Uncertain Supply Chain Management 10 (2022) 1493–1500

Contents lists available at GrowingScience

Uncertain Supply Chain Management

homepage: www.GrowingScience.com/uscm

Corporate social responsibilities and financial reporting quality: Evidence from Jordanian manufacturing firms

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A B S T R A C T

Article history:
Received March 23, 2022
Received in revised format April 25, 2022
Accepted June 14 2022
Available online
June 14 2022

Keywords:
Social corporate responsibilities
Financial reporting quality
Jordan

The basic aim of the ongoing article is to examine the impact of social corporate responsibilities on the financial reporting quality of Jordanian manufacturing firms. For this purpose, data has been extracted from the top fifteen manufacturing companies by using corporate reports along with the Amman Stock Exchange from 2010 to 2020. The random effect model along with the generalized method of moment (GMM) has been executed for analysis purposes. The results revealed that social corporate responsibilities have positively impacted on the financial reporting quality of the Jordanian manufacturing firms. These findings have been guided to the regulators that they should provide the focus on the social corporate responsibilities that enhance the quality of financial reporting of the firm. The findings of the current study may be helpful for the manufacturing firm who wants to produce better quality of financial reporting along with the upcoming studies who want to investigate this area in their studies.

1. Introduction

Corporate social responsibility places a dominant role in company structure with an efficient role in the financial performance of the companies. Companies are prevalent in various activities that are performed through numerous aspects but the dominant one is CSR. The activities incorporation that is socially responsible has also become an eminent aspect recently for majorly managerial objects. The mandatory aspects of corporate social responsibility on the quality of financial reporting could vary due to disclosure of CSR which mitigates the asymmetry of information through improvement (Wang, Cao, & Ye, 2018). Therefore, such activities have gained much attention in the firms about the practice of CSR which is linked with various corporate policies of corporate. The linkage of CSR and corporate policies are also considered as eminent one in the practicing firms that strive for performances. Jordan strives in every sector for higher earnings and sustainable advantage in global markets. There is a variation of firms comprising larger and smaller ones where the implication of CSR performance is more caring for the firms due to interaction with customers. Wide relationship between the quality of financial reporting and corporate social responsibility exists while showing activities of services and distribution that are to be maintained (Chae & Ryu, 2018).

The practical implication of CSR usually dominates due to the facing of customers which are quite curious about the social agendas and branding image of the companies. Resources-based products rose to 34% to 47% from 1995 to 2010 which rendered total gas and non-oil exports. Further TCF was also reduced from 24% to 11% during the years 1995 to 2008 in the context of gas and oil exports. Given the view of 2017 to 2019, the exports of manufactured products were lower in 2019 at

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doi: 10.5267/j.uscm.2022.6.007

1.9%, while it rose in 2018 at 4.9% and further rose to 9.4% in 2017. Investments were fixed which were at 4.7% in 2017 rose to 5.1% in 2018 and declined in 2019 at 4.3%. It is majorly important in the firms that there is a linkage between CSR and financial reporting where to some extent the socially responsible activity is linked with financial reporting quality. There is some assurance provided by the accountants about the benefits of capital markets that are reported by the corporate social responsibility which require policies for conducting the merits (Ballou, Chen, Grenier, & Heitger, 2018). The firms that are performing business operations rely on trust which can give incentives for committing behaviors more ethically inclusive of financial reporting transparency (Sadiq, Othman, & Keong, 2019; Sadiq & Othman, 2017). Firms having CSR are more prone to satisfying the stakeholder's ethical demands through the offers of financial reporting transparency. The era of production manufacturing was at the larger and medium scale where manufacturing firms were enhancing at 5.6% on an annual rate. Growth in the sector of automotive manufacturing was remarkably seen at 29.8%, which increased every year while it was followed by the sector of chemical at 19.8%.

