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CORPORATE SOCIAL RESPONSIBILITY AND FINANCIAL PERFORMANCE IN IRAQ CORPORATIONS: THE MODERATING EFFECT OF INFORMATIONAL TRANSPARENCY



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2019



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CORPORATE SOCIAL RESPONSIBILITY AND FINANCIAL PERFORMANCE IN
IRAQ CORPORATIONS: THE MODERATING EFFECT
OF INFORMATIONAL TRANSPARENCY

ANMAR ADNAN KHUDHAIR



THESIS SUBMITTED IN FULFILLMENT OF THE REQUIREMENT FOR THE
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ACCOUNTING)

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SULTAN IDRIS EDUCATION UNIVERSITY

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ABSTRACT

This research was designed to determine the relationship between corporate social responsibility (CSR) and financial performance and the moderating effect of informational transparency on the relationship. CSR in this study refers to reporting in economic, environment, and social dimensions. Stakeholder and legitimacy theories were used to explain the relationships. Data were collected from annual reports of 25 selected companies listed in Iraq Stock Exchange (ISX) from 2014 to 2017. Panel data regression techniques namely Fixed Effects estimation, Random Effects estimation and Pooled Ordinary Least Squares (OLS) regression were carried out. The results of this study showed that the level of CSR disclosures in Iraq are considerably low and the levels of financial performance measured as a Return on Equity (ROE) and Return on Assets (ROA)) showed mixed results (low and moderate). The level of informational transparencies showed an uptrend across indicators namely Ownership Structure and Investors of Rights (OWSR), Financial and Non-Financial (FNF) and Board of Directors (BOD). OLS regression analyses showed significant contribution of CSR (economic) ($\beta=1.34$, $t= 3.80$, $p<0.010$) and CSR (social) ($\beta=0.01$, $t= 172.48$, $p=0.000$) towards ROA ($R^2=0.519$) while CSR (social) ($\beta=0.02$, $t= 68.40$, $p=0.000$) and CSR (environment) ($\beta= 82.84$, $t=1.74$, $p<0.010$) towards ROE ($R^2=0.064$). Informational transparency significantly moderates the relationship between CSR and ROA with CSR (economic) ($\beta=0.19$, $t=-2.51$, $p<0.050$) and CSR (social) ($\beta=0.56$, $t=-1.88$, $p=0.010$) ($R^2=0.610$). Informational transparency significantly also moderates the relationship between CSR and ROE with CSR (economic) ($\beta=0.01$, $t=1.73$, $p<0.100$) and CSR (social) ($\beta=4.24$, $t=2.12$, $p<0.050$) ($R^2=0.600$). In conclusion, the low level of CSR in Iraq companies contributed towards the weak level of its financial performance. However, the increasing level of the corporations informational transparencies will enable them to gain investors' confidence and improve company performance. The study provide insights into the need to formulate a policy on CSR and informational transparency among Iraqi corporations.





Kesan Moderasi Ketelusan Maklumat Tanggungjawab Sosial Korporat dan Prestasi Kewangan dalam Syarikat di Iraq

ABSTRAK

Kajian ini bertujuan untuk menentukan tahap Tanggungjawab Sosial Korporat (CSR), ketelusan maklumat dan prestasi kewangan (Pulangan atas Aset (ROA) dan Pulangan atas Ekuiti (ROE)) di syarikat-syarikat Iraq dan untuk mengkaji hubungan antara pendedahan CSR dan prestasi kewangan dan kesan moderasi ketelusan maklumat mengenai hubungan. Pelaporan CSR dalam kajian ini merujuk kepada pelaporan dalam ekonomi, persekitaran, dan dimensi sosial. *Stakeholder theory* dan *legitimacy theory* digunakan untuk menerangkan hubungan di antara pemboleh ubah. Data dikumpulkan dari laporan tahunan 25 syarikat terpilih yang tersenarai di Bursa Saham Iraq (ISX) dari tahun 2014 hingga 2017. Teknik regresi data panel iaitu anggaran Kesan Tetap, Kesan Rawak dan regresi *Pooled Ordinary Least Squares* (OLS) telah dijalankan. Dapatan kajian menunjukkan bahawa tahap pendedahan CSR di Iraq agak rendah dan tahap prestasi kewangan menunjukkan keputusan yang bercampur (rendah dan sederhana). Tahap transparansi maklumat menunjukkan aliran meningkat merentas semua petunjuk. Analisis regresi OLS menunjukkan sumbangan CSR (ekonomi) ($t=3.80$, $p < 0.010$) dan CSR (sosial) ($t=172.48$, $p = 0.000$) kepada ROA ($R^2 = 0.519$) manakala CSR (sosial) ($t=68.40$, $p = 0.000$), CSR (persekitaran) ($t=1.74$, $p < 0.010$) terhadap ROE ($R^2=0.064$). Seterusnya, ketelusan maklumat secara signifikan memoderasikan hubungan antara CSR dan ROA dengan CSR (ekonomi) ($t=2.51$, $p < 0.050$) dan CSR (sosial) ($t=1.88$, $p < 0.010$) ($R^2 = 0.610$). Bagi ROE, ketelusan maklumat secara signifikan memoderasikan hubungan antara CSR dan ROE dengan CSR (ekonomi) ($t=1.73$, $p < 0.100$) dan CSR (sosial) ($t=2.12$, $p < 0.050$) ($R^2 = 0.600$). Ini menunjukkan kelebihan bagi syarikat yang menunjukkan ketelusan yang tinggi kerana membolehkan syarikat memperoleh keyakinan pelabur dan meningkatkan prestasi. Kajian ini membuktikan keperluan menyediakan dasar mengenai CSR dan ketelusan maklumat dalam kalangan syarikat di Iraq.



