



## The Role of Accounting Measurement and Disclosure of Social Capital in Improving Quality of Accounting Information

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### ABSTRACT

This paper aims to investigate the role of accounting measurement and disclosure of social capital in improving the quality of accounting information which covers reliability, relevance, comparability, and consistency. The sample of this research paper is the industrial companies in Sulaymaniyah, the Kurdistan Region of Iraq (KRG). Accordingly, a hypothesis has been developed that accounting measurement and disclosure of social capital play a significant role in improving the relevance, reliability, comparability, and consistency of accounting information. The hypotheses were tested through a questionnaire that has been distributed among 350 employees. It was analyzed by using a stratified sampling methodology. The research methodology comprised demographic analysis, factor analysis, and structural equation modeling. The findings suggest that accounting measurement and disclosure of social capital have a significant and positive effect on the relevance, reliability, comparability, and consistency of accounting information. The research is limited to industrial companies in Sulaymaniyah, KRG. Thus, the findings cannot be comprehensive unless the other scholars further considered various companies, philosophies, agricultural or trading companies.

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## 1. Introduction

Social Capital has become popular in business environment all around the world. Businesses can earn more profits through considering social relations as a part of capital. Thus, this research explores the importance of the accounting measurement and disclosure of social capital in improving the quality of accounting information. To conduct this, 10 iron recycling sectors in the KRG/ Sulaymaniyah has chosen to test the hypotheses.

SC reveals that kind profits can also be earned along with monetary profits (Broska, 2021). It has an impact on the company's accounting information quality since there are future dimensions that lead to companies' continuity (Andersson, 2021). Basically, social capital theory believes that social relationships are capital that can result in the progress and growth of human capital (Broska, 2021). Social capital can be divided into internal and external social capital. The first one refers to the employees or products inside the firm, whereas external refers to others outside the firm (Tiwari and Khan, 2020). Social capital consists of three interrelated dimensions which are relational, structural, and cognitive dimension (Mazzucchelli *et al.*, 2021). Structural social capital denotes the presence of access networks to individuals and capitals, whereas relational and cognitive social capital symbolizes the ability to exchange capitals (Andersson, 2021; Mazzucchelli *et al.*, 2021). There are many studies about social capital and companies' accounting information quality all around the world. In the past few decades, accounting research on social capital has emerged as a unique way of business in researching (Adedeji *et al.*, 2021; Bansal and Garg, 2021 and Chircop *et al.*, 2018). Accounting measurement and disclosure are considered by financial accounting theory (Lee, 2020). In modern enterprises, accounting methods are used to measure the economic status and economic performance of business entities (Lee, 2020). Therefore, accounting is only a science of measurement (Sangchan *et al.*, 2020). The quality of accounting information can be defined as a structure which combines numerous mechanisms of accounting information systems that are interconnected together to progress financial data into a valuable accounting information for users (Binh *et al.*, 2020).

It is important to define the company's success by building a sense of mutual respect and shared value that social capital can contribute to the business environment. Since then, social relations will lead to the formation of trust among employees. Accordingly, the company's objectives will be achieved. Consequently, it is significant for the companies to take social capital into consideration. Once considered, they must be measured and disclosed in the financial statements in an appendix. One of the weaknesses that the industrial companies in Kurdistan Region of Iraq (KRG) are suffering from in conducting their businesses, is concerning financial aspects only in measuring and disclosing accounting information. Accordingly, the social capital is ignored. Ultimately, the companies' accounting information quality will be negatively affected, since social capital is significant in boosting companies' financial performance due to its future dimensions. The accounting measurement and disclosure of social capital has not been taken into consideration in the industrial companies' financial statements in KRG, while it might have a significant influence. Although, concerning financial capital is crucial for enhancing company's accounting information quality, but it is not the sole element to focus on in the financial statement. Thus, social capital is needed to be considered to be measured and disclosed in the financial statements. However, the only way to measure social capital is through a questionnaire. Social capital has not been explored by previous studies in this region.

