

Accounting Disclosure of Social Responsibility and its Role in Enhancing the Quality of Accounting Information (An Analytical Study in a Sample of the Iraqi Industrial Companies)

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The research aims to know the role played by the accounting disclosure of the social responsibility of the industrial companies in the quality of their accounting information provided to the users in decision-making, in addition to the presentation of social expenditures spent by Iraqi companies in order to meet the requirements of customers, employees and the society. In order to achieve this objective, the researcher used the inductive approach in the theoretical and analytical methods and the analytical approach in the practical part for the purpose of testing the hypothesis of the research in a sample of the Iraqi industrial companies represented by Al-Hilal Industrial Company, Baghdad Company for soft drinks and Iraqi Company for the Manufacturing Cardboard Materials, for the fiscal years 2014-2015. After testing the hypothesis, the research objectives were achieved. The most important finding of the research is that the expenditure on social expenses in industrial companies is considered one of the most important factors influencing the acceptance of society for the products provided by these companies, in addition to the existence of a close link between the disclosure of social information for external parties and between the efficiency and quality of the accounting information used to make decisions. The most important recommendation of the research is the need for Iraqi industrial companies to increase the provision of information relating to the commitment to social responsibility towards employees, society and customers because of its clear effect on the continuity of companies in the future.

Keywords: *Accounting Disclosure, Social Responsibility, Accounting Information*

Introduction

As a result of the obvious progress of many international companies and their trend towards achieving the satisfaction of employees and society, in addition to increasing the development of companies, their use of information technology and increase in the competition among companies in providing the best services and products to society, the need has appeared to analyse the nature of social expenditure by companies towards society. That is, knowing which companies are more committed to social responsibility, and which companies provide more accounting information in their financial statements about the activities and social elements. Accordingly, this study provides an analytical study through a sample of Iraqi industrial companies for the purpose of knowing the extent to which the commitment of Iraqi companies in general are committed to the disclosure of social responsibility and extent of its effect on the quality of their accounting information. In order to achieve this, the research is divided into three main sections: the first contains the methodology of research, the second addresses the theoretical aspect of the research, the third describes the analytical technique for the data of the research sample, analyses the most important social elements expressed by the sample and how they affect the quality of the accounting information presented, and summarises the conclusions and recommendations.

1- Research Methodology

Research problem

Many companies have realised the importance of the recent developments in the business environment, which are represented by social variables. These variables are considered to be the main pillars supporting the performance of companies in general, and in Iraqi companies in particular. Despite the importance of these variables in enhancing the quality of accounting information, many of the companies do not present, sufficient information about them, as the process of disclosure of these variables is completed on an optional basis commensurate with the nature of the company's activities. Accordingly, the problem of research is represented through the following questions:

- Are social factors considered the basic pillars of Iraqi industrial companies?
- Is the process of accounting disclosure of social variables considered as optional matters of the company?

Research importance

The importance of research arises from the role played by social responsibility and knowledge experience in developing the work of Iraqi companies in general. Where increasing the company's dependence on knowledge experiences and technologies contributes to the development of its performance by keeping pace with developments in the modern business environment. Also, the companies' presentation of accounting information reflecting its commitment to social and environmental responsibility, leads to enhanced quality of accounting information and in a form consistent with the needs of users to make decisions.

Research Objectives

The research aims to achieve the following objectives:

- Provide a theoretical framework on the concept of social responsibility and its relevance to accounting information.
- Demonstrate the relationship between social responsibility and increase in the quality of accounting information in Iraqi industrial companies.
- Study the possibility of making accounting disclosure of social costs and their effect on the quality of accounting information.

Research Hypothesis

The hypothesis of the research is represented by the following main hypothesis:

Social responsibility is considered one of the key pillars that enhances the quality of accounting information.

Research Society and Sample

The research society consists of the Iraqi industrial companies which exercise their activities to achieve profits, and work in the Iraqi market for securities. The research sample was chosen of the Iraqi industrial companies after extensive study that these companies were committed to the environmental and social safety towards community, which will be analysed in the fourth section.

Research Methodology and Method

In order to achieve the objectives of the research the inductive approach was used to cover the theoretical part of research and the analytical approach to cover the practical part of it. An analysis of the company's research sample will be conducted to determine which one is committed to the disclosure of social responsibility.

