

The Impact of the Supply Chain Strategy on Accounting Social Responsibility to Assess Financial Performance in Iraq

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Abstract -Social responsibility has achieved tremendous attention by academicians and practitioners to focus on social responsibility accounting. However, many studies around the globe have been conduct to measure the outcomes of social responsibility accounting. This paper presents the impact of applying the supply chain strategy (SCS) on the agribusiness field to optimize productivity and decreasing cost which will have a direct impact on the net income of the organization. The inconclusive results of earlier studies stimulated this research to social responsibility accounting-financial performance. The equivocal results of this phenomenon urge this study to investigate the role of other factors in the relationship of social responsibility accounting and financial performance. For the reason, this study examines the mediating role of firm's advertisement for CSR activities to spread awareness among society and stakeholders. The results of this study revealed that CSR advertisement plays a very important role to build positive perception about social activities among stakeholders and society. The mediation test of Barron and Kenny illustrated that the relationship between social responsibility accounting and financial performance became insignificant when mediating variable CSR advertisement measured by advertisement cost was statistically controlled. This proves that CSR advertisement is necessary for firm to convey message to its stakeholders and society about social activities initiatives. The Firms can only receive true benefits of social responsibility accounting when stakeholders and society are fully aware of CSR initiatives of firms. The findings of this study provide the new insights for literature on social responsibility accounting. Moreover, the firms should focus on preparing social performance reports to inculcate in annual reports. Similarly managers can draw guideline while making business strategy to incorporate social responsibility accounting to obtain fruitful benefits.

Keywords- *Supply chain strategy, Social Responsibility Accounting, Financial Performance, CSR Advertisement, CSR Disclosure.*

1. Introduction

SCM is defined as a combination of different arrangements. It occurs between various business entities involved in the production, procurement, processing, and marketing of products. The arrangements include aspects of marketing, economics, logistics and organizational behavior. The intense global competition and social sustainability approach has triggered the business to draw attention toward social responsibility. The importance of CSR activities is more significant in developing economies where, social pressure on firms instigates to contribute for the wellbeing of society [1],[2]. Moreover, social responsibility activities are helpful to mitigate negative externalities created by business operations [3]. In the current information epoch, societal awareness regarding social contribution of business has threatened the businesses to integrate CSR with business strategy [4]. However, the literature on received benefits for business from SR activities is inconclusive. In particular, SR initiatives are due to the governmental pressure and/or societal/consumer organizations [2]. Whereas, corporations use social responsibility accounting as a tool to enhance financial performance to mitigate extra cost incurred due to CSR initiatives [1]. Many researchers have conducted to integrate the accounting of social responsibility with corporate financial performance in different parts of the world [5], [6], [7]. However, prior literature on social responsibility accounting and financial performance has reported equivocal result. The reason for emergence of accounting social responsibility

revealed the truth that corporations are involved in social abuses. Alam asserted that 21st century is the era of social responsibility account where business will concern the most.

The shift towards business ethics gave birth to new paradigm called social responsibility accounting. The focus on social impact of corporations has stress the organizations to take initiatives for accounting of social information. The inconsistent results of earlier studies probe this research to investigate other factors causes to varied results of social responsibility accounting. A little attention has been drawn to explore the other factors influence the performance of social responsibility accounting. This research is an effort to elaborate and explore the link between social responsibility accounting and the financial performance of manufacturing companies in Iraq. There is a dearth of literature to explain the mediating role of other factors influence the relationship of social responsibility accounting and financial performance. However, the mandate of this research is to investigate the mediating role of social responsibility advertisement. This research implies that consumer's perception about CSR activities of a company is based on little information. The businesses fail to convert their CSR initiatives into profitability due to little information exposure to customers regarding CSR initiatives. This study follows the Good Management Theory and Stakeholder Contract Cost Theory which implicates that the benefits of social responsibility accounting is only achievable when information regarding social responsibility's available to stakeholders. The objective of this investigation is to explore the possible link between social responsibility accounting and financial performance of companies by investigating the mediating role of social responsibility advertisement. The awareness and knowledge of consumer about social activities of business can be utilized to enhance customer loyalty and corporate image of business in the eyes of society and stakeholders as well.

This study contributes in many ways for the existing knowledge on the social responsibility accounting. The investigation was carried out in special context of Iraq as the previous studies focused on developed economies. Whereas the heterogeneity in economic

and social environment needs to explore the phenomenon in different context and environment to avoid misleading results. Moreover, this study probes to investigate the possible mediating of social responsibility accounting which is a new phenomenon in this context. The results of this study will help the researchers to understand new endeavor of CSR. In addition to this managers and policy makers can draw guidelines for business strategy to incorporate information about CSR activities.