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LIST OF ABBREVIATIONS

BOD	Board of Directors
CSR	Corporate Social Responsibility
CSRECO	Economic Dimension of Corporate Social Responsibility
CSRENV	Environment Dimension of Corporate Social Responsibility
CSRSOC	Social Dimension of Corporate Social Responsibility
CSR	Corporate Social Responsibility Disclosure
CEO	Chief Executive Officers
CEP	Council of Economic Priorities
DJSI	Dow Jones Sustainability Indexes
DSI	Domini Social Index
EES	Economic, Environment and Social
ESG	Economic, Social and Governance
ED	Economic Dimension
ED	Environment Dimension
FNFI	Financial and Non-Financial Information
GAAP	Generally Accepted Accounting Principles
GDP	Gross Domestic Product
GRI	Global Reporting Initiatives
GSSB	Global Sustainability Standard Board
ISX	Iraq Stock Exchange
IFRS	International Financial Reporting Standards
ISO	International Standard Organization
KLDI	Kinder, Lydenberg, and Domini index

KPIs	Key Performance Indicators
MMR	Moderating Multiple Regression
MRA	Multivariate Regression Analysis
NGOs	Non-governmental organizations
OWSR	Ownership Stakeholders and Investors Rights
OLS	Ordinary Least Squares
ROA	Return on Asset
ROE	Return on Equity
SD	Social Dimension
SR	Sustainability Report
TBL	Triple Bottom Line
VIF	Variance Inflation Factors

CHAPTER 1

INTRODUCTION

1.1 Introduction

This chapter introduces the background of the study and discusses corporate social responsibility (CSR), its related concepts, and the transparency and financial performance of Iraqi corporations. The introduction is followed by the problem statement section, which elaborates the focus of the study. The other sections in this chapter include the objectives, questions, hypotheses, significance of the study, conceptual framework, scope of the study, and operational definition of the terms. This chapter concludes by providing a brief summary.



1.2 Background of the Study

CSR is an activity conducted by a company to enhance their reputation (Burianova & Paulik, 2014; Nireesh & Silva, 2018). Njeri (2013), explained that the shareholder investment will be rewarded because of good financial performance, thereby encouraging further investments that promotes economic growth. However, poor performance may cause failure and severe crisis, thereby possibly resulting in negative impact on economic growth. Therefore, the efficiency of a firm and its ability to earn revenues and profits are measured on the basis of its performance (Ongore & Kusa, 2013).



corporate failure, particularly in Iraqi corporations, have become a debatable issue that should be highlighted. Company stakeholders are becoming considerably concerned about the company's financial performances (Iqbal, Ahmad, Basheer & Nadeem, 2012). Therefore, this study aims to determine whether CSR and corporate transparency can be implemented to address the issue of declining financial performance and corporate failures. Although the majority of companies in emerging countries use CSR to enhance corporate reputation, uncertainties remain on whether CSR can positively or negatively affect these companies' financial performance (Saoud & Mohammed, 2016). However, no studies have been conducted on this issue in emerging countries. This limitation is most probably caused by firms' cautiousness in disclosing their CSR performance. Furthermore, studies about relationship among





CSR, reporting of transparency, and financial performance remain unexplored, particularly in emerging countries (Mwangi & Jerotich, 2013).

