

The Impact of Corporate Financial Performance and Company's Size on Corporate Social Accounting Disclosure: Evidence from Kuwait

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This study attempts to examine whether SAD is linked to financial performance for a sample of listed companies in Kuwait. Although SAD is at an evolving stage in Kuwait, the results of the current study are expected to coincide with findings documented in the majority of research conducted in other markets of a positive relationship between SAD and corporate financial performance. Additionally, the results are expected to show a positive relationship between SAD and the company's size.

Introduction:

Several accounting studies have been conducted to examine the relationship between corporate social accounting disclosure (CSAD) and corporate financial performance. Yet, little research, if any, has been conducted to examine such a relationship in the GCC region thus far. This study tries to fill this gap in the international literature by providing empirical evidence about this issue from the Kuwaiti market.

Literature Review:

Much of the Social Accounting Disclosure (SAD) literature has long relied on the idea of corporate citizenship to explain the SAD practice. These studies have typically used legitimacy theory as the major incentive for corporations' voluntary disclosure of social information in their annual reports (e.g. Adams et al., 1998; Neu et al., 1998; Walden and Schwartz, 1997; Patten, 1992). Legitimacy theory basically suggests that companies disclose social accounting information to ensure societal acceptance of their existence, which is essential for their survival. An underlying premise of legitimacy theory is that the public have the ability to boycott or call for governmental impeachment of corporations if corporate actions are perceived to be detrimental to the public interest. In such a case, social accounting disclosure is provided to communicate to the public the company's socially responsible actions, in an effort to gain the public consent to the company's continued existence.

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There have been studies (e.g. O'Dwyer, 2002; Guthrie and Parker, 1989), however, which argued that legitimacy theory alone is not adequate for explaining the SAD corporate practice. This is particularly true since legitimacy may be interpreted differently across societies of dissimilar cultures, political regimes, and social values (Gray et al., 1995).

An alternative explanation for the SAD behavior is presented by the positive accounting theory. This theory suggests that corporate management's selection of accounting methods is influenced by the surrounding economic factors, and that high-income and big-size companies, which are more vulnerable to political pressures, may undertake several reporting procedures, including social responsibility campaigns in an effort to minimize potential political costs (Watts and Zimmerman, 1978)

Methodology:

Content analysis is first performed on a sample of annual reports of companies listed on the Kuwait Stock Exchange to extract information about social accounting disclosures, and the accounting variables of interest. A logistic regression model is then developed to examine the study's hypotheses. The regression analysis is performed to examine whether corporate social accounting disclosure is related to the corporate financial performance and the company's size.

Results:

Similar to findings documented in the majority of research conducted in other markets, the results of the current study are expected to show a positive relationship between SAD and corporate financial performance. In addition, the results are expected to show SAD is positively related to the company's size.

Summary and Conclusions:

This study undertakes for the first time an empirical examination of the relationship between corporate social accounting disclosure and corporate financial performance. The findings of the current study are expected to be useful for investors as well as corporate management in understanding how social accounting disclosures are associated with higher levels of corporate financial performance.

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