Data collection method

- Theoretical part: The researcher relied on collecting data and information related to the subject of the research on a group of Arabic references, and the theses and dissertations issued by Iraqi and Arab universities.
- The practical part: The researcher relied on the practical part on the analysis of financial data in the reports of the research sample, which will be linked with the quality of the accounting information.

2- The Theoretical framework

First: Accounting Disclosure

• The concept of accounting disclosure

Accounting disclosure is considered the essence of accounting theory and the interest of scientific and professional bodies in accounting matters and disclosure has increased, especially after the emergence of business entities. This development is associated with the financial statements that are the results of the activity of these entities, that include data and information and measurement bases used by the users of this information. All these later become the basis for decision-making, for which the provision of information is considered one of the main objectives of the financial statements (Omneya H. Abdelsalam, 2007: 75-104).

The importance of disclosure has emerged because the external users often do not have the authority to oblige the economic unit to provide the necessary data to take the models of their decisions. Hence, the appropriate disclosure makes dealing in the financial market more fair. Disclosure provides equal opportunities for investors to obtain information, which in turn provides an appropriate investment climate increasing the opportunity for market growth and prosperity (Cathy, B. N, 2011: 99-110).

• **Main requirements for accounting disclosure: (David Hirshleifer 2003: 337)**

1. Identifying users of accounting information.
2. Determining the purposes for which such accounting information will be used.
3. Determining the quality of the accounting information to be disclosed.
4. Determining the methods of disclosure of accounting information.
5. Timing disclosure of accounting information.

Second: Social Responsibility:

• **The concept of social responsibility:**

Social responsibility can be defined as "the obligation of the entity to place its eyes during the process of decision-making on the effects and consequences of these decisions on the external social system in such a way as to ensure a balance between achieving the desired economic benefits and the social benefits of such decisions." (Al-Tuwaijri, 1988: 20).

It is an obligation that the business sector has to make towards the society. This obligation will maximise the positive effects of the activities of the organisations on society and reduce the negative effects of these activities to the greatest extent possible (Carroll, 1991: 42).

• **Social accounting objectives:**

First: Identifying and measuring the net social contribution of the organisation which includes not only the components of the private and internal costs and benefits of the organisation, but also the elements of external costs and benefits (social) that affect the categories of society. This role stems from the lack of traditional accounting in the field of measuring the social performance of business organisations. This objective is linked to the function of accounting measurement (Toms, 2002: 257-282).

Second: Evaluating the social performance of the organisation by determining whether the organisation's strategy and objectives are in line with social priorities on the one hand, and with the organisation's aspiration for individuals to achieve a reasonable percentage of profits on the other. The relationship between the performance of economic business organisations and social welfare represents the essential element of the objective of social accounting. This objective is also linked to the function of accounting measurement (Gray and Bebbington, 2000: 1-44).

Third: To disclose the activities carried out by the organisation which have social impacts (the impact of the organisation's decisions on the worriers' education and health and on the pollution of the environment and the consumption of resources). This objective shows the

need to provide appropriate data on the social performance of the organisation and its contribution to the achievement of social goals, and to communicate this data to the internal and external beneficiaries alike, in order to rationalise the private and public decisions related to directing social activities and determining the optimal range for them whether from the point of view of the user or from the point of view of society. This objective is linked with the accounting communication (Ball L. A. et. al., 2000: 215-241).

• **Areas of accounting for social responsibility:**

The areas of accounting for social responsibility revolve around the following points (Hanan, 2003: 467):

- 1- Ownership Area: Achieving the highest rate of return on invested capital.
- 2- Employees Area: Achieving good working conditions, incentives, fair wages, developing the employees' skills and abilities, and the achievement of industrial security for them.
- 3- Consumers Area: Provide goods with an appropriate quality and price, with the highest safety and suitability for consumption.
- 4- Environment Area: Maintaining natural resources and eliminating the negative effects which result from conducting the activities of organisations.
- 5- Society Area: Improving the well-being of members of society or as it is called, improving the quality of life, by providing goods and services that meet the unsatisfied needs of the society members, contributing to the construction of schools and hospitals.

Third: Quality of accounting information:

• **Quality accounting information concept:**

The concept of the quality of accounting information means the credibility of this information and its benefit to users. It is free of distortion and manipulation, is not misleading and it is prepared in the light of a set of standards to help achieve the objective of their use (Mahmoud and Debbash, 2016: 87).