2. Theoretical Framework

Agency theory states the importance of societal wellbeing for business. The importance of accounting social responsibility for business has grown over the time being affected by business operations [8]. According to European Commission (2001) social responsibility is volunteer social and environmental concerns integrated by companies into business strategy. There is a lack of universal rule for social responsibility accounting, usually characterized into social and environmental aspects. The social aspect explains the wellbeing of stakeholders and society in particular [9]. The environmental dimension includes the concerns of environmental protection and impact due to business operations [10]. Enthusiasm for social responsibility has made progress with expanding societal requests for firms to assume liability for their social effects [11]. Furthermore, business has adopted social responsibility accounting into business models keeping in view the growing importance which is not limited to financial performance [12]. The measurement of performance of business through only financial propensity has not lingered on in the presence of Global Reporting Initiative (GNI) where social and environmental reporting is equally important [13].

There are some authors argued that social responsibility accounting has a positive association with financial performance and profitability [15], [14]. Similarly [16] asserted that there is positive relationship between social responsibility accounting and performance of firms. In addition to this [15] argued that social responsibility accounting brings the positive reputation for business which strengthens the relationship with stakeholder. The positive reputation brings more business for firms and

ultimately profitability increases. In contrast to these arguments [17] researched that there is a negative relationship between performance and social responsibility accounting. Moreover, [18] found that there is no relationship among financial performance and social responsibility accounting. According to they reviewed 51 research findings and concluded that 37% of studies found no or negative relationship between social responsibility accounting and financial performance. Additionally, [19],[15] assert that 25 percent of the studies reported negative association among financial performance of firms.

Some important advantages of supply chain management are: reduction of product losses, increasing of sales, reduction of transaction costs, a better control of product quality and safety and the distribution of technology, capital and knowledge among the chain partners. Keeping in view the above discussion, the diverse results of social responsibility around the globe stimulated this study to propose a new framework. The inconclusive results explain the intervention of other factors influenced by social responsibility accounting. As noted in literature, the social performance of companies is driven by the reaction of stakeholders to the chronicled direction of its social performance which is known as corporate reputation. Therefore, the CSR performance of a company will only be noticed by its stakeholders the

way business explains [20]. However, different companies received different results from social responsibility accounting due to the variation of information exposure to stakeholders. The companies are attempting to expose social responsibility initiative by social responsibility reporting in annual reports more than any other time in recent memory. This effort of endeavoring social responsibility accounting is useful to build and enhance corporate reputation.

3. Conceptual Framework and Hypothesis

The framework of this study is illustrated in figure 1. This study followed the agency theory perspective to explain the importance of social responsibility accounting for companies as an entity of society. Moreover, the information of social performance of business is followed by the stakeholder theory. The core of our research is to establish the relationship of social responsibility accounting with financial performance of firm by investigating the mediating role of social responsibility advertisement. We measure the level of company advertisement by taking into account the cost incurred on social responsibility advertisement to expose social activities to its stakeholders and society.

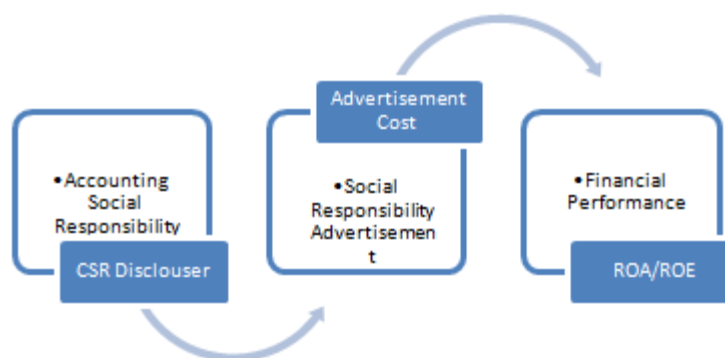


Figure1. Path Diagram

3.1. Hypothesis Development

According to resource dependency theory organizations are dependent to their environment. The organizations exchange the resources with the environment to achieve the objectives. The organization's wish to get hold on the scarce resources

stimulates them to enhance social image and performance. The effort to enhance social performance helps to increase the financial performance of the business which is the ultimate objective of a business [3]. Therefore this study builds the argument on the basis of resource dependency theory that companies want to enhance

performance by social responsibility accounting. Hence it is proposed that:

H1: The social responsibility accounting has an association with financial performance.

H2: The social responsibility advertisement has a mediating role in the relationship of social responsibility accounting and financial performance.

4. Research Design

This study follows the quantitative method of research to analyze the hypothetical assumptions proposed in this study. The operational definition of the variables under study is presented in the Table.1 below:

Table1. Operational Definition of Variables

Variables	Operationalization
Social Responsibility Accounting	CSR Disclosure in annual reports
Social Responsibility Advertisement	Advertisement Cost incurred for advertising social activities of business
Financial Performance	Return on Assets, Return on Equity

5. Data Collection

The data was collected from annual financial reports of the companies. The manufacturing companies listed in Iraqi stock market were sampled to analyze the proposed model. The data was collected for 5 years 2010 to 2015. The selection of companies was

made on two simple reasons. The first reason is the company form manufacturing business should be listed in Iraqi stock market. The second reason is the company has complete financial data for the observed time period. An unbalanced panel data of 836 year observations were analyzed for further data analysis. The firms were analyzed on the basis of CSR disclosure information in according to GRI standards in annual reports. The disclosure of CSR has assigned dummy values where "0" explains that firm does not contain any social information in annual report. "1" explains the firm has practices of social responsibility disclosure but it's a partial disclosure in the annual reports. "2" explains the firm which has medium level of reporting for social responsibility in annual reports. "3" explains that firms involved in detailed social reporting in annual reports. The least square v method of regression is applied to measure the proposed framework.

