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Corporate Social Responsibility Disclosure in Jordan: An Analysis of Annual Reports of Listed Companies Evidence From 2010-2015

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ABSTRACT

In the new economy, companies try to convey to their stakeholders that they are a good investment and try to show the good value of the company via disclosure of information (corporate social responsibility) in the annual reports. This study examines the extent of corporate social responsibility practices amongst listed Jordanian companies at Amman Stock Exchange (ASE) for the period 2010-2016. The measurement of corporate social responsibility is based on the checklist which was selection from previous studies then refined the checklist to ensure its validity from experienced Jordanian accountants from Amman Stock Exchange (ASE). The finding of 50 companies reveals that Jordanian companies adopt corporate social responsibility on different types of information including Activities for workers Special activities to interact with the community and Activities consumer and environmental protection, although this corporate social responsibility disclosure might be considered low as the means of disclosure were (17%). More specifically, the mean disclosure for activities for workers, special activities and consumer and environmental protection information were (0.42%), (0.29%) and (0.22%), respectively. In addition, the results show that the highest corporate social responsibility disclosure was for the activities for workers information and the lowest was for the consumer and environmental protection information.

1. INTRODUCTION

Living in 21st Century, the most modern era, we are enjoying a very sophisticated life-style. Science and Corporate social responsibility disclosure is deemed very important for all stakeholders; it provides them with the necessary information to reduce uncertainty and helps them to make suitable economic financial decisions (Cooke, 1989). The transparency arising from corporate social responsibility of corporate is vital for economic stability and the promotion of sustained levels of high quality investment by corporations. This is achieved through the preparation of financial reports. The annual financial reports published by companies are considered one of the most important sources of information to outsiders (Betosan, 1997; Lang and Lundholm, 1993). Annual reports are used as a communication method to communicate both quantitative and qualitative corporate information with stakeholders or with other interested parties (Barko, Hancock and Izan, 2006).

These financial reports include information of corporate social responsibility that may help users in recognizing the financial position of a company besides reflecting the operational, structural and financial picture of the corporation to various stakeholders. Sometime the information provided may not be useful enough to meet the needs of some beneficiaries like investors, creditors, customers and the public and anybody who is interested in the success of corporations (Percy, 1997).

Financial reports can be classified into two parts: mandatory and voluntary (non-mandatory) disclosure. Mandatory disclosure includes as any financial item disclosed within companies' annual reports that are prescribed by Accounting Standards and / or the Stock Exchange regulations (Penmann, 1980).

Voluntary disclosure (e.g. corporate social responsibility) means making public the financial and non-financial information regarding a firm's operations without any legal requirement (Botosan, 1997; Naser and Nuseibeh, 2003; Alsaeed, 2006).

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2. LITERATURE REVIEW

Corporate social responsibility disclosure in financial reporting plays an important role in guiding the decisions of financial report stakeholders; hence there has been a rapid increase in the literature on voluntary disclosure (Corporate social responsibility) (e.g. Ho and Wong, 2001; Eng and Mak, 2003; Arcay and Vazquez, 2005; Kelton and Yang, 2008; Li and Qi, 2008; Cong and Freedman, 2011; Adelopo, 2011; Jiang, Habib and Hu, 2011; Samaha, Dahawy, Hussainey and Stapleton, 2012; Binh, 2012). All potentially useful information has to be disclosed in the annual reports.

The signaling theory was developed in the economic literature where the problem of information asymmetry arises because one party of a potential transaction has more information than the other (Watts and Zimmerman, 1986). Watts and Zimmerman (1986) argued that the problem of information asymmetry can apply to accounting information as the management of the company has more information about the value of the company than the investors. Consequently, the management of companies with good value (or good companies) try to distinguish themselves from others by disclosing additional pertinent information (Corporate social responsibility) which is deemed not mandatory to signal the fact of their company's value (Edvinsson, Roos, Roos and Dragonetti, 1977; Spence, 1973). In other words, companies signal positive information (Corporate social responsibility) to investors to show that they are better than other companies in the market for the purpose of attracting investments and enhancing favorable reputation (Verrecchia, 1983) and allow them to better determine the companies' future value creation and valuation of stock price (Whiting and Miller, 2008). In this case, the investors and other stakeholders believe that the signaled information is a credible means of communication because the signal is costly and the cost of incorrect signaling exceeds the benefit (Hughes, 1986). In addition, Corporate social responsibility is one of the signaling means, where companies would disclose more information than the mandatory ones required by law and regulation in order to signal that they are better (Campbell, Shrives and Bohmbach 2001). Further, signaling theory suggests that the quality of a firm's disclosures can serve as a signal of firm value (Hossain et al., 1995).

The signaling theory has been used in some previous disclosure studies (e.g. Ross, 1977; Hughes, 1986; Cho and Sobel, 1990; Thakor, 1990; Whiting and Miller, 2008; Gordon, Loeb and Sohail, 2010; Shehata, 2014; Elzahar and Hussainey, 2012). Therefore, it is expected that companies with good values will disclose more corporate social responsibility information as a signal of their value to enhance the perceived value of the company, and as reducing information asymmetry.