People have become uncertain and hesitant to invest in these companies owing to unstable economic growth. To address this issue, Iraqi companies are convinced that CSR will enable them to rebuild their credibility and earn back the people's trust (Cohen, Cornell, Marcus & Tehranian, 2014). Various complex activities are practiced by these companies. However, these activities are substantially intricate for the public who are unfamiliar with field operation. Thus, CSR has become an alternative for companies to demonstrate their concern to society by conducting events that the people may regard as showing the companies. However, Young (2011) elaborated that the enhancement of the people's awareness may result in considerable pressure on companies to look good and perform well. Therefore, this study addresses the issue of transparency and its influences, particularly on the sustainability standards of intra-organizational corporate practices. Flammer (2015) explained that CSR can lead to optimum corporate financial performance.

CSR in Iraq was formally instituted by several companies in the 2000. At the turn of the century, it expanded along lines similar to the CSR movements in other developing countries (Ismail & Adegbelemi, 2015). These reports are important to other users (such as employees, consumers, community, government and NGOs), other than solely for financial analysts and fund managers (Soud & Alaa, 2015). Still, the requirement of sustainability reporting by the Iraq listed companies being met





poorly as the number of companies' publishing sustainability reports through web site is insignificant.

Tilakasiri (2012) suggested that current businesses have autonomously progressed and are responsible for the range of issues associated with the government's responsibilities. However, their ultimate aim is to maximize their profit. Carroll (1991) indicated that an organization's accountability should reflect on its social manners, responsibility, obedience, and moral organization to create a good corporate atmosphere. Moreover, the business paradigm has shifted from the maximization of shareholders' wealth to the maximization of stakeholders' wealth. Niresh and Silva (2018) highlighted that CSR maintains long-term viability and sustainability of businesses, regardless of their nature.



This definition specifies a firm's economic responsibility by considering CSR as a significant "business case." At present, business people are concerned with their respective companies' financial performance and society's well-being as well. That is, these companies aim to fulfill their institutional mission to provide voluntary services to society. Another CSR definition highlights the legal, ethical, and humanitarian categories between responsibility and performance for profound insights into different corporate actions. Carroll and Shabana (2010) explained the set of categories of responsibility/performance that enlighten the three dimensions of CSR. The reporting of information is inevitably linked to the transparency of corporations as long as they make such an information available and accessible.





The highlight in exploring transparency is the collaboration of researchers, institutions, and regulators and the opinion of agents on the transparency efficient development on the economic activity. However, a problem will occur when they need to adjust the transparency level with disclosure and reporting. This situation happens when transparency is applied into practice, specifically with regard to information content and quality and the effective medium to contact stakeholders. These matters are crucial and complex and must be given serious attention, because it affects the research progress (Fuente, García-Sánchez & Lozano, 2017; Odriozola, Baraibar-Diez & Fernández, 2017). Information related to transparency in the annual reports of public firms are subdivided into three categories: (1) disclosure of ownership structure and investor relations information, (2) transparency of financial and non-financial information, and (3) disclosure of board management structure information (Njeri, 2013). These concepts of transparency have urged companies to properly conduct their CSRs (Dubink, Graafland, & Van Liedekerke, 2008; Timothy Coombs & Holladay, 2013). Thus, transparency focuses on the desire of stakeholders to make informed decisions and is based on the notion that stakeholders would make different choices if they had insufficient information. Transparency becomes a normatively loaded term because it is linked to personal autonomy. Moreover, transparency requires organizations that have relevant economic, environmental, or social impact to “completely disclose” all information that the stakeholders need to make a decision (e.g., whether to buy, invest, or collectively organize against a company) (Dingwerth & Eichinger, 2010).





Several studies have obtained significant findings on transparency in CSR communication, such as an individual's perspective on a corporation (Albu & Wehmeier, 2014; Kim Hong & Cameron, 2014; Men & Stacks, 2014). In general, CSR intends to help companies balance their economic, social, and environmental requirements. This initiative is taken to strengthen the relationship among stakeholders and enhance these companies' image to the public. Meanwhile, transparency in CSR policies and programs is implemented to attain the full benefits from CSR (Kumar & Kidwai, 2018). CSR has become a global issue to all organizations worldwide. It has likewise developed into a company strategy to voluntarily integrate social and environmental matters with business operations, thereby enhancing interaction with stakeholders (McGill, Enquist, Weiher & Westoby, 2016). Turker (2009), explained that CSR is a relationship among business, environment, and society. CSR covers a wide range of issues, such as poverty, social equity, human rights, corruption, and community relationship. In the economic aspect, CSR covers employment issues, growth rate, and even growth domestic product (GDP) (Ioannou & Serafeim, 2014; Vigneau, Humphreys & Moon, 2015; Waddock, 2007).