6. Results and Discussion

6.1. Regression Results

Before conducting the analysis prerequisite test were used to prepare the data for analysis. The normality of data was assessed and extreme values were removed from data set [21]. Moreover, to analyze the mediating effect of advertisement cost we followed the three step mediation procedure introduced by [22]. Table 4 explains the path of variables under study and associated beta values.

Table 4.Regression results

	Econometric Equation	Path	Coefficient	P-Value
Step 1	$ROA=B_0+B_1CSR D+\epsilon$ $ROE=B_0+B_2CSR D+\epsilon$	CSR D → ROA/ROE	$B_1=0.598$ $B_2=0.729$	0.00 0.00
Step 2	$ADVC=B_0+B_3CSR D+\epsilon$	CSR D → ADVC	$B_3=0.623$	0.00
Step 3	$ROA=B_0+B_4ADVC+\epsilon$ $ROE=B_0+B_5ADVC+\epsilon$	ADVC → ROA/ROE	$B_4=0.435$ $B_5=0.352$	0.012 0.023
Step 4	$ROA=B_0+B_6CSR D+B_7ADVC+\epsilon$ $ROA=B_0+B_8CSR D+B_9ADVC+\epsilon$	CSR D → ROA/ROE ADVC → ROA/ROE	$B_6=0.012$ $B_8=0.284$	0.673 0.0772
Wald Test				

Where; CSR D= Social Responsibility Disclosure; ROA= Return on Assets; ROE= Return on Equity; ADVC= Advertisement Cost.

In the first step of mediation test ROA and ROE was regressed against social responsibility disclosure. The value of Beta coefficient is 0.598 at P-value < 0.00 and 0.729 at $p < 0.00$. This shows that CSR disclosure firms have positive and significant association with financial performance. The second step evaluates the association of mediating variable advertisement cost with social responsibility disclosure. The value of β_3 is 0.623 and the sig value is 0.00 which represents the positive association among mediating variable and independent variable. In the third step the relationship of mediating variable advertisement cost and the dependent variables ROA and ROE. The results show the positive and significant association among mediating variable and dependent variables ($B_4=0.435$, $B_5=0.352$ at $p < 0.012$, 0.023). In the last step financial performance variables ROA and ROE is regressed against both the mediating variable and independent variable. The value of β_6 is 0.012 at P-value < 0.673 and β_8 at $p < 0.077$. The decrease in the value of β_6 and β_8 as compare with β_1 and β_2 shows that there is a full mediation of advertisement cost in the relationship of CSR disclosure and financial performance. The result of this study confirms the relationship of social responsibility accounting with financial performance of business. Moreover, companies involved in social responsibility accounting are more profitable if they focus to advertise their social activities.

7. Conclusion and Recommendations

The findings of the study indicated that there is a significant impact of supply chain management on financial performance through enhancing the productivity, decreasing the cost and improving profitability. This research intends to explore the relationship between social responsibility disclosure and financial performance of Iraqi manufacturing firms. The social responsibility accounting was measured through CSR disclosure in annual reports. Furthermore, this study also aimed to investigate the mediating role of advertisement cost. The framework of this study is based on the stakeholder contract cost theory and good management theory which implicates that the benefit of CSR activities is only achievable when information about such initiative is exposed to stakeholders.

The results of this study revealed that social responsibility accounting has apposite connection with financial performance of firms. The benefits of CSR for corporations only achievable, the efforts firm utilize to expose to stakeholders [20]. The results also show the mediating role of advertisement cost between the relationship of CSR disclosure and financial performance. The level of advertisement will develop the perception of stakeholders and society which ultimately improve the performance of firm. The more the company will advertise its CSR information the higher financial performance will be attain. The improvement in performance will help to improve performance and mitigate CSR cost with financial benefits. Furthermore, the effort of advertising CSR activities is useful to build and enhance corporate reputation. The study concludes the importance of CSR advertisement to enhance perception of social performance which ultimately improves the reputation of firm.

The study also endeavor the new paradigm of social responsibility accounting and its enhanced benefits and challenges for academicians as well as for business community. The firms should take interest to advertise CSR initiatives taken by their firms to enhance and improve corporate image. The improvement in perception of social performance will help to improve financial performance by capitalizing loyalty of consumers, suppliers, employees etc. The companies should allocate interest to incorporate CSR advertisement while making business policy. Moreover, the policy makers should take interest to implement mandatory CSR disclosure for firms and push the business to take more socially responsible decision to improve social and environmental space.

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