The legitimacy theory is based on the notion of a social contract between a company and its society (Wastson, Shrives and Marston, 2002; Abeysekera, 2006; Magness, 2006; Guthrie, Petty and Ricceri, 2006; Whiting and Miller, 2008). For a company to exist, it should have goals which are consistent with the goals of the society at large in which it operates (e.g. Dowling and Pfeffer (1975); Lindblom (1994); Nik Ahmad and Sulaiman (2004); Magness (2006). Therefore, the companies will seek to ensure that their operations and activities undertaken are perceived as legitimate (Guthrie et al., 2006; Whiting and Miller, 2008). Whilst the objective of the accounting report is to provide information to users which helps them in decision-making (i.e., satisfy social interests), the legitimacy theory has been integrated in accounting studies as a means of explaining what, why, when and how certain items are addressed by corporate management in their communication with outside audiences (Magness, 2006). Based on the legitimacy theory, generally, companies will disclose certain information (e.g. social, environment) voluntarily to show and convince society that the activities which they are involved in are permissible and have contributed to society's interests and companies are forced to disclose information that would change the external users' opinion about their company (Cormier and Gordon, 2001). Thus, it is thought that the public has a good perception of the company as a good corporate citizen.

The legitimacy theory has been used by some prior studies to explain why companies disclose voluntary information about social and environmental issues (e.g. Patten, 1992; Deegan and Gordon, 1996, Nik Ahmad and Sulaiman, 2004). Therefore, legitimacy theory does offer a powerful mechanism for understanding voluntary social and environmental disclosures made by corporations (Tilling, 2004). On other hand, recent research (e.g. Adams, Hill and Roberts, 1998; O'Dwyer, 2002; Wilmshurst and Frost, 2000; Cong and Freedman, 2011) has sought to test for legitimacy theory as a motivation for voluntary disclosure with inconclusive results. Since, the legitimacy theory can be somehow demonstrated (or rebutted) depending on the degree of relationship found between disclosure patterns and changes in societal opinions (Campbell, Craven and Shrives, 2003). However, legitimacy theory has become the most widely used theory to explain why companies disclose voluntary information (Campbell et al, 2003; Deegan, 2002; Cong and Freedman, 2011) as there is mounting evidence that

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companies would be expected to disclose voluntary information to contribute to society (Magness, 2006; Lightstone and Driscoll, 2008; Whiting and Miller, 2008).

As a result, many companies, especially in the west (e.g. the US, UK, Australia, Canada and Sweden) have started to disclose more voluntary disclosure item within their annual reports. However, there is a dearth of similar literature in Asian countries, including Jordan. In other words, the present study intends to provide a better understanding and to enrich existing knowledge regarding the corporate social responsibility of annual reports in Jordan.

3. METHODOLOGY

3.1 Measurement of Corporate Social Responsibility

According to Alsaeed (2006), since the 1960s there has been an increased interest in accounting disclosure studies. There are two approaches that emerged from the accounting literature that can be utilized to research the disclosure of accounting. The first approach is to send questionnaires to a number of financial accounting stakeholders requesting them to rank specified disclosure items in accordance with their degree of importance for decision-making processes. The second approach develops the disclosure (corporate social responsibility) index (e.g. mandatory, voluntary or total accounting disclosure) (Meek et al., 1995; Adams and Hossain, 1998; Depoers, 2000; Makhija and Patton, 2004; Akhtaruddin, 2005; Kristandl and Bontis, 2007; Huafang and Jianguo, 2007; Ntim, Opong, Danbolt and Thomas, 2012). Therefore, following prior studies uses the disclosure index to measure the voluntary disclosure (corporate social responsibility) in the annual report. The detail of measuring the corporate social responsibility disclosure is elaborated in section 2.2.

3.2 The Corporate Social Responsibility Index

A main task in this type of research is to develop the corporate social responsibility index. The disclosure index is a disclosure checklist which contains a few different disclosure items (Arvidsson, 2003). The disclosure index is used to measure the extent of corporate social responsibility (voluntary disclosure), mandatory disclosure or both. The current study focuses on the extent of corporate social responsibility in the annual reports of Jordanian listed companies.

As may be seen from the literature on disclosure, there is evidence that there is no agreed theoretical framework or guidelines on the number and the selection of items to be included in a corporate social responsibility disclosure index (Wallace, Naser and Mora, 1994; Bukh, Nielsen, Gormsen and Mouritsen, 2005). Thus, to form the basis for developing the corporate social responsibility disclosure index of the study, the following steps have been taken:

- To construct the index, the author created a corporate social responsibility checklist based on the selection on previous studies (e.g. Cooke, 1989; Meek et al, 1995; Ghazali and Weetman, 2006; Akhtaruddin & Haron, 2010; Al-Shammari & Al-Sultan, 2010; Eng and Mak, 2003; Adelopo, 2011; Elsayed and Hoque, 2010; Jiang and Habib, 2009; Lopes and Alencar, 2010) and applicability to the Jordanian environment. This is logical as intellectuals agree that researchers have to build on the knowledge of prior researchers. At the end of this step, a primary list of 26 corporate social responsibility items was developed.

