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A Proposed Model for Measuring Social Responsibility and Its Application in Jordanian Business Environment

Amer Al-Haziameh*1, Rafat Bataineh1, Bilal Zureigat1
[1]Al al-Bayt University
*Corresponding Author, Email: amermo10@yahoo.com

Abstract This study examines the extent of corporate social responsibility practices amongst listed Jordanian companies at Amman Stock Exchange (ASE). corporate social responsibility had been measured in this study using a corporate social responsibility disclosure index and which encompasses four groups. 53 Jordanian companies examined during the period 2016-2018. The finding reveals that Jordanian companies adopt corporate social responsibility on different types of information including employee information, environment information, society information and customer information, although this corporate social responsibility disclosure might be considered low as the means of disclosure were (52.2%). More specifically, the mean disclosure for employee information, environment information, society information and customer information were (50%), (40.9%),(39.1%) and (95.5%), respectively. In addition, the results show that the highest corporate social responsibility disclosure was for the customer information and the lowest was for the society information.

Keywords: *Corporate Social Responsibility, listed companies, Jordan*

1. Introduction

The wake of the global financial crisis has contributed to The issue of corporate social responsibility of businesses is one of the topics that has increased interest in recent times and was clearly highlighted from both corporate perspective and society perspective. Corporate social responsibility has become an important center of concentration among companies. A recent global survey shows that 76% of managers believe that corporate social responsibility contributes positively to long-term shareholder value, and 55% of them agree that sustainability helps their companies build a strong reputation [1-5].

In [6] suggest that corporation has responsibilities to society that extend making profit and the long-term survival and viability of any company depends in the end on its ability to fulfill its social responsibilities. Corporate social responsibility can be broadly defined as the activities making companies good citizens who contribute to society's welfare beyond their own [7-10].

In [11] suggest that corporate social responsibility disclosure is deemed very important for all various stakeholders; it provides them with the necessary information to reduce uncertainty and helps them to make suitable economic-financial decisions. Furthermore, being socially responsible may direct corporation to better resource, increase employee motivation, lead to effective marketing; this entire factor will result creation of unforeseen opportunities within the industry [12].

Economic organizations face a major challenge as they operate in a complex and rapidly changing environment. With the increase in community awareness, it has become unacceptable to stand at the economic goals of the organization without achieving social goals Corporate social responsibility concept emphasizes and proposes that a firm has responsibilities to society that extend beyond making a profit [13]. 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 [14-16]. Annual reports are used as a communication method to communicate both quantitative and qualitative corporate information with stakeholders or with other interested parties [17].

These financial reports include information of corporate social responsibility (e.g. In the United States of America, the Institute of Chartered Accountants stated in its report published in 1973 that among the objectives of the financial statements is to prepare a report on those activities of society) 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. Corporate social responsibility disclosure in financial reporting plays an important role in guiding the decisions of financial report stakeholders.

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 [18-20]. [18] 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.

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 [21] and allow them to better determine the companies' future value creation and valuation of stock price [22]. 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 [23]. In addition, Corporate social responsibility is one of the signaling means, where companies would disclose more information

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than the mandatory ones required by law and regulation in order to signal that they are better [24]. Further, signaling theory suggests that the quality of a firm's disclosures can serve as a signal of firm value [25].

The signaling theory has been used in some previous disclosure studies [26-30]. Therefore, it is expected that companies with good values will disclose more corporate social responsibility information as a signal of their value in order to enhance the perceived value of the company, and as reducing information asymmetry. [31] argued that one of the reasons managers and insiders, in general, increasingly invest in social responsibility is to gain better reputation in their societies as good global citizens.

The legitimacy theory is based on the notion of a social contract between a company and its society [32]. In order for a company to exist, it should have goals which are consistent with the goals of the society at large in which it operates [33, 34]. 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. Based on the legitimacy theory, generally, companies will disclose certain information (e.g. Employee Information, Environment Information, Society Information and Customer Information) 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. Thus, it is thought that the public has a good perception of the company as a good corporate citizen.