• **The basic characteristics of accounting information include (FASB and IASB, 2010: 17-21:**

- 1- Relevance: The information presented should be relevant to the decision to be made by the user of information and thus its effect on the user's assessment of past, current and subsequent events or correction of what was previously assessed.

2- Materiality: It means that the information is useful and important if its omission and non-disclosure affect the decision of the user, because in the case of its omission it will result in incomplete information, and in the case of its distortion will result distorted information.

3- Faithful representation: This property indicates that the financial statements must express honestly on economic phenomena. This matter is necessary "to make the information useful for the decision". For the faithful representation of these phenomena, the accounting information should be integrated, neutral and free of material errors.

• Models of measuring the quality of accounting information

There are many accounting models that measure the quality of accounting information through multiple aspects. It should be indicated that profit information is considered one of the most important types of accounting information that should be taken into consideration by users. The quality of profits in a company is reflected in general on the quality of its information and it is free from the creative accounting practices. Thus, the measurement of the quality of the accounting profits can be considered to be suitable for measuring the quality of information, which is the most prominent of the model of discretionary accruals (Haely), that measures the total, usual and unusual accruals as shown in the following equation (Al-Rubaie, 1981: 2014):

As:

$$TAt = \frac{\Delta CA_t - \Delta CL_t - \Delta Casht + \Delta STD_t + Dept}{At - 1}$$

Since:

tAt = Total accruals.

ΔCA_t = Change in current assets.

ΔCL_t = Change in current liabilities.

Cash = Change in cash and cash equivalents.

ΔSTD = Change in accounts payable within current liabilities.

Dept=Depreciation.

At-1 = Total assets.

Through the above equation it is clear that it reflects the total accruals, resulting from the sum of the usual and unusual accruals, and the unusual accruals can be extracted through the following equation:

$$NDA = TAt \div T$$

That is, by dividing the total accruals over the number of years that represent the scope of the research (T). The usual accruals are to be extracted through the difference between usual and unusual accruals. If the unusual is high, this means that the realised profits do not reflect the reality due to the existence of earnings management practices by the company in its achievement. Whereas if it is low, it means the existence of quality of the achieved accounting profits which can be used to extract the quality of accounting information.

3- The Practical part

Description of the research sample

The desired objectives of the research is related to the role of voluntary disclosure of social responsibility in the Iraqi industrial companies in the development of accounting information provided to decision makers. The analytical approach was used to know the social and knowledge costs, which are disclosed in a sample of Iraqi industrial companies, (Al-Hilal Industrial Company, Iraqi Company for Manufacturing Cardboard Materials, Baghdad Company for Soft Drinks) for the financial years 2014-2015. For the purpose of knowing the nature of all the social elements in the study sample companies, these elements were divided according to the social costs model as follows:

1 - Elements of the social costs disclosed in the research sample companies

Table (1) Elements of the social costs that are preferred to be disclosed in industrial companies

No.	Social costs towards employees (100%)	Social costs towards customers (100%)	Social costs towards the environment and society (100%)
1	Incentives, suits and work privileges	Customer and clients complaints costs	Direct and indirect tax costs
2	Employee Rewards	Control of services provided	Costs of payment of licenses and subscriptions
3	Company contribution to social security		The cost of donating for practical research in universities
4	Clothing and working clothes	Increase of safety costs	Donation costs for charities
5	workers Feeding meals	and product protection measures	Sewage treatment costs
6	Employees' medical Treatment and medicine		Waste disposal costs
7	Employees' means of transportation		Environmental pollution prevention costs

8	Workers' Housing	
9	Competitions and sports activities	Afforestation and beautification costs of community areas
10	Employees' developing staff skills	

Table (1) shows the cost elements that are preferred to be disclosed in companies in general and industrial in particular, where these costs are considered the most important expenses that can be used to measure the social responsibility in the industrial companies of the research sample. An increase in the expenditure on these elements by companies reflects their interest in social responsibility towards customers, clients and the society. Also, these elements will be considered as a standard by which the amount of expenditure and accounting disclosure for these elements will be known in the research sample.