The quality of financial reporting usually relies on the effectiveness of corporate social responsibility where the dimensions insert a vital role in CSR efficiency. Various firms of the financial market are analyzed by employing significant measures of CSR. Plenty of factors help to measure FRQ while using manipulations of real activity and discretionary accruals, the financial reporting quality could also be measured. Reports of corporate social responsibility vary due to voluntary information requiring the score disclosures through length, tone, contents, and readability for improvement of accuracy forecast (Muslu, Mutlu, Radhakrishnan, & Tsang, 2019). Corporate social responsibility dominates through proxies that insert roles in the sustainable environments of companies where governance, social and environmental scores are eminent. In the reduction of demands, the growth that was unexpected in exports declined the deficit of the current account at 205% of GDP from 2.7 from 2019 to 2020. The index of manufacturing was recorded by the purchase managers which rendered a lower rate of 27.5% that was leading at the rate of 31.7% below the threshold of 50. Imports and exports of manufactured products gradually increased and declined from 1995 to 2020. Significantly, the influence of corporate social responsibility activities on the policies of corporations is not applicable equally for the companies with a variety of characteristics. There are robust shreds of evidence on the quality disclosure of CSR and corporate bond costs, which renders the importance of determinants that influences the prices of contract terms in firms (Gong, Xu, & Gong, 2018).

For taking decisions of investments, most of the stakeholders emphasize the importance of CSR due to the financial benefits. Keeping in view the context of stakeholders that are curious about CSR applications, most of the listed firms also adopt practices of CSR for obtaining advantages when it prevails on financial resources. There are variations in CSR and financial reporting that widely describe the corporate misconduct types named earning management where the information reducing disclosure is inclined to managing earnings (Jordaan, De Klerk, & de Villiers, 2018). While retaining the advantages of several measures that exist in CSR enables the perspectives of higher earnings for firms. The implication of CSR helps companies to improve the reputation of brands, the productivity of employees, and increase efficiencies of operations. Before the slumps in various sectors, jobs in the manufacturing sectors were expected at 88% which reduced to 40% in the manufacturing firms. It also impacted the jobs of restaurants, hotels, or wholesale which was noted at 10%. The overall improvement and increments help firms toward relationship improvements with regulators, parties interested, and society which could have access to higher resources of finance and project investments. Corporate social responsibility significantly impacts the quantity disclosure, external validation, and quality while the concerns of capital constraints are assured (Isabel-María García-Sánchez, Hussain, Martínez-Ferrero, & Ruiz-Barbadillo, 2019).

Far applications of CSR have emerged over the financial quality of management earnings where the strong commitments of CSR could insert a role in manipulating earnings. The study further enhanced the relationship between CSR and quality of financial reporting; therefore, transparent financial reporting could be enhanced within firms with more social responsibility. Many industries insert a variety of behaviors for the sake of earning higher benefits where the CSR implication usually dominates with its proxies. Financial reporting quality is pertinent in various industries that are indulged in the industry of alcohol, gambling, tobacco which are compared with groups of various controls. Firms of various countries significantly enumerated the link between the performance of corporate finance and corporate social responsibility through the ownership board that asserts influences and relationships (Hou, 2019). There is also the significance of financial reporting with poor quality in socially responsible firms that are usually less engaged in management earnings. The firms that are engaged in socially responsible assessments could assert better financial reporting quality while comparing to other firms. Numerous sources prevail for the measurement of financial reporting qualities where the socially responsible firms insert higher qualities for assessing financial information. Corporate reputations of firms are also affected by the implication of corporate social responsibility which is expected by the stakeholders that are non-professional (Axjonow, Ernstberger, & Pott, 2018). Financial information is known as a significant source for the assessment of financial reporting quality while retaining the perspectives of earning management (Zandi et al., 2020). Some companies employ higher qualities of supervision measures in the CSR that assert higher qualities of financial reporting. While emphasizing the manufacturing sector, the relationship between financial performance and corporate social responsibility also prevails in the banking sector where the association is between vision and mission (Platonova, Asutay, Dixon, & Mohammad, 2018; Sadi-Nezhad, 2021). The firms that are restricted in their intra trading, cross guarantee, and debt issuance usually require a higher quality of financial reporting. Socially responsible firms having strong programs of incentives due to CSR could improve the financial reporting quality through financial reporting overall standards in their affiliates.