Thus, this research addresses this issue in KRG industrial companies to be more understandable and considerable by owners and employees. Besides, how social capital contributes to the quality of accounting information is significant to users of financial information. Subsequently, the business community will benefit from this research by focusing on trusted relationships and other dimensions of social capital between employees and managements of industrial companies. Thus, this research aims to introduce social capital to the companies' employees and owners through the questionnaire, as there is little information about social capital in this region. Then, it aims to discover the influence of the accounting measurement and disclosure of social capital (AMDSC) in improving the quality of accounting information (QAI) in industrial companies in KRG, in addition to find the influence of the characteristics of each of the QAI on each other. The most interesting part of the findings of this research is that no one in these companies knew anything about social capital. Once the questionnaire was distributed to employees and managements, they began to think about their social capital and got concerned about their social relationships. Most importantly, business owners were interested,

particularly in relational social capital. As it is about trust, norms, and obligation, all of these sub-dimensions are in the interest of the companies' objectives. The reason is that if the employees work on the basis of trust, companies' rules and obligations, their objectives will be properly achieved and this can be considered as the most significant contribution of this research.

The research first describes AMDSC and QAI, and then reveals studies on the dimensions of AMDSC and QAI, as well as develops hypothesis. Subsequently, it compares the findings of this research with the relevant and applicable literature and offers recommendations to the industrial companies. It briefly assesses results from theoretical and practical views with the limitations of this research and further research schedule. The main achievements of this research will be summarized in the conclusion.

## **2. Theoretical Background**

### **2.1 Accounting Measurement & Disclosure of Social Capital**

Measurement theory is an interdisciplinary topic that can be well applied to the social or physical sciences. This theory is divided into fundamental and derived categories. The first category refers to the qualitative characteristics that need to be possessed by experimental structures. On the other hand, the derived theories attempt to discover the relationships between attributes that were essentially measured prior in the form of numerical functions. The International Accounting Standards Board defines accounting measurement as the procedure of defining the cash amounts in which the elements of financial statements are documented and included in the balance sheet and income statement. This involves selecting the specific base for measurement. From the IASB view, the assets' valuation bases include several bases which comprise historical cost, current cost, realizable value and present value (Mert, 2022).

Financial disclosure can be defined as any intentional exhibition of information through formal or informal channel. The information includes financial and non-financial, whether voluntary, or required, numerical or qualitative. Companies can use various means to disclose information. For instance, interim reports, presentations, annual reports, investor relations, conference calls, websites, press releases and so on. The company's annual report is a very important official tool for disclosure, although it is not sufficient by itself in the context of the capital market, meanwhile other means of disclosure including conference calls and interim reports can provide timely disclosure. Hence, the report of financial analyst and press are considered as the sources for company's performance disclosure (Jawabreh *et al.*, 2020). Company's disclosure covers two extensive categories including mandatory and voluntary disclosure. The first, refers to the information that is disclosed in fulfilling the disclosure requirements stipulated by law in the form of professional laws and regulations. Any excess of the first disclosure belongs to voluntary disclosure. Likewise, voluntary disclosure also includes recommended disclosure by an authoritative body that comprise financial and operating review (Hassan & Marston, 2019).

There are theoretical arguments on the determinants of voluntary information disclosure. For instance, agency theory describes an agency relationship as a contract in which one or more persons (principal) hire another person (agent) to perform services on their behalf, which includes delegating some decision-making power to the agent. It is to be expected that an agent will not always act in the best interests of the principal. Agency theory states that conflict is to be expected when information between principals and agents in an organization is incomplete and asymmetric. Both parties may have different interests and this problem can be minimized by providing more information. Some of the determinants of voluntary information typically associated with agency issues are size, leverage, profitability, and public listing status (Urquiza *et al.*, 2010).

Signaling theory states that information asymmetry between firms and investors leads to negative choices. To avoid this, companies proactively disclose information, thereby signaling to the market. Size, profitability and growth are issues that affect the decision to disclose voluntary information to avoid adversative selection (Urquiza *et al.*, 2010).

Political process theory recommends that managers make decisions based on the disclosed information by companies. Companies voluntarily disclose information to minimize these political costs. Size and profitability are the incentives for companies to disclose more information to reduce these costs. Larger companies incur higher political costs, leading to higher levels of disclosure.

Greater disclosure is expected to justify the company's huge profits, thereby avoiding legal obligations and justifying the company's level of profits. Political costs and the competitive environment can also affect the information content of an industry (Urquiza *et al.*, 2010).

Social capital is a compound multidimensional notion incorporating an aggregate of social and social value agendas. Lately, it has turned into an extremely famous and engaging idea among social researchers. It has arisen as a unique subject of conversation among scholastics. Social capital history is going back to Adam Smith and John Stuart Mill as classical economists, and Max Weber as sociologists, who helped in the