Table (2) Social costs disclosed in the research sample

Social element disclosed	Al-Hilal Industrial Company		Iraqi Company for Manufacturing Cardboard		Baghdad Company for Soft Drinks	
	2014	2015	2014	2015	2014	2015
1. Social costs towards employees						
Hooves and rewards	54136	19905	1553	550	1349723	1283615
Social security	969107	1212481	103934	59426	300847	101575
health insurance	1140	690	1420	2810	-----	-----
Working clothes	418	272	910	-----	36350	17988
Housing, transportation and training workers	394250	331127	48869	98781	19600	107481
Workers' equipment and the cost of living	-----	-----	100	100	755	750
Insurance for employees' lives	7094	6014	-----	-----	498737	482812
2. Social costs towards customers						
Advertising of Products	8258	4952	300	2467	977441	627214
Social services for non-workers	-----	-----	1755	290	24190	7945
3. Social costs towards society						
Waste disposal	970891	24897	1300	1329	1234624	11932283
Treatment of war damage	-----	-----	5005	5005	917966	917966
Total costs of social components	2401988	1603644	165146	170758	5360233	15479629

Table (2) shows that the industrial companies in the research sample have various expenses and policies in the expenditure on the social elements towards society, customers and employees according to the nature of the activity of each company. We have noted that Al-Hilal Industrial Company has the least expenditure and disclosure about the elements of social costs. This reflects its weak commitment to social responsibility compared with other companies in the research sample. This result can be explained by the percentage included in the following table.

Table (3) The percentage of disclosure of social costs in industrial companies, the sample of the research compared to the cost model

Social element disclosed	Al-Hilal Industrial Company		Iraqi Company for Manufacturing Cardboard		Baghdad Company for Soft Drinks	
	2015	2014	2015	2014	2015	2014
1. Social costs towards employees	%60	%60	%60	%60	%60	%60
2. Social costs towards customers	%33	%33	%66	%66	%66	%66
3. Social costs towards society	%12	%12	%25	%25	%25	%25

It is noted from Table (3) that Al-Hilal Industrial Company has the least disclosure and expenditure on the social elements, as the percentage of disclosure of the social elements towards employees amounts to 60%. That is, the elements that have been disclosed in Al-Hilal Industrial Company are (6) elements of the total (10) elements shown in table (1). Also, the percentage of disclosure of the social costs towards customers amounts to 33% which is one element of the total (3) elements shown in Table (1). This percentage represents the lowest percentage with the Iraqi company and Baghdad Company.

The percentage of disclosure of these elements amounts to 66%, and the percentage of disclosure on the elements of social costs towards society in Al-Hilal amounts to 12% which is one element of the total (8) elements shown in Table (1). This percentage represents the lowest percentage compared with the Iraqi Company for Manufacturing Cardboard and Baghdad Company for Soft Drinks, which amounted to 25% in both companies. This percentage can be relied upon that Al-Hilal Industrial company is less committed to the disclosure of the elements of social responsibility towards the three main elements (customers, employees and society), while Baghdad company for Soft Drinks and the Iraqi company for manufacturing Cardboard Material can be considered as committed companies to social responsibility and the disclosure of it.

Table (4) Percentage of social costs relative to total expenditure and revenue in the research sample

particular	Al-Hilal Industrial Company		Iraqi Company for Manufacturing Cardboard		Baghdad Company for Soft Drinks	
	2015	2014	2015	2014	2015	2014
Total expenses (1)	44025413	56014890	751642	1605378	21118070	18848489
Total Social Expenditure (2)	1603644	2401988	165146	170758	5360233	15479629
Ratio of social expenses to total expenditure (2) ÷ (1)	%3.5	4	%21	%10	%25	%8

It is noticed from Table (4) that the size of expenditure on the social expenses of Al-Hilal Industrial Company is the lowest compared with Baghdad Company for Soft Drinks and the Iraqi Company for manufacturing Cardboard Materials. The size of expenditure on social elements of the total expenses of Al-Hilal Industrial company amounts to 3.5% for the year 2015 and 4% for the year 2014. Also, the size of expenditure on these elements of the Iraqi company for manufacturing Cardboard Materials amounts to 21% for the year 2015 and 10% for the year 2014. While the size of expenditure of Baghdad Company for Soft Drinks on the same elements amount to 25% for the year 2015 and 8% for the year 2014, which reflect the interest of the second and third companies on social expenses to meet the needs of customers, employees and society.