2 Review of the Literature

A variety of studies were well concerned about the importance of CSR and financial reporting quality in firms. Some studies have been concerned about the performance of CSR which mainly emphasized the link between corporate and CSR performance. The location's disclosure of corporate social responsibility in the emerging world economies is analyzed where proxy variables are used to interpret the significance (Zamir & Saeed, 2020). Studies widely enumerated the significance of CSR proxies that insert a vital role in building qualities of financial reporting. For the sake of the investor's point of view and different projects, forecasting in earning profit and sustainability, there is the importance of CSR to insert a variety of scores in a financial context. Studies analyzed the relationship between financial distress and performance of corporate social responsibility with the impacts of the life cycle among them where robust findings asserted (Al-Hadi, Chatterjee, Yaftian, Taylor, & Monzur Hasan, 2019). Most of the companies rely on predictive measures which are designed by various financial analysts to enhance the capabilities of firms for financial benefits. Some predictions rely on the CEO arguments that endorses practices of CSR for the serving means in advancements of reputations and careers. Some studies examined the relationship between the financial performance of firms and corporate social responsibility where the strong link was interpreted (Hasan, Kobeissi, Liu, & Wang, 2018). The contexts vary, probabilities of decision making also vary because some firms through joint decision making apply CSR practices and, in some situations, the overall decision could be taken by CEOs.

The presence of CSR in competitive markets denotes higher capabilities of earning profits where the higher earnings also influence the quality of financial reporting. Various pieces of evidence were provided by literature corresponding among various countries whose attributes were linked with the quality of financial reporting where numerous measures were adopted (Isidro, Nanda, & Wysocki, 2020). Studies expressed a vast area of corporate social responsibility practices that enabled a variety of advantages to the firms through different strategic implications. Companies are indulged in the practices of CSR through teamwork which is probable in increasing the firm performance through their employees. In the context of pharmaceutical firms, the impact disclosure of corporate social responsibility was analyzed on the financial performance with the role of brand equity (Malik & Kanwal, 2018). Companies having CEOs also found themselves involved in the practices of CSR which rendered higher earnings and induced a significant impact on the financial reporting quality. This not only refers to the means of earning higher profits but also many other means are hidden under the application of CSR practices. The study mentioned the contribution of corporate reputation among the employees where the values of perceived employer brands and corporate social responsibility were analyzed (Verčič & Ćorić, 2018). More specifically, the CEOs that are engaged in the practice of CSR resulted in being more active in covering some unethical practices that include management earnings in firm perspectives.

Markets having a higher quality of earnings have been mentioned by literature where numerous arguments prevail about the relationship between the performance of CSR and earning management. The author examined the outside director's influence on the relationship between the aggressiveness of tax and corporate social responsibility where the presence of outside directors endorsed negative links(Lanis & Richardson, 2018). Some authors argued about the assessments of CSR practices and financial reporting quality where the engagement in management earnings could render better results. Firms that are involved in the earning management could have significant financial reporting quality while comparing with various firms. The author intended to elaborate on the link between corporate social responsibility practices and banks' financial performance by using the measures of ROE and ROA (Ahmad, Naeem, Hasan, Arif, & Ur Rehman, 2019). Strengthening the relationship between manipulation of real activities and higher performance of CSR is enforced through the differentiation strategy implementation. While the relation between manipulation of activities and differentiation strategy is negatively linked in wide literature. Literature mentioned the significance of corporate social responsibility which has gained the attention of CSR reactiveness on the financial performance of firms (Sinthupundaja, Chiadamrong, & Kohda, 2019). The authors described the significance of governance capabilities that are designed in the company's structure for the achievement of financial perspectives. Financial reporting usually depends on the implication of strategic implications which directly impacts the financial performance of companies. The study aimed to analyze the financial performance of banks through the implication of CSRRI where banks that are socially responsible help in increasing profitability (Memon, Sethar, Pitafi, & Uddin, 2019).