- To validate the checklist, first screened, the items in our disclosure index are checked against the mandatory annual report disclosure requirements in Amman Stock Exchange to make sure that the index reflects only corporate social responsibility items. Second, two experienced Jordanian accountants from Amman Stock Exchange refined the checklist to ensure its validity. Therefore, the review and the discussions suggested some modifications. So, the total number of the corporate social responsibility disclosure items was decrease from 26 to 19 items.

A list of 19 corporate social responsibility items was finalized. The corporate social responsibility disclosure index is divided into three main groups of corporate social responsibility. The first group the Activities for workers information items. The second group the Special activities to interact with the community information items. The third group the Activities consumer and environmental protection information items.

In content analysis, researchers construct their own disclosure metrics. To the extent that researcher's judgment is involved in developing and applying corporate social responsibility disclosure measurement index, the results may not be replicated (Healy and Palepu, 2001). In this study, we use frequency of issues mentioned to capture corporate social responsibility disclosure. Under frequency of issues mentioned method, first specific items are identified by researchers (corporate social responsibility index), then each item is analyses and scored for sample firms, based on zero for no disclosure, one for disclosure. At the end of scoring, the number of points a firm has been awarded represents the level of firm's corporate social responsibility. This technique avoids double counting

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of the same issue and it is the most dependable way of contents analysis (Kang, 2006). Moreover, this technique includes an interpretation of the implication of the corporate social responsibility (Cormier, Magnan, and VanVelthoven, 2005).
Mathematically a corporate social responsibility index is a ratio or percentage of the actual scores achieved by a company divided by the maximum items which the company is expected to disclose (i.e. CSR ≤ 19 items). In other words, each item scored 1 if disclosed and 0 otherwise, the scores for each item were added to derive the final score for each company and the corporate social responsibility index was calculated as the ratio of total items disclosed divided by the maximum possible score as follows (Cooke, 1989; Hossain and Reaz, 2007; Hossain and Hammami, 2009).

4. DATA ANALYSIS AND DISCUSSION

This paper investigates the extent of corporate social responsibility in the annual reports of Jordanian listed companies in Amman stock exchange (ASE). Table 1 reports the means of corporate social responsibility index (i.e. overall corporate social responsibility for the period 2010-2015.

Table 1: Descriptive Statistics of the Extent of Corporate Social Responsibility

Y	2010	2011	2012	2013	2014	2015	CSR (Overall)
Mean	11.5	17.45	9.07	23.65	12.84	24.42	16.493

Table 1 shows that the means of the corporate social responsibility (i.e. overall) in the annual reports of Jordanian listed companies were (17%) for the period 2010-2015. In other words, the companies disclosed of corporate social responsibility, on average, (17%) of the items in the corporate social responsibility disclosure index for the period 2010-2015, out of a totally 19 items.

A comparison between the findings of the corporate social responsibility (i.e. overall) in the current study with the findings of the prior studies gives mixed results. There are some possible reasons for such difference in the result. Firstly, the measurement of the corporate social responsibility disclosure in the current study is different from those in the prior studies. Secondly, the difference in the sample size (i.e. the number of companies) used by these studies may have contributed to the variance of the obtained results. Thirdly, the diversity in the sample period could also influence the result. This can be seen where the practices of corporate social responsibility disclosure might differ from time to time. Thus, as the periods of these were different, that might lead to the differences in the results. Finally, the country differences may also influence the extent of corporate social responsibility.

After discussing the extent of corporate social responsibility disclosure in the form of overall corporate social responsibility disclosure, the discussion based on the corporate social responsibility disclosure categories follows. Table 2 shows the means of the extent of the corporate social responsibility disclosure for activities for workers, special activities and consumer and environmental protection information were (0.42%), (0.29%) and (0.22%), respectively for the period 2010-2015.

Table 2: Descriptive Statistics of the Category of corporate social responsibility

CATE	Activities for workers	Special activities	Consumer and environmental protection
Mean	0.42	0.29	0.22

In addition, the results show that the highest extent of corporate social responsibility for the period 2010 and 2015 was for the Activities for workers. On other hand, the lowest extent of corporate social responsibility disclosure was for the consumer and environmental protection information for the period 2010 – 2015.

5. CONCLUSION

The results of the analysis of the of corporate social responsibility disclosure index reveal that Jordanian listed companies disclose, although this voluntary disclosure might be considered low as the means of disclosure were (17%) (i.e., overall) in the annual reports for the period 2010-2015. In addition, the results show that the highest

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corporate social responsibility disclosure was for the Activities for workers information and the lowest was for the consumer and environmental protection information for the period 2010- 2016.

The findings contribute to the practice by reflecting the existing practices of voluntary disclosure. Thus, the results can be considered beneficial to the companies in understanding their current practices and then trying to enhance them towards greater transparency. In addition, the findings are helpful for other users to understand about the voluntary disclosure of the company.

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