The agency theory is a contract in which one or more persons, the principal(s) engage another person (the agent) to provide a specified task or service. In other words, it is a theory of the agency relationship. [35] have defined the agency relationship as a contract under which one principal or more engage an agent to perform some service on their behalf. They argued that since there is a separation between the principal and the agent, the agent may not always behave in the best interests of the principal; this then can bring about various conflicts of interest between both parties. Consequently, agency cost, which include the costs associated with monitoring and controlling and incurred by the principal as well as bonding costs which are incurred by the agent, so that the agent will not take actions which would harm the principal. Hence, in order to reduce agency costs more disclosure (e.g. corporate social responsibility) is needed.

Furthermore, the figure 1 shows the relationship between the theories, empirical evidence and the corporate social responsibility disclosure within the annual report.

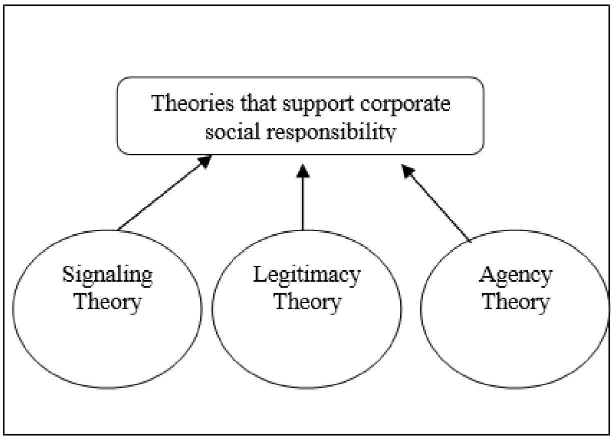

Figure 1: The relationship between the theories and corporate social responsibility

Generally, from the above theoretical discussion regarding corporate social responsibility, it can be concluded that the main ideas emerging from the theories examined above for attracting funding in a sustained manner at low cost by signaling theory (e.g. to gain reputational advantage which could be translated to be able to attract further funding), the legitimacy theory (e.g. to highlight especially on social and environmental concerns, so as to build a public perception that the company is a good corporate citizen which subsequently raises its reputation) and the agency theory (e.g. increase the voluntary disclosure to reduce agency costs).

2. Methodology

2.1 The Corporate Social Responsibility Index

Prior related studies have different methodologies for measuring CSRD. Most studies that have been conducted in developed economies tend to use the formal corporate social performance ratings such as those in the United States and France [36]. In this research is to develop the corporate social responsibility index. The index is a disclosure checklist which contains a number of different corporate social responsibility. The index is used to measure the extent of corporate social responsibility. 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 corporate social responsibility, 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 index (Donnelly, 1986; Ray And Byars, 1986).Thus, to form the basis for developing the social responsibility index of the study. The following steps have been taken:

1. To construct the index, the author created a corporate social responsibility checklist based on the selection on previous studies [37]
2. A list of 84 corporate social responsibility (CSR) items was finalized.
3. The corporate social responsibility index is divided into four groups. The 1st group the employee activities items. The second group the environment

information items. The third group the society information items and the last group customer 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. 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 (e.g. see Figure 2). At the end of scoring, the number of points a firm has been awarded represents the level of firm's corporate social responsibility.

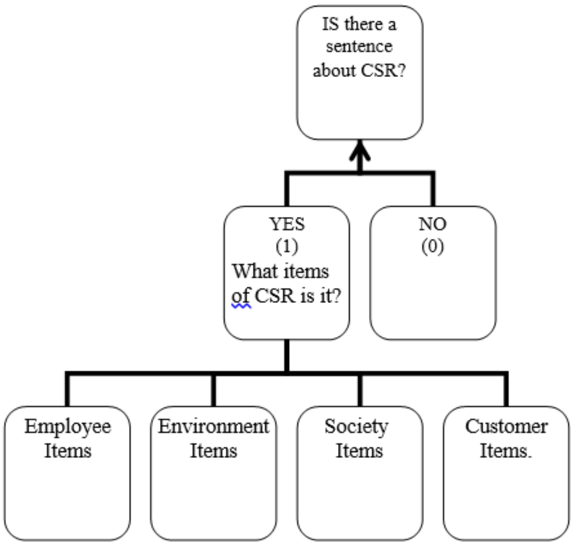

Figure 2: The Coding System

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 ≤ 84 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: $CSR = \sum_{j=1} \frac{dj}{n} \times 100\%$

Where:

CSR = the aggregate disclosure scores.

dj = 1 if the item is disclosed or 0 if it is not disclosed.

n = the maximum score each company can obtain (N 84).

