The Role of Accounting Measurement and Disclosure of Social Capital in Improving Financial Performance

Chnar Abdullah Rashid 1 and Rizgar Abdullah Sabir Jaf 2

1 Accounting Department, Technical College of Administration, Sulaimani Polytechnic University, Sulaimani, KRG – Iraq
2 Accounting Department, Administration and Economics College, Salahaddin University, Erbil, KRG – Iraq

ABSTRACT: This research aims to investigate the role of accounting measurement and disclosure of social capital (AMDSC) in improving financial performance (FP) in industrial companies in the Kurdistan Region of Iraq-Sulaimani City (KRG). This study uses SPSS to analyze the questionnaire that was sent to 10 industrial companies operating in the iron sector during 2021. Since there is no financial indicator to measure social capital, but it can be measured through a questionnaire at the individual level, therefore this paper uses a questionnaire for this purpose. The outcomes disclose that AMDSC has a significant effect on improving the FP of industrial companies in KRG. SC has a significant influence on FP as it is approved. Thus, this suggests that SC needs to be considered in the companies’ strategy to secure future financing in this area. This paper is limited to the iron sector of KRG/Sulaimani city. Future studies could address other fields, such as management, for instance, the effect of SC in business management or sharing knowledge. Or financial accounting, for example, the role of SC in improving profitability or liquidity, and so on. This paper focuses on improving financial performance in industrial companies in KRG and Sulaimani City through considering social capital in their companies’ strategies, as there was no concern for SC in KRG before.

Keywords: social capital accounting, financial performance, and measurement and disclosure.

1. Introduction

Social capital has brought massive change and advantage to the global business environment. The company can create businesses and generate future profits through social relationships. Therefore, it is important to measure and disclose social capital in financial reports through an appendix. However, there is no financial indicator to measure SC, but it can be measured through a questionnaire at the individual level. Thus, this research studies the importance of AMDSC in improving FP. This aspect of accounting sustainability shows that while there may be cash benefits, there may also be non-cash benefits that affect the financial performance of the business because there is a future dimension that leads to business continuity (Andersson, 2021).

In financial accounting theory, accounting measurement and disclosure are taken into account (Lee, 2020). Accounting techniques are utilized in contemporary businesses to assess the financial health and performance of various corporate units (Lee, 2020). Accounting is therefore essentially a science of measurement (Sangchan et al., 2020). Measurement theory is an interdisciplinary subject that applies to the social or physical sciences. The theory is divided into base classes and derived classes (Rashid, 2018). The first category has to do with qualitative properties that the experimental structure must exhibit. Derived theories, attempt to reveal relationships between properties previously measured essentially in terms of numerical functions (Rashid, 2019). The International Accounting Standards Board defines accounting valuation as the process of determining cash in which elements of financial statements are recorded and included on the balance sheet and income statement (Bolívar et al., 2018). Accounting disclosure is a well-established principle in financial reporting since it is a part of generally accepted accounting principles (GAAP) (Jaf and Hamid, 2021). Accordingly, full disclosure of financial, accounting, and other relevant information is required to be released for the final users. Additionally, inaccurate disclosure results in negative impact. Thus, it affects the process of decision-making (Senn and Giordano-Spring, 2020).

Measurement and disclosure are the two main functions of accounting, and they are very important to any business (Rashid, 2017). The financial reporting’s objective is to provide existing users and possible stakeholders with complete, error-free, and truthful financial information (Bolívar et al., 2018). As a result, users make important investment decisions based on financial information, and inaccurate or incomplete information can lead to erroneous decisions. As a result, KRG’s industrial companies must measure and disclose SC because it will generate profits in the future (Senn and Giordano-Spring, 2020). Accordingly, it
might affect FP. Financial performance can be defined as the company’s ability to manage and control its capitals. Financial statement analysis can be used to measure financial performance through financial ratios, which comprise profitability, efficiency, liquidity, solvency, and valuation ratio. Thus, the measurement result can be used by the managers to improve the company’s performance in the coming period and serve as a basis for reward and punishment (Mahrani and Soewarno, 2018).