The company's main aim induces the sustainability of the environment in competitive markets where the role of CSR with its dimensions help to achieve the required levels. The difference between financial reporting and corporate social responsibility relies on the structures of the firm that defines the attainment levels through variation of targets. Some Chinese firms are examined through the quality ratings of corporate social responsibility on the levels of financial distress where the results were robust in the study (Shahab, Ntim, & Ullah, 2019). Financial targets are achieved through the better performance of products in markets which enhances the sales of a firm through a competitive advantage over other firms. CSR is usually the need of every firm which helps companies to attain the objectives of financial performance as well as sustainable advantage through governance, social, and environmental scores. Various studies investigated the financial performance and CSR from various aspects through the significance of activities in firms. The study mentioned the implication of financial performance and corporate social responsibility and analyzed the relationship through the implication of innovative activities (Bastič, Mulej, & Zore, 2020). Study widely emphasized in the literature about the level of firms deciding link between policies of corporate and corporate social responsibility. A strong relationship between corporate policies and CSR practices induces a robust impact on the qualities of financial reporting. The study examined the practices of innovation which could assert significant reflection of the firm's environmental and social dimensions which could improve the forecasts of the financial analysts (García-Sánchez et al., 2019b).

Literature expresses the views of firms in individual contexts that confronts the heterogeneous requirements of CSR with the firm characteristics. The empirical analysis of some studies mentioned the effect of CSR valuing performance which is substantially more significant for the sensitive industries environment. From the perspectives of Chinese gas operators, corporate social responsibility is analyzed over the sustainability of businesses where the association of nonprofit organizations and government is dominant (Ngai, Law, Lo, Poon, & Peng, 2018). The performance of CSR is evaluated through the implication of strategic measures by firms through a variety of corporate social responsibility dimensions that could assert quality financial reporting. The probable means of environmental behaviors are more significant for the assertion of financial reporting in firms through CSR practices. The evolution of corporate reporting is significantly represented through integrated reporting where the benefits of contributors and stakeholders are eminently proposed (Pistoni, Songini, & Bavagnoli, 2018). The characteristics of firms that include a variety of objectives are developed through effective corporate policies. Some firms can induce eminent measures for the financial reporting quality that render the effectiveness of strategic decisions in practices of CSR. The categorization of the valuation effect of CSR performance helps to achieve the financial reporting transparency which could be higher with the continuous monitoring of CSR practices. In the markets, several threats prevail where the dominance of frauds through financial reporting and other forms of misconduct prevail with challenging opportunities (Amiram et al., 2018). Significance of ethical behaviors is required in the CSR practices that are eminent for the assertion of the inducing effect on financial reporting and asserting significant relationships among them.

Firms are more consistent in achieving higher earnings by the induction of qualified managers that render ethical engagements in practices of CSR which bases on the imperative moral behaviors. Orientations of the long term, increasing firm values, initiatives of environment, and social and green innovations are dominant terms of corporate social responsibility that renders influences on financial materials enhances corporate governance (Flammer, Hong, & Minor, 2019). Managers rendering engagements in CSR practices are more likely considered as constraints to the management earnings in firms. The overall management for the CSR practice engagements and moral behaviors could enumerate more significant financial reporting of the firms. Firms of more social responsibility assert less participation in the management earnings while it also asserts higher quality of financial reporting. For the achievement of legal and financial obligations, the practices and standards of environmental and social performance prevail which are referred to as corporate sustainability and corporate social responsibility (Ashrafi, Adams, Walker, & Magnan, 2018). Due to the highly strict supervision in firms, the era of quality financial reporting could be enhanced with a variety of practicing aspects. Firms that insert more social measures over the performance of a firm through practices of CSR help to attain the quality of financial reporting. While emphasizing the dimension of quality of financial reporting the broader era has been reviewed in literature mentioning a variety of financial factors enumerated the performance of firms. Among the agencies of credit rating, quality of reporting is significantly associated with the lower uncertainty that endorses the quality of financial reporting impact over the intermediaries and debt markets (Akins, 2018).

The financial area is mostly required in the firms to be sustainable; therefore, the proper implication of activities and practices enable beneficial measures to sustain the financial perspectives. Companies usually strengthen the incentives for greater quality of financial reporting, while they also indicate the enforcement of financial reporting that enables benefits and costs (Florou, Morricone, & Pope, 2020). Environmental practices are discussed in studies with a variety of measures that help firms to attain the objectives of financial sustainability. Although, CSR induces a variety of means to retain sustainability in the performance of companies, the significance of environmental scores and performance also assert possible means of the firm's position. Thus, the present study has developed the following hypotheses:

H1: Social corporate responsibilities have significant association with the financial reporting quality of Jordanian manufacturing firms.