CSR highlights a company's voluntary relationship with the environmental and societal stakeholders under certain circumstances (McGill, Etienne, Gray, Alonso, Anderson, Benecha & Hurlbert, 2007). They claimed that awareness on environmental issues started in the early 1960s and led in the emergence of a society with a new "ecological" vision. Karaye, Ishak and Che Adam (2014) expounded that CSR is a matter of integrating and balancing the economic, social, and environmental



relations and the impact of its activities. Okur (2015) stated that CSR involves the integration of social and environmental matters of companies into their business operations and their interaction with stakeholders related to their voluntary act. The three basic aspects of CSR that are measured by the triple bottom line (TBL) are social, economic, and environmental concerns. Apart from these aspects, a business organization can prepare its own CSR report for internal and their stakeholders' use. For example, the global reporting initiatives is one of the commonly used reports to disclose CSR (Bidari, 2016; Schiehlé & Wallin, 2014). These initiatives provide a comprehensive and detailed information on all aspects of companies' sustainable processes (e.g., environmental, social, economic), as well as include quantitative and qualitative data that provide an improved understanding of the progress achieved in sustainable performance, enhanced risk management, and awareness of opportunities

However, the issue of CSR and companies' financial performance has been extensively debated, thereby leading to the possibility of an independent CSR that function without financial assistance. Maqbool and Zameer (2018) stated that there may be numerous arguments that interject the variables between CSR and financial performance. However, Nakabiito and Udechukwu (2007) stated that a large, multi-stakeholder network worldwide often collaborates and develops a framework that reports sustainability. Furthermore, this framework can be used internationally by companies that endeavor to report how they deal with social, economic, and environmental issues.



The framework between CSR and financial performance has been designed for companies to claim their resources (Santoso & Feliana, 2014). Furthermore, such a framework has implicitly encouraged companies to practice the appropriate behavior, such as their consideration toward the environment and awareness of labor relations (Rodriquez-Fernandez, 2016). However, if companies do not comply with their social responsibility, then such non-compliance may lead to costly outcome and the corresponding financial burden, such as profit reduction and, worse, lack of social awareness. By contrast, if companies fulfill their social responsibility policies, then they will earn substantial profits and their social responsibility investment will facilitate the increase of their business incentives. Therefore, investing in CSR can lead to various positive outcomes, such as strengthening companies' financial aspects and reducing fire risk, thereby leading to improved long-term growth in various aspects (Lin, Ho, Ng & Lee, 2017).



Companies should consider the environmental and social implications, transparency of information disclosure, and their economic consequences. This consideration is recommended because CSR transparency will establish interest among practitioners because they are eager to determine whether social responsibility can promote positive financial performance. Financial performance is a significant concern because it portrays whether organizations managed to attain their goals and determine whether they are effectively productive. Financial performance can be measured by observing the organizations' assets to observe how well they have performed in making profits and produced their overall financial outcomes. However, numerous factors may influence a company's financial performance. Therefore, this





study carries the responsibility to effectively explain the relationship in detail and level of corporate performance according to ROA, and ROE (Cochran & Wood, 2015; Rodriguez-Fernandez, 2016; Whalen, 2013; Sharma, 2009). The current research also utilizes accounting-based measures because they only capture the historical aspects of a firm's financial performance.

CSR is an activity that companies apply to enhance their organizational reputation. The literature indicates that several companies have employed CSR to enhance their corporate reputation. However, uncertainties remain on whether CSR can positively or negatively affect their financial performance. Meanwhile, Iraqi companies are losing their credibility with consumers owing to the pressure from the financial market. People become uncertain and hesitant to investment because of unstable economic growth. However, current researcher have assumed that CSR activities can be a solution for this problem. CSR can enhance people's trust and inspire them to invest. Therefore, the researcher has decided to conduct the study.

Hence, the main challenge of this study is examining transparency as a moderating variable on the relationship between CSR and financial performance. This research also extends the CSR literature by providing the moderating effect of transparency influence on the CSR–financial performance connection and analyzes how this moderating effect operates through synergies and trade-offs, which previous studies have disregarded.





1.3 Problem Statement

For the past four decades, CSR has gained considerable attention from stakeholders and businesses worldwide (Moon & Gebbels, 2016; Lema, Lee & Ng, 2017; Malik & Kanwal, 2018). CSR is a self-regulating business model that assists firms to be socially accountable to itself, the public, and stakeholders (Asmaa & Ala, 2015). By utilizing and practicing CSR, firms tend to gain awareness of their environmental, economic, and social impact on the public. Accordingly, customers, government bodies, and employees have increased their pressure on businesses to be considerably transparent with their daily activities to maintain and abide by the acceptable standards that businesses deserve (Yaqoub & Hussein 2014; Ghazal & Baldawi, 2013). At present, CSR is considered a beneficial tool to increase competitive advantage and protect and build trust with stakeholders.