There are various researches on social capital and financial performance in many countries (Honig, 1998; Jensen, 1971; Jeong and Chung, 2022; Migdadi, 2022; and Polat and Benligiray, 2022). Hameedi et al., (2021) revealed that boosted financial performance reporting improves the market value of Iraqi commercial banks. Likewise, financial performance measures and value related to financial reporting will be enhanced by the IFRS implementations. Furthermore, Zhang and Fung (2006) demonstrated that membership in different businesses does not seem to have a important impact on the FP of private companies in Chine, implying that short-term investment in and inflow of SC is a significant determinant of enterprise performance. Besides, Youjia et al., (2021) have shown that there is a connection between SC and the FP of venture capital companies that are not strong in China because of the absence of developed SC connections.

Although SC has an important influence on FP all around the globe, there are still some countries that do not concern themselves with this important aspect of accounting sustainability. The Kurdistan Region of Iraq is one of these countries. So that the study was conducted in this region. Thus, this study objects to evaluate the role of accounting measurement and disclosure of social capital in improving financial performance in industrial companies in KRG and Sulaimani city.

This study first describes AMDSC and FP and then exposes research and hypotheses about the dimensions of AMDSC and FP. The outcomes of this research are then compared with research papers based on relevant literature, and recommendations are made to industrial companies. It provides a brief assessment of the results from both theoretical and practical perspectives and illustrates the limitations of this research and plans for additional study. The key findings of this study are presented in the conclusion section.

2. Theoretical Background

2.1 Accounting Measurement & Disclosure of Social Capital

Measurement can be seen as a chief feature of accounting theory. Because of the technical details and procedures of the measurement process itself, Larsen believes that measurement is separate from theory. However, the measurement process is essential to accounting theory, from which it cannot be simply separated. Measurement is defined as assigning numbers to the properties or attributes of an object being measured, which is precisely what accountants do. Objects themselves have many properties or characteristics. According to the IASB, the most commonly used valuation basis is historical cost, which can be combined with other recognized valuation bases (Karim et al., 2020), but the accounting international standards now aims towards fair value. The IASB permits the use of the valuation method in the financial statements’ preparation at various levels and in various combinations. The International Accounting Standards Board (IASB) permits the use of valuation methods to different degrees and in different combinations in the preparation of financial statements. Therefore, professional accounting judgment and freedom of decision-making will make the difference with respect to the measurement of assets, liabilities, and equity to meet the essential quality of loyal representation. In the absence of historical cost, some organizations can use current cost basis to deal with changing prices of non-cash assets. Therefore, the lowest value between net realizable value and cost would be used for recognizing inventory. Cost is the initial measurement, represented by production cost or purchase cost, whichever is lower in inventory valuation (Bolivar et al., 2018).

The measurement is one of the two main functions of accounting; once it is completed, it has to be disclosed in the financial statements. Thus, with measurement, always disclosure will come to the accountant’s mind. Disclosure is vital for companies since it has generally become a tool for communications among management, external parties, and market contributors. The issue of information asymmetry and conflicts of agency between management and outside parties leads to the demand for a company’s disclosure (Hassan and Marston, 2019). It is argued that the term "disclosure" has replaced "dissemination or presentation of information." This corresponds to the traditional definition of accounting aimed at evaluating the results of economic activity and informing beneficiaries. Accounting disclosure is about the presentation and clarification of accounting information. It also refers to providing basic information about economic units to stakeholders who have current or future interests. The CPA believes
that disclosure belongs to the term, form, and content of financial statements. As a result, the information contained within them will be more valuable and qualified. Specifically, disclosure is the method and procedure of providing information and issuing decisions related to institutional policies. Broadly, disclosure can be defined as the procedure of offering quantitative or descriptive financial information in financial statements, margins, notes, and supplementary tables when appropriate. Therefore, financial statements will be obvious and meaningful to users of financial statements who do not have the right to view the organization's books and records (Senn and Giordano-Spring, 2020).

Since the scientific study of social capital is relatively recent, the literature on this topic has undergone significant growth. Despite the wealth of research, there is no accepted definition of social capital. It is defined and quantified informally and practically. The concept of social capital is more of an abstract idea than a concrete occurrence (Kung, 2020). The feasibility, desirability, and practicability of assessing social capital are hotly contested, but its traits and potential are still unclear in the absence of such a measure (Kung, 2020). The difficulty of differentiating form, source, and consequences makes measurement attempts invalid (Straub et al., 2020). One illustration is trust, which is frequently considered to be a part of social capital. Some authors view trust as a kind of social capital, while others see it as a source of social capital. Still, others regard trust as a collective asset that results from social capital understood as a relational asset. It is acknowledged that social capital is challenging, if not impossible, to assess directly, necessitating the use of proxy measures for empirical reasons. In order to be translated into operational measurements, which are invariably indirect surrogates of their related constructs, social capital has constructs that are fundamentally abstract and require subjective interpretation. This was backed up by Wojciechowska, (2020) who noted that although social capital is difficult to quantify directly, it can be inferred from its potent impacts. The scope of the idea and the size of the unit of observation utilized also influence the choice of indicators to quantify social capital. As social capital is such a complicated idea, it is unlikely to be quantified or represented by a single number (Gannon and Roberts, 2020). To be effective, the many dimensions need sets of indicators. The conceptual disagreements around social capital, particularly whether it can be assessed at an individual or community level, are inextricably reflected in discussions on social capital assessment (Prasetyo et al., 2020).