3 Data, Material, and Methods

The article aims to investigate the impact of social corporate responsibilities on the financial reporting of the Jordanian manufacturing firms. For this purpose, data has been extracted from the top fifteen manufacturing companies by using corporate reports along with the Amman Stock Exchange from 2010 to 2020. The random effect model along with the generalized method of moment (GMM) has been executed for analysis purposes. The major characteristic of the random effect model is that it uses maximum likelihood estimates and estimates faster than the other method like the cross-validation method (Nawaz, Yousaf, Hussain, & Riaz, 2020). In addition, there is no need for independent validation in the case of a random effect model therefore all parameters are model parameters. Moreover, "in fact, this simple way shares the motivation of adaptive penalty with the proposed adaptive HL method even though the proposed method can provide various penalty forms under the framework of the random-effect model" (Lee & Oh, 2014). Hence, the random-effects model estimation is as follows:

$$CSR_{it} = \beta_1 + \beta_2 EPRE_{2it} + \beta_3 TML_{3it} + \beta_4 ROA_{4it} + \beta_5 LNMTA_{5it} + \varepsilon_i + u_{it} \quad (1)$$

$$CSR_{it} = \beta_1 + \beta_2 EPRE_{2it} + \beta_3 TML_{3it} + \beta_4 ROA_{4it} + \beta_5 LNMTA_{5it} + w_{it} \quad (2)$$

where
$w_{it} = \varepsilon_i + \mu_{it}$
ε_i = Cross-section error component
μ_{it} = The combined cross-section and time-series error component

In addition, the GMM model is used in the study because the cross-sections (fifteen firms) are more than the time dimensions (2010-2020), and one of the conditions to use the GMM model is that the cross-section dimensions are more than the time series. In addition, the GMM model reliability depends on the suitability of the instrument adopted. To check the instrument validity, the present study investigates the rank of the instrument (first-order) along with the value of J-statistics (second-order). The results show that the instrument is valid and could use the GMM model. Thus, this study develops the following equation:

$$\Delta CSR_{it} = \sum \delta_j EPRE_{i,t-j} + \sum \varphi_j \Delta TML_{i,t-j} + \sum w_j ROA_{i,t-j} + \sum \theta_j \Delta LNMTA_{i,t-j} + \alpha_1 \Delta CSR_{i,t-1} + \mu_{it} \quad (3)$$

The variables along with measurement that has been used by the current article are corporate social responsibilities (CSR) that are measured by calculating the ratio of "disclosure index of each company and the number of items for entity" (Ifada & Ghozali, 2020). In addition, financial reporting quality is measured by two dimensions such as earning predictability (EPRE) that is calculated by dividing the net operating income with net income. Moreover, another measurement that is used to measure the financial reporting quality is timelines (TML) that is calculated by "logarithm between times in days when the auditor signs the audit report and when the financial statement is published" (Sunday, Wisdom, & Ademola, 2020). In addition, control variables that have been used by the study include the profitability of the firm that is measured as the ROA while the size of the firm has been measured as the log of total assets. These variables are shown in Table 1 along with the measurement.

Table 1
Variables and Measurement

S#	Variables	Measurements
1	Corporate social responsibilities (CSR)	The ratio of disclosure index of each company and the number of items for entity
2	Financial reporting quality (i) Earning predictability (EPRE) (ii) Timelines (TML)	 (i) The ratio of net operating income with net income. (ii) Logarithm between times in days when the auditor signs the audit report and when the financial statement is published.
3	The profitability of the firm (ROA)	Return on assets
4	Size of the firm (LNTA)	The logarithm of total assets

4 Findings

The outcomes include the descriptive statistics that are related to the minimum, maximum, and average values of the variables. In addition, the results also include the correlation matrix that shows the links among variables, Hausman test that tells about the appropriateness of the model and random effect model along with the GMM model that tells about the relationships among variables with significance level. Firstly, the findings show the descriptive values of the variables that tell us minimum, maximum, average values along with the standard deviation of the variables. The statistics show that the average value of CSR is 1.548 while EPRE is 1.175, TML is 5.477, and ROA along with LNTA are 11.46 and .131 respectively. The figures also show that the value of the standard deviation of CSR is .513 while EPRE is .17, TML is .456, and ROA along with LNTA are 18.355 and .191 respectively. These values are mentioned in Table 2.

