moreover, disclosing information in a separate section indicates that the management of the companies considered the halal issue as a factor of importance to the users of the annual reports [13, 22].

RESULTS AND DISCUSSION

As at 31 December 2012, there are 132 companies listed in Bursa Malaysia under consumers' products sector. About 41 companies are eligible for further investigation where 2 companies namely Carlsberg Brewery Malaysia Berhad and Guinness Anchor Berhad were totally excluded. Even though both are categorised as food and beverage, but there are definitely non-halal for Muslims. So, this study reviewed the 2012 annual reports for these 41 public listed companies that produced food products to identify provision of any halal related information. As '1' was given to the presence of any information which related to halal, this study identified that only 15 companies (37%) provided such information in their annual reports.

Most of the companies involved with a cluster of food processing activities and producing more than one type of food products. About 5 companies are identified to involve with livestock farming and poultry products. And 1 company each involved in manufacturing of pharmaceutical and herbal products, handling purchasing and supplies of rice, paddy and other grains, sugar refining and sugar products, milling and selling wheat flour and other allied products. Others are involved with producing frozen foods, bakery, dairy and confectionary products, biscuits, soft drinks and instant beverages.

Table 2: Quantity of information disclosed

Number of sentence (s)	Number of Companies	
	Count	Percentage (%)
1	7	46.6
2	5	33.3
3	1	6.7
7	1	6.7
12	1	6.7
Total	15	100

As given in Table 2, the quantity of halal related information disclosed by the companies is considered to be relatively low. Only 1 company disclosed the halal related information in 12 sentences with almost 90% disclosed the information in 1-3 sentences only.

Almost half (46.6%) of the companies disclosed halal related information in only 1 sentence, and majority (63%) of the companies in food industries failed to disclose any. This indicated that companies viewed this halal related information to be insignificant to Muslims stakeholders as compared to other CSR disclosure.

Table 3: Section devoted to halal related information

Section Devoted to Halal Related Information	Number of Companies Disclosed in Devoted Area		Number of Sentence
	Count	Percentage (%)	
Chairman's Statement	4	21	5
Individual Section	1	5.2	12
Business Review	1*	5.2	4
Statement of CSR	4	21	5
Financial/Investment Report	3 **	16	4
Awards and Recognition	1*	5.2	1
Director's Profile	3	16	5
Principle Activities of Subsidiaries	1	5.2	2
Others	1	5.2	1
Total	19	100	39
* 1 company devoted more than one section			
** 2 companies devoted more than one section			

However, even though the halal related information could be considered to be insignificant by the companies based on the low level of disclosure, more than 60% of them addressed the importance of halal principle in their operations. This was revealed when 21% disclosed in the Chairman's Statement and another 21% included in as part of the CSR disclosure. Disclosure in Financial Report (16%), Individual Section and Business Review (5.2% each) indicated its integration with the mainstreams matters of the company.

Table 4: Content of halal related information

Content of Halal Related Information	Number of Companies Disclosed in Devoted Area		Number of Sentence
	Count	Percentage	Count
Halal Certification	4	21	4
Halal Policy	1*	5.2	3
Company commitment	2	16	7
Products information	1	5.2	2
Employees' Training and Qualification of Advisors	7**	31.4	12
Facilities	3	16	8
Financial information	1*	5.2	3
Total	19	100	39
* 1 company provided more than one type of information			
** 2 companies provided more than one type of information			

About 4 companies reported the halal certifications obtained while another 7 companies provided brief background and qualification of their halal advisory board or committee. Provision of such information would boost consumers' confidence since the accreditations were given by JAKIM or other qualified third parties. Another 2 companies mentioned their companies' commitment to abide to halal standards by following the rules and procedures set up by Syariah. However, only 1 company reported that principal activities two of its subsidiaries are "manufacturing and sales of frozen halal food products". About 3 companies mentioned that they had either investment in halal facilities or their plants are located in Halal-Hub. Meanwhile,

financial related information comprise of disclosure about Halal Hub tax incentive granted to the companies. There is only 1 company make an effort to draw Halal Policy and devoted an individual section to disclose halal related information. Its Halal Policy is stated as below:

“Company X shall always conform to the Malaysian Halal Standards MS1500:2009 in ensuring that products produced are halal, clean and safe for consumption. The integrity of the process starts from sourcing of raw materials to manufacturing, packing, storing and distributing of the products. Company X also ensures that product manufactured for the Group either made locally or imported conforms to Halal standards of the country of origin, or which is also recognized by JAKIM”.

In [22] mentioned that increase in disclosures by companies can be a part of the strategy to improve public image and gain public acceptance. This could possibly be true for Company X that had make an effort to draw Halal Policy for its company, provided halal related information in an individual section and presented information about halal in 12 sentences which is far beyond others. In fact few years prior to the year under review, Company X-Silver Bird Group Berhad, the manufacturer of High-5 bread was under public scrutiny when it was accused of using non-halal cooking oil in producing the bread as well as operating in unhygienic operating conditions. The situation was challenged further when majority (> 20%) of Silver Bird shareholding belongs to Lembaga Tabung Haji, an institution that hold Muslims trust which should also follow the Islamic principle strictly and comply to all Syariah compliance. However, further research may be necessary to empirically prove or deny above argument.

CONCLUSION AND LIMITATIONS

There are Malaysian public listed companies specifically in the food industries that disclosed halal related information in their annual reports. However, the involvement by overall companies in food industries is very few. The level of disclosure by companies that provided halal related information is relatively low as compared to other CSR disclosure such as community, environment or employees. Nonetheless, disclosure areas devoted the halal related information indicate that halal issues are seriously considered by the companies and had been integrated as part of the business operations. On the other hand, the content of disclosure focused on obtaining confidence for consumers where the companies stress on the accreditation and approval achieved from others.

Even though halal is not an issue that is taken lightly by companies, providing halal related information should be consider as equally important to enable consumers to be abreast with halal issues apprehended by the companies. Outcome of this study provided information for shareholders as well as the stakeholders to play active role to ensure the companies disclose halal related information, so they can be held accountable for their actions and decisions.

Further researches on this matter are necessary to encourage disclosure of halal related information by companies as part of their CSR disclosure as well as further analysis by numerous researchers. Moreover, researches on halal issues could add further to the existing literature. It is uniquely related to Muslims countries which could furnish non-Muslims countries if they decided to penetrate Muslims food industries.

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