### 2.2 Financial Performance

Financial performance is an accounting-based measurement that can be used to measure the company’s profitability through financial ratios, such as return on sales (ROS), return on equity (ROE), return on investment (ROI), and return on assets (ROA). In practice, financial performance indicators are widely used. Thus, it is opined that in order to measure financial performance, some other different measures are required to be added. Therefore, financial measures are considered by managers and owners. Hence, some other indicators can be included in financial performance indicators, such as revenue, profit, and sales growth. Sales growth and market share are two of the most relevant indicators for measuring financial performance, which also forms a significant part of the overall business performance of companies (Dar and Mishra, 2020). FP refers to the degree to which financial objectives have been achieved and is a significant part of managing financial risk. It is the procedure of evaluating the outcomes of the company's strategies in relation to their fiscal value. It can also be used to compare businesses in the same sector or to compare industries or sectors within an assembly. It is used to assess the overall financial health of an organization over a given period of time (Barauskaite and Streimikiene, 2021).

The financial statements of the company will be reviewed and analyzed in order to make effective economic decisions that will lead to making money in the future, and this process is called financial statement analysis. These statements include the balance sheet, income statement, change in equity statement, and cash flow statement. In this process, some specific techniques are required to assess the company’s performance, risks, future prospects, and financial health (Mahrani and Soewarno, 2018). Financial statement analysis is used by a number of stakeholders, including credit and equity investors, the government, and decision-makers in the company. In this regard, a number of different methods or techniques are applied by stakeholders in order to meet their desires and needs, since they have different interests (Barauskaite and Streimikiene, 2021). Hence, the company’s accounting reports will be reviewed and analyzed in the process of analyzing financial statements in order to measure its previous, existing, or predictable future performance. The process of reviewing financial statements licenses healthier economic decisions to be made. Internationally, listed public companies are obligated by law to submit their financial statements to the relevant authorities. The second step in this process is to analyze financial statements.
effectively in order to forecast profitability and future cash flows. Thus, the financial statement analysis aims mainly to use information about a company’s past performance in order to predict how well it will perform in the future. Hence, identifying and addressing potential problem areas is another important purpose of financial statement analysis (Dar and Mishra, 2020). The purpose of analyzing a company’s financial statements is to make effective decisions. It is used by external stakeholders to understand the general healthiness of the organization as well as to assess financial performance and business value. It is used by internal components as a control tool for managing finances.

3. Literature review and hypothesis

3.1 Relationship between AMDSC and FP

Many researches have been conducted on FP in this world (Aly et al., 2018; Mahrani and Soewarno, 2018; Rahi et al., 2021; Sands et al., 2016; Shabbir and Wisdom, 2020; Sung Kim and Oh, 2019). According to Jeong and Chung (2022), internal social capital of SMEs positively influenced marketing innovation, whereas external social capital influenced marketing innovation foreign distributors. Moreover, Easmon et al., (2019) exposed that the social capital of SMEs has the greatest influence on export performance. Similarly, Wang et al., (2021) argued that SC has an influence on companies with higher debt costs and lower corporate ownership. Additionally, Salehi et al. (2022) documented that social capital is negatively and significantly associated with intellectual capital, money laundering, and fraud, which are connected with FP (Akkas and Asutay, 2022; Sultan and Mohamed, 2022; and Cavaliere et al., 2021). Hence, Shakil et al. (2019) indicated a positive correlation between the environmental and social performance of emerging market banks and their financial performance without mentioning the measurement and disclosure of either. Accordingly, we believe that SC needs to be measured and disclosed in the financial statements as an appendix since it has a significant effect on the FP (Shakil et al., 2019).