The financial performance of Iraqi companies has become a debatable issue among stakeholders (Harash, Al-Tamimi & Al-Timimi, 2014; Hassan, 2014; Iqbal et al., 2012). Fayha and Emad (2014) explained that although the financial performance of companies from others countries are improving, that of Iraqi firms remains below expectation. In particular, Iraqi companies have yet to comply with the requirements of the International Accounting Standards (IAS). For example, three of the largest corporations in Iraq, namely, Eastern Beer, Kirkuk for Construction Materials, and Nineveh for Food Industries, are performing poorly because of non-compliance with IAS. Consequently, this situation has led to continuous negative impact on the country's economic growth and weak financial performance. IAS aims to maintain





stability and transparency throughout the financial world. Moreover, this standard allows businesses and individual investors to make educated financial decisions because they are able to study the company in which they wish to invest. Hence, many stakeholder concerns about the economy have been raised and affected Iraq's stock exchange (Al-Khafaji & Aljjawi, 2018; Harash, 2014). Given that stakeholders will avoid investing their money in anticipation of strikes, this phenomenon will exacerbate the economic crisis, thereby possibly resulting in the collapse of the Iraqi economy. Stakeholders of various companies are concerned with their companies' financial performance because it can affect the company image (Fayha & Emad, 2014; Majed, 2006; Obradovich & Gill, 2013).



If this phenomenon continues, then Iraqi firms will experience difficulties in the future, thereby requiring urgent attention. Oppewal, Alexander and Sullivan (2006) found that the majority of stakeholders believe that when companies have achieved their business targets, they should be able to conduct CSR simultaneously. Stakeholders also believe that companies engaged in charity work will receive positive patronage (Ahmed, 2013; Nouri & Dham, 2015). If some of the Iraqi companies can increase their services, then their financial performance will be improved (Ghazal & Baldawi, 2013; Yaqoub & Hussein, 2014).

Although numerous studies have investigated the relationship between CSR and financial performance in other countries, limited research has focused on CSR and financial performance in Iraq (Maher & Hussein, 2013). Stakeholders experience





difficulty in obtaining information in annual reports or websites of companies (Al-khfaji & Aljjawi, 2018). Moreover, the literature is limited in the use of transparency as a moderator of the relationship between CSR and financial performance. To fill in this gap, the researcher endeavored to investigate the relationship between CSR and financial performance using transparency as moderator. Transparency is considered a moderator simply because Iraqi customers require quality information to be shared. Moreover, this method is ideal for firms to make their intended policies known to stakeholders. Evidently, this issue was not previously overlooked but emerged as a dire need. The transparency of firms is believed to improve and positively impact the needs of stakeholders (Mwangi & Jerotich, 2013).



Accordingly, studying CSR in Iraq aims to bridge this gap in the financial performance (Saoud & Mohammed, 2016). Johansson and Lundberg (2012) stated that CSR plays a vital role in ensuring added quality value in managing information and that essential performance information are disclosed to guarantee transparency for the companies' stakeholders. Transparency plays a role in decreasing informational asymmetry and facilitates the creation of fair markets and reduction of inequalities (VanSandt & Sud, 2012). Therefore, this study examines the moderating effect of transparency on the relationship between CSR disclosure and financial performance in Iraqi corporations.





1.4 Research Objectives

By combining the areas of CSR, informational transparency, and financial performance, this study aims to fulfill the following objectives:

1. To determine the levels of CSR disclosure, informational transparency index and financial performance of Iraqi corporations,
2. To examine the relationship between CSR disclosure (economic, environment and social) and financial performance (ROA and ROE).
3. To determine whether informational transparency moderates the relationship between CSR disclosure (economic, environment and social) and financial performance of Iraqi corporations.



1.5 Research Questions

The following research questions were developed to assist the focus of this study.

1. What are the levels of CSR disclosure, informational transparency index and financial performance of Iraqi corporations?
2. Is there a relationship between the CSR disclosure (economic, environment and social) and financial performance (ROA and ROE)?
3. Does informational transparency moderate the relationship between CSR disclosure (economic, environment and social) and financial performance of Iraqi corporations?





1.6 Hypotheses of Study

The following hypotheses were formulated to test the relationship between CSR and financial performance and the moderating effects of transparency in the relationship between CSR and financial performance.

H1: There is a positive relationship between CSR dimensions and ROA.

H1^a: There is a positive relationship between economic dimension and ROA.

H1^b: There is a positive relationship between environment dimension and ROA.

H1^c: There is a positive relationship between social dimension and ROA.

H2: There is a positive relationship between CSR dimensions and ROE.