2 - Measuring the quality of accounting information in the company's research sample

For the purpose of knowing the quality of the accounting information provided by the industrial company's research sample to the decision makers, it is necessary to use a reliable measurement model to achieve this. The appropriate model in measuring the quality of profits is the discretionary accruals (Haely) which can be relied upon to measure the quality of profits for the purpose of determining the quality of accounting information, which was referred to in the second section the theoretical part.

Table (5) Data for the application of the optional entitlements model in the research sample

particular	Al-Hilal Industrial Company	Iraqi Company for Manufacturing Cardboard	Baghdad Company for Soft Drinks
Change in assets	4092478	230120	29714731
Change in liabilities	450271	343141	2362100
Change in cash	66340	6220	26264340
Change in creditors	637045	343484	1077702
Extinction	16681	344	1374549
Total assets	7418574	1969674	197192580

Table (6) Total optional entitlements and ordinary and extraordinary receivables

particular	Al-Hilal Industrial Company	Iraqi Company for Manufacturing Cardboard	Baghdad Company for Soft Drinks
Total elective entitlements (1)	0.588	0.114	0.017
Division: (T)	2	2	2
Regular entitlements (3)	0.294	0.057	0.0085
Unusual receivables (1) - (3)	0.294	0.057	0.0085
Profit quality and accounting information	Weak Quality	Quality good	Strong Quality

It is noted from tables (5) and (6) above the application of discretionary accruals model, it is clear that the value of the total accruals of Al-Hilal Industrial Company is (0.588), which clearly indicates that the administration intervention in earning management practices and not showing the real profits achieved, unlike the Iraqi company for Manufacturing Cardboard Materials and Baghdad for Soft Drinks Company, where the quality of profits are (0.114) and (0.017) respectively, which indicate that they are free of earnings management practices. Accordingly, it is clear that the companies that provide more disclosures about social variables and the environment to serve society, customers and employees their accounting data and information are characterised by a high quality because they do not follow misleading practices in earnings management as in the case of Al-Hilal industrial company. Therefore, the provision of disclosure by companies about the social activities and spending on them is reflected in the quality of their profits in particular and their information in general, which in turn works to increase their efficiency and develop their competitive abilities. Accordingly, the verification of the main hypothesis is substantiated. As a result, the **social responsibility is considered one of the basic pillars that enhances the quality of accounting information.**

4- Conclusions and Recommendations

Conclusions:

The research has reached the following conclusions:

- 1 – The expenditure on social responsibility is considered one of the most important elements that reflects the extent of commitment of industrial companies to meet the needs of customers, clients and society.
- 2 - There is a strong correlation between the disclosure of the industrial companies about the social elements and increasing the efficiency and quality of accounting information that is appropriate to the different decisions made by their various users.
- 3 - Social responsibility is considered one of the most important indicators that is relied upon in the provision of a clean environment that is free from the residues of industrial companies through the prevention and reduction of environmental pollution and the development of clean and environmentally friendly production.
4. Industrial companies that are considered the most committed to social responsibility in terms of the expenditure and disclosure are the companies where their customers accept their products the most.
- 5- Social responsibility contributes to increasing the job satisfaction of the staff and employees of industrial companies by providing the social requirements and subsidies that contribute to providing a good social environment for work in these companies.
- 6 - The quality of profits is considered one of the most important indicators on which to base the measurement of the quality of accounting information as a whole. So, the effect of high quality profits is reflected in the accounting information provided because profits are the most important element in accounting information.

Recommendations

- 1 - The need for industrial companies in general and Iraqi companies in particular to pay attention to social responsibility because of its clear effect on meeting the needs of clients, society and employees.
- 2 - The need for industrial companies to increase their commitment to disclose the social elements in financial statements because of the importance in knowing which companies are more committed to social responsibility.



3. Industrial companies should provide clean and environmentally friendly products, thus reflecting their attention to responsibility towards society.

4 - The need for industrial companies to increase attention to provide the needs of customers with the appropriate products which they need and express their social responsibility towards them.

5 - The need to increase and provide social benefits on a continuous basis by the industrial companies to their staff and employees, which reflects the interest of the company's responsibility towards employees.

6 - The need for the industrial companies to adopt appropriate methods and models that reflect the quality of their profits and accounting information, reflected in the efficiency of accounting information provided for decisions.

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