On the other hand, there are many studies concerning FP without discussing SC, such as Yahaya et al., (2022), which articulated a significant and adverse relationship between liquidity and a bank's financial performance. Similarly, Siddique et al., (2021) pointed out that non-performing loans, cost-efficiency ratios, and liquidity ratios have negative and significant relationships with financial performance, more precisely ROA and ROE, whereas capital adequacy ratios and average lending rates have positive and significant relationships with financial performance at Asian commercial banks. Furthermore, Wattanawarangkoon et al., (2022) revealed that size plays an important role in determining the financial performance of companies. Moreover, Bhattu-Babaje and Seetanah (2021) demonstrated that value-added intellectual capital boosts the company’s financial performance. Additionally, Kalash (2021) illustrated that financial performance is negatively and significantly affected by financial leverage. Besides, Kahihu et al., (2021) discovered that the financial performance of Kenya’s microfinance institutions was positively and significantly affected by interest rate and financial leverage risk, while it was negatively and significantly affected by foreign exchange risk. In addition, Mushafiq et al., (2021) argued that a company’s size and leverage have a significant influence on the financial performance of KSE-100 non-financial companies. Also, Oware et al., (2021) discussed that a mandatory CSR is positively related to stock price return as well as negatively related to ROA and ROE. Thus, the following hypotheses have been formulated:

H1: There is a significant correlation between AMDSC and FP
H2: There is a significant effect of AMDSC on FP

4. Methodology

4.1 Data and sample size

The information for this article was gathered from ten industrial companies in the iron industry in the KRG/Suleimani city during the year 2021. A questionnaire is used to collect primary data because the responses obtained are objective (Wang et al., 2020 and Ismael et al., 2020). The questionnaire contained 20 questions that were designed according to two dimensions to test the research hypothesis. Accordingly, 260 responses were collected, but 8 of the responses were not answered completely, so 252 answers were included for analysis. The data was analyzed using the statistical software SPSS. About 500 people work for the manufacturing firms that the authors sampled in total. There are 40 to 50 employees per organization. The surveys were initially given out by hand in Kurdish, Arabic, and English, along with a brief explanation of the questions. At that moment, the researchers examined each employee in the organization to get comments. The minimum and maximum employee numbers per organization to complete the survey are 18 and 30, respectively, in terms of valid responses.
4.2 Instrumentation

There were two dimensions in this survey: accounting measurement and disclosure of social capital (AMDSC) and financial performance (FP), which scales in 20 questions: 14 items for the first dimension and 6 items for the other dimension. AMDSC is taken from the work of Lee (2015) and Craig & Diga (1998). Hence, FP is taken from the work of Wallace et al., (2010). All the questions were modified by the researchers to be proper for this research. a five-point Likert scale used by researchers. The answer to the question ranges from 1 (totally disagree) to 5 (totally agree).

One of the questions that has been asked to the respondents regarding AMDSC is: “Members who work in this company willingly share information with one another.” or ”The presentation of social capital enhances the ability of investors to make rational decisions.” Besides, for FP: “Consumer demand for our products is very stable.”

5. Analyze the results and test hypotheses

![Figure 1: study model](image)

H1: There is a significant correlation between AMDSC and FP in industrial companies in the Kurdistan Region of Iraq/Sulaimani. The correlation coefficient clearly measured the relationships between AMDSC and FP based on the results of Table No. 1. Clearly, from data analysis, the correlation coefficient was 0.537** at a significant level (0.000), which specifies that there is a direct relationship between AMDSC and FP in industrial companies in the Kurdistan Region of Iraq/Sulaimani, and this correlation is acceptable and statistically significant as it is below 1%, which is the acceptable level statistically, and the strength of that relationship is strong. Therefore, the first hypothesis can be accepted.

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<tr>
<th>Correlations</th>
<th>AMDSC</th>
<th>PF</th>
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<tbody>
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<td>AMDSC</td>
<td>Pearson Correlation</td>
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<td>Sig. (2-tailed)</td>
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<tr>
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<td>N</td>
<td>251</td>
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<tr>
<td>PF</td>
<td>Pearson Correlation</td>
<td>0.537**</td>
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<td>Sig. (2-tailed)</td>
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**. Correlation is significant at the 0.01 level (2-tailed).