Table 2
Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
CSR	135	1.548	.513	.179	2.509
EPRE	135	1.175	.17	.645	1.756
TML	135	5.477	.456	4.217	6.399
ROA	135	11.462	18.355	-94.38	45.33
LNTA	135	.131	.191	.001	.873

The correlation matrix shows the relationships among the variables and the figures highlighted that positive association among the EPRE and CSR, TML and CSR, ROA and CSR, and LNTA and CSR. The values of correlation among variables are not much bigger thus no multicollinearity issue exists among the variables. These figures are shown in Table 3.

Table 3
Correlation Matrix

Variables	CSR	EPRE	TML	ROA	LNTA
CSR	1.000				
EPRE	0.319	1.000			
TML	0.462	-0.291	1.000		
ROA	0.728	0.205	0.521	1.000	
LNTA	0.302	0.038	0.419	0.206	1.000

For the checking about the appropriateness of the model among the fixed and random effects, a Hausman test has been employed and the figures show that the probability value is more than 0.05 and it does not reject the null hypothesis that the random effect is appropriate. These values are shown in Table 4.

Table 4
Hausman Test

	Coef.
Chi-square test value	13.61
P-value	0.086

The first model that has been adopted by the study to test the hypotheses is the random effect model. The figures of the model exposed that positive along with significant association among the EPRE, TML, ROA, and CSR and accept H1 because the t-values cross the limit of more than 1.64 and p-values cross the limit of less than 0.05. However, LNTA has insignificantly linked with the CSR of the firm. These values are shown in Table 5.

Table 5
Random Effect Model

CSR	Beta	S.D.	t-value	p-value	Sig
EPRE	1.099	.234	4.70	.000	***
TML	.43	.107	4.03	.000	***
ROA	.009	.002	4.28	.000	***
LNTA	.293	.233	1.26	.209	
Constant	-2.239	.711	-3.15	.002	***

**** p<.01, ** p<.05, * p<.1*

The second model that has been adopted to test the hypotheses is the GMM model. The figures of the model exposed that positive along with significant association among the EPRE, TML, ROA, and CSR and accepted H1 because the t-values cross the limit of more than 1.64 and p-values cross the limit of less than 0.05. However, LNTA has been negatively linked with the CSR of the firm. These values are shown in Table 6.

Table 6
Generalized Method of Moment (GMM)

CSR	Beta	S.D.	t-value	p-value	Sig
EPRE	.976	.369	2.64	.009	***
TML	1.022	.175	5.85	.000	***
ROA	.007	.003	2.54	.012	**
LNTA	-.373	.609	-0.61	.541	
Constant	-2.239	.711	-3.15	.002	***

**** p<.01, ** p<.05, * p<.1*

5. Conclusion

The results revealed that social corporate responsibilities have positively impacted on the financial reporting quality of the Jordanian manufacturing firms. These findings are the same as the outcomes of the Wang et al. (2018) who also examined that the quality of financial reporting depends on the corporate social responsibilities of the firm. As the company becomes more responsible regarding its social matters, the quality of the financial reporting also improves. A study by Sethi, Martell, and Demir (2017) exposed that the corporations that are socially responsible are more towards providing quality financial reporting and vice versa, and these findings are similar to the outcomes of the ongoing study. Moreover, a study conducted by Kim and LEE (2019) investigated those corporate social responsibilities have a significant and positive role in the quality of financial reporting and this outcome is matched with the present study outcomes. These findings have been guided to the regulators that they should provide the focus on the social corporate responsibilities that enhance the quality of financial reporting of the firm. The findings of the current study may be helpful for the manufacturing firm who wants to produce quality financial reporting along with the upcoming studies who want to investigate this area in their studies.

The ongoing study has concluded that the listed manufacturing firms of Jordan are more responsible with respect to the social aspect that is the reason for their quality financial reporting and high financial performance. The current study has recommended to the policymakers that they should provide their focus on the social responsibilities of the corporation that not only enhance the quality of financial reporting but also enhance the financial performance. The present study also suggested to the new arrivals that they should add more data analysis methods such as a robust standard error in their studies. In addition, this study also recommended that future studies should add more data time frames that enhance the scope of the study.

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