So that $0 \leq \text{DCOR} \leq 1$

3. Results and Discussions

The main objective in this paper to extent the corporate social responsibility among listed Jordanian companies in the annual reports in Amman stock exchange (ASE). Table 1 reports the descriptive statistics of the extent of overall Corporate Social Responsibility in terms of Employee Information, Environment Information, Society Information and Customer Information for the periods 2016-2018.

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

Year	**2016**	**2017**	**2018**	**CSR (Overall)**
Mean %	51.7 %	52.5 %	52%	52.2%
Median%	54.5	54	54.7	54.7
St. Deviation %	8.4	8.2	8.2	8.1

Table 1 shows that the means of the Corporate Social Responsibility (i.e. overall) in the annual reports of Jordanian listed companies was (52.2%) for the period 2016-2018. In other words, the companies disclosed, on average, (52.2%) of the items in the Corporate Social Responsibility index for the period 2016-2018, out of a totally 84 items. In addition, Table 1 shows that the means of the Corporate Social Responsibility was fluctuated for the period 2016 -2018. For example in 2016 the means of the Corporate Social Responsibility consider low compared with the means of the Corporate Social Responsibility in 2018. In addition, there is increase of Corporate Social Responsibility for the period 2016 to 2018.

Further analysis of the extent of corporate social responsibility in the annual reports of Jordanian listed companies was carried out based on the mean of the corporate social responsibility sub-categories and ranks them accordingly. there are four sub-categories under the corporate social responsibility index carried employee information, environment information, society information and customer information as shown in Table 2 below:

Table 2: Means of Corporate Social Responsibility and Rank of Sub- Categories of Corporate Social Responsibility

Corporate Social Responsibility/ Categories	**2016 Mean**	**2017 Mean**	**2018 Mean**	**CSR (Overall) Mean Rank**
Employee Information	49.7 %	50%	50%	50% 2
Environment Information	40.9 %	41%	40.9 %	40.9% 3
Society Information	39.6 %	39.8 %	38%	39.1% 4
Customer Information	92%	95.5 %	95.6 %	95.5% 1

Table 2 shows the corporate social responsibility (CSR) means and their rank for each sub-category for the period 2016-2018. As can been seen from the table2, the highest extent of corporate social responsibility (CSR) were under customer information which had a mean 95.5%, which indicates that most of the all companies in the sample disclosed the information in this category and the lowest extent of corporate social responsibility under society information, which had a mean of 39.1%, which reveals that most of the companies disagree to disclose much information in this sub-category.

In summary, the results of the analysis of the corporate social responsibility (CSR) index reveal that Jordanian listed companies disclose, on average, 52.2% on the corporate social responsibility (i.e. overall) in the annual reports for the period 2016-2018. More specifically, the mean for employee information, environment information, society information and customer information did not exceed 50%, 40.9%, 39.1% and 95.5%, respectively for the period 2016- 2018. Hence, it is considered that much more disclosure could be made by Jordanian listed companies on corporate social responsibility (CSR). In addition, the results show that the highest corporate social responsibility (CSR) was for the under customer information and the lowest was for the society information for the period 2016-2018.

4. Conclusions

The main objective) of the current study is to examine the extent of corporate social responsibility within the annual reports of Jordanian listed companies at the Amman Stock Exchange (ASE) based on an index of corporate social responsibility over the periods 2016 until 2018. In addition, the empirical results indicate that the listed companies disclosed more information on the customer information which had a mean 95.5% compared to other corporate social responsibility categories. In contrast, these companies disclosed less information on the society information.

In addition, the result obtained from the descriptive statistics that the extent of the corporate social responsibility (i.e. employee information, environment information, society information and customer information) has increased in the sample period. Therefore, it can be concluded that there is an increase of corporate social responsibility and its categories, thus overall the result proved that there is an improvement in the corporate social responsibility in the annual reports of Jordanian listed companies. These findings can be useful for many parties. Firstly, the results can be considered useful to the companies to understand their current practices of corporate social responsibility and then try to enhance them to achieve more social responsibility and more transparency. Secondly, the findings are helpful for other users to understand the components of company's corporate social responsibility.

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