H2: There is a significant effect of AMDSC on FP in industrial companies in the Kurdistan Region of Iraq/Sulaimani. Table No. 2 indicates that the correlation effect (R = 0.537a) shows the existence of a positive effect of AMDSC on FP, which means dependent variable is affected positively by independent variable. This is a significant effect statistically because the level of sig = 0.000 is less than 0.05, the F test is 3.88, and it is less than the F table, which reached 101.015. Based on the above result, this hypothesis can be accepted.
6. Discussion

According to this research’s findings, AMDSC play a significant role in improving FP in industrial companies in the KRG and Sulaimani city. This study aims to examine the impact of AMDSC on the financial performance of industrial companies in KRG/Suleimani City. The results showed that AMDSC had a positive and significant effect on the company's financial performance. The overall results of this study show that AMDSC are positively and significantly correlated with FP. These outcomes are consistent with Zhang and Fung (2006) and confirm the results of Dai et al., (2015), which suggest that the external and internal social capital’s interaction has a positive impact on FP. These findings are also consistent with other researches (Chen et al., 2018 and Xie et al., 2022). It has been observed that considering SC leads to high ROA and ROE. Companies should not increase their physical assets without considering non-physical assets such as SC because it will affect their future earnings. Companies should focus on their FP to enhance their earnings with respect to SC.

This research observes not only the role of SC in FP but also how SC is used and translated into FP through measurement and disclosure. The outcomes of this research underscore the importance of AMDSC in improving FP. In contrast to prior study focusing on the manufacturing and high-tech industries in developed countries, we determine the impact of AMDSC on the FP of companies within the KRG industry. While previous research has focused on the impact of SC on firm performance (Sani, 2019), we examine their collective impact on FP. Besides, this study is the first attempt to examine the role of social capital in the KRG financial performance chain.

7. Conclusions and recommendations

SC is vital to any business organization. This is important because of the need to maximize returns for different business groups and because these capitals have an effect on a businesses’ ability to respond to its competitive environment. This study evaluates the role of AMDSC in industrial enterprise FP in KRG/Suleimani city during the period (2021). The outcomes show a significant positive correlation between AMDSC and FP, and AMDSC significantly affects FP, suggesting that considering SC will increase the company’s profits because of its future dimension.

Businesses will benefit from policies and programs that build and strengthen existing community social capital. Examples of such policies and programs include space creation programs (lunches, celebrations, and festivals) that promote face-to-face interaction among employees, thereby promoting more trust and solidarity among them. Besides, capacity-building and technical assistance programs for civil society organizations are needed so that these organizations can provide employees with better opportunities to become "civic consumers of politics," better articulate their demands to companies, and achieve greater collective aid. Likewise, programs to support the creation of virtual communities for discussing public issues, providing feedback, and disseminating information about public policy. Hence, leadership programs that help activate the company’s potential social capital. Moreover, bridging activities that promote cooperation and social cohesion across racial or religious boundaries. Furthermore, institutions that promote collective action, civic engagement, and cooperative governance, including institutions related to democratic rights, civic engagement, social inclusion, and the voluntary sector.

8. Theoretical and practical implications

The research also provides insightful practical implications for management. First, the outcomes recommend that business owners and managers find a satisfactory level of SC when it significantly and positively affects financial performance. Second, the findings of this study will assist KRG manufacturing companies in making rational decisions to maximize profits while minimizing transaction costs such as information and research costs, increasing trust, or reducing administrative burdens. This will eventually lead to the growth of industrial companies’ wealth in KRG/Sulaimani City. Managers should focus on
social relationships between employees and management to maximize trust and reduce transaction costs, as they have future earnings.

9. Limitations
The limitation of this research is that the data were collected only for industrial companies in KRG/Sulaimani City, which are considered less meaningful compared to all industrial companies in KRG. Therefore, further research should attempt to incorporate other, less explored sectors into a more detailed analysis. Due to the limited duration of this study, only one year (2021) of data were collected. Future studies may cover longer periods of time. Furthermore, this study was only conducted within the geographic boundaries of the KRG, which limits its generalizability. Including more Asian countries could improve results and make it more comprehensive.

10. Future research developments
Future research in this area may go in a different direction. First, more extensive research is needed to examine the causal mechanisms linking SC to profitability and whether these relationships are consistent over time. The sources of the association between SC and profitability have rarely been systematically explored. The timing of the relationship is also important, as there is value in investigating and determining how long it takes for the impact of SC on financial performance to become apparent. To achieve the above goals, more data on SC should be available. The reliability of SC data is also an important issue, as data from different sources varies widely when assessing an organization's SC performance.

11. References
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