H2^a: There is a positive relationship between economic dimension and ROE

H2^b: There is a positive relationship between environment dimension and ROE

H2^c: There is a positive relationship between social dimension and ROE

H3: Information transparency has moderating effects on the relationship between CSR dimensions and ROA.

H3^a: Information transparency has moderating effects on the relationship between economic dimension and ROA.

H3^b: Information transparency has moderating effects on the relationship between environment dimension and ROA.





H3^c: Information transparency has moderating effects on the relationship between social dimension and ROA.

H4: Information transparency has moderating effects on the relationship between CSR dimensions and ROE.

H4^a: Information transparency has moderating effects on the relationship between economic dimension and ROE.

H4^b: Information transparency has moderating effects on the relationship between environment dimension and ROE.

H4^c: Information transparency has moderating effects on the relationship between social dimension and ROE.



1.7 Conceptual Framework

In this study, CSR comprises the economic, environmental, and social dimensions. These dimensions are the independent variables of the current conceptual framework. CSR is hypothesized to be associated with information transparency and financial performance. Concurrently, information transparency measured by three indicators, namely, ownership structure and investors rights (OWSR), financial and non-financial information (FNF), and board of directors (BOD), may influence financial performance and act as a moderator variable that links the CSR–financial performance relationship (Oh & Park, 2015). Thus, financial performance is the





dependent variable of the current study and is measured by using accounting-based financial performance (i.e. ROA and ROE). The explanation of the association among the independent, moderator, and dependent variables is provided as follows.

In general, companies should measure their sustainable performance (SPM) to determine how they perform and measure sustainability progress with global reporting initiatives (GRIs) (Schiehlé & Wallin, 2014). SPM or TBL is found based on the notion that companies should measure their performance on the basis of the relationship of the stakeholders with the local communities and governments and should not just be the stakeholders with which they have direct connections (Giannarakis, Kontos, Zafeiriou & Partalidou, 2016).



companies can benefit from two aspects. On the one hand, companies are able to add legitimacy to their financial performance without undermining their social and environmental performance. Thus, community support is ensured and potential risks to the companies are reduced or minimized. On the other hand, disclosure will improve the companies' reputation in the market and their market value, enhance customer loyalty, and satisfy the employees and other stakeholders, thereby reflecting positively on future financial performance. Overall, recognition of a company's interest in taking social actions beyond economic activities and strict compliance with the law are the starting points for the theoretical analysis of the impact of transparency on the effectiveness of CSR in achieving financial performance. This section explains the association of variables in the conceptual framework, with transparency as a moderator for the CSR–financial performance relationship. The selection of



transparency as a moderating variable rests on the assumption that CSR generates better transparency, thereby leading to better financial performance. Previous studies on transparency have employed this concept as a moderator to explain the relationship between justice judgments and intrinsic motivation (Hartmann & Slapničar, 2012) and the roles of transparency and trust in examining the relationship between corruption and citizen satisfaction (Park, & Blenkinsopp, 2011). Therefore, two theories has been used in this study to support the coceptual framework are stakeholders theory and legitimacy theory. Theses theories explain the relationship between the vairables. The two theories are considered complementary rather than competing theories (Omran, & Ramdhony, 2015). The researcher uses the preceding description and hypotheses presented as bases to illustrate the conceptual framework of this as in Figure 1.1.

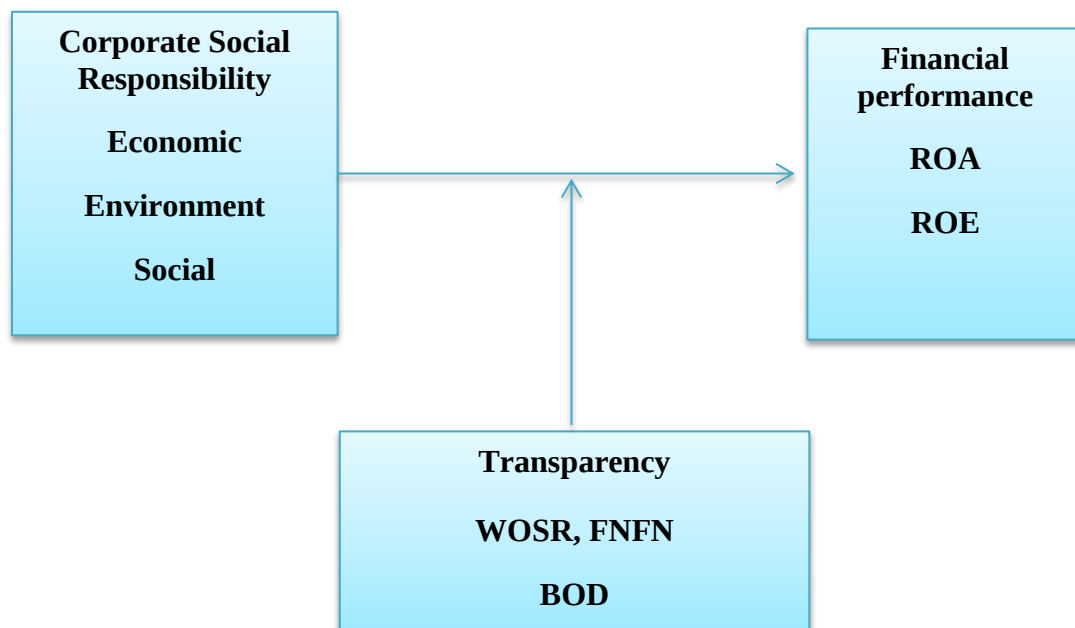


Figure 1.1 Conceptual Framework



1.8 Significant of the Study

From the theoretical aspect, the significance of this study rooted in the issue of social responsibility and information transparency of the financial performance of Iraqi companies. The main topic of this research covers the moderating effect of transparency on the relationship between social responsibility and financial performance. Moreover, this study aims to gather knowledge on the social responsibility of organizations and the informational transparency of information, as well as their relationship and effects on financial performance. Although numerous foreign studies have been conducted on this topic, only minimal research has been undertaken on the local level and in the Arab context. Therefore, the current study serves as a reference to the local context through a novel research on social responsibility and information transparency and an observation of their relationship and impact on financial performance. This study constitutes scientific information from previous similar studies to address the issues of transparency in reporting the economic, environmental, and social aspects. Their needs should be met to achieve fair profit for investors and support corporate responsibility.

This study makes a significant methodological contribution to CSR disclosure studies in Iraq by applying a CSR index. This is the first study to use a dichotomous process to gather CSR information and create a CSR index for Iraqi companies. It is also the first time that an instrumental variable estimation technique is used to analyse the empirical relationship between CSR disclosure, transparency and the financial performance of Iraqi companies.



From the practical side, this study focuses on the information transparency effect on the relationship between CSR disclosure and financial performance in Iraqi corporations. Local companies play important roles in the Iraqi economy and the outcomes can be of immense economic and social importance because they can help companies to practice CSR, thereby possibly improving their ability to meet the challenges of current and future competitions. Moreover, this study can help decision makers and policy makers in the studied companies and those concerned with the subject of social responsibility by focusing on areas that need considerable attention, thereby reflecting positive outcome on economic and social development. The results of this study can also help the studied companies to create an appropriate work atmosphere, thereby enhancing the financial performance of companies appointed research. This study will provide a clear image on the impact of firm characteristics

1.9 Scope of the Study

This study examines the moderating effect of informational transparency on the relationship between CSR disclosure and financial performance of Iraqi corporations. Moreover, this research focuses on 25 companies in Iraq Stock Exchange (ISX). These companies were selected because they have disclosed information from 2014 to 2017 and by (100) observation. Meanwhile, other companies do not provide adequate

disclosure information for four years, while some companies do not have regular disclosure for the report.

1.10 Operational Definitions

For clarity, we provide the following operational definitions for the terms used in this research. Chapter 2 will further explain these concepts.

1.10.1 Corporate Social Responsibility (CSR)

CSR in the Iraqi context is defined as a voluntary business group created by companies to create positive effects on the environment where they operate. CSR also aims to satisfy the consumers of their goods, employees, and stakeholders to present a positive image and perception of the company and its social role (Asmaa & Ala 2015). As competitive factors are a source of strength for the company and its product, thereby consolidating the good relationship with the stakeholders (society) is vital. This responsibility constitutes awareness because the company is not isolated from society (Doda, 2015; Jabr & Shamki, 2012).



In this research, CSR is a moral responsibility that any entity, whether organized or individual, has the duty to work for the benefit of society as a whole. It is also something that every organization or individual must do to maintain the balance between the economy and the ecosystem (or ecosystem) and society. Social responsibility is not only for business organizations but for every individual whose actions affect the environment. In general CSR in this research is measured in term of economic environment and social dimensions

Economic Dimension (ED)



The economic dimension of proactive CSR is the means by which firms attempt to pre-empt issues (e.g. customer satisfaction, product quality and safety and supply chain management) that may arise in their interactions with customers, suppliers, and stakeholders in the market place. The manner by which a firm operates in the market is considered an indicator of how it has integrated action on economic responsibility concerns into its core business activities and decision-making processes (Torugsa, O'Donohue & Hecker, 2013). Moreover, economic performance at the company level refers to a company's influences on its stakeholders' economic circumstances and on economic systems at the local, national, or international level.





Environmental Dimension (ED)

The environmental dimension of CSR is an indicator to show concern toward biodiversity and fulfill environmental compliance and other relevant information, such as the environmental impact of products and services (GRI, 2016; Edvardsson & Enquist, 2008; Malsch, 2012; Aggarwal, 2013; Rodriguez-Fernandez, 2016). The environmental dimension that relates to the effects of a company's activities must include the direct and indirect effects of third parties related to the company's reports, such as suppliers and customers (GRI, 2014). Environmental dimension is defined as the result of an organization's management of its environmental aspects.



Social Dimension (SD)

A social program is claimed to be effective if it covers various aspects such as community, diversity, human rights, employee relations, and product safety initiatives (GRI, 2016). A community initiative can be achieved through the implementation of cause-related marketing and corporate philanthropy. This dimension explains the influence of a company on aspects that directly affect the social environment where operates. In the aforementioned aspects, whether positive or negative, this information is included in sustainability reports (Searcy, 2014).





1.10.2 Informational Transparency

Informational Transparency is defined as a tool that facilitates the assessment of the performance of companies by providing accurate information and making them available to all and defined as providing information about the company to those outside (Zeng, Xu, Yin & Tam, 2012). Moreover, measuring corporate transparency indicators include OWSR, FNFI and BOD (Vishwanath & Kaufmann, 1999).

Informational transparency in financial reporting is ensured through full disclosure and fair presentation of useful information necessary for economic (investment) decisions that have a wide range of users and market participants. Market participants risk assessment and rationalization of their decisions that provide effective financial markets (Liu, 2013; Hollyer et al., 2011; Garsten & Jacobsson, 2011). In this research, informational transparency is understood as the clarity, timelessness, relevance, reliability, and verifiability of information.

1.10.3 Financial Performance

Financial performance is an achievement of the company as contained in the financial statements, which can also reflect a company's health level (Raza, Ilyas, Rauf & Qamar, 2012). The main point in assessing the company's financial performance is the company's ability to earn profits because profit plays an important role in maintaining





the viability of the company and also serves as a guide for prospects. With the profits earned, the company will be able to increase its growth and maintain its survival and can provide returns in the form of dividends to shareholders (Maksum & Tamba, 2018).

Financial performance is the process of determining the operating and financial characteristics of a firm from accounting and financial statements (Brammer & Pavelin, 2016). The goal of such analysis is to determine the efficiency and performance of the firm's management, as reflected in the financial records and reports. The analyst attempts to measure the firm's liquidity, profitability, and other indicators that the business is conducted in a rational and normal way, thereby ensuring sufficient returns to the shareholders to maintain at least its market value (Chang & Taylor, 2016; Gan, Shek, & Mueller, 2015; Mohammed, Gawdan & Babela, 2017). Accounting-based measures were found to be highly associated with CSP than market-based performance. CSR was found to be highly correlated with return on assets (ROA) and return on equity (ROE) (Jitaree, 2015). In this research financial performance is indicated by the ROA and ROE.

Return on Asset (ROA) is the net profit after the taxes and total assets. ROA is calculated as net profit after taxes dividing by the total assets. Furthermore, it measures the operating efficiency of a company based on the organization's profits from the total assets (Katmon, Mohamad, Mat Norwani & Al Farooque, 2017).





Return on Equity (ROE) is the return earned on equity. Only equity holders preserve the right on these earnings. ROE is accepted to the all for measuring financial performance. A high ROE is a sign of good performance (Kabir & Qayum, 2016).

Summary

This particular section of this study mainly discussed about the CSR disclosure and corporation financial performance as well as the impact of informational transparency on the relationship between CSR and financial performance. CSR is an activity done by a company as a solution for the company to consider when it comes to improving their reputation as well as their financial performance. On the other hand, the efficiency of an institution and its ability to attain the revenues and profits are measured based on the firm's financial performance. Several researchers highlighted that the practice of CSR keeps the business viable and sustainable for long, regardless of the nature of their business. Although most companies in emerging countries are using CSR to enhance corporate reputation and financial performance but still in Iraqi corporations it's a debatable issue that whether CSR can affect the company's financial performance positively or negatively. This chapter discusses the background of the research, research problem, and generated research questions pertinent to identifying the relationship among CSR, transparency, and financial performance of Iraqi corporations, thereby providing the basis for formulating the research approach to accomplish the aims of the study. In addition, this chapter also outlines the scope of the research and the methodology to be used in the research process. As the study





proceeds, the next chapter will discuss the literature review regarding the research topic to provide an insight into the topic of the research and to enable the researcher to follow the right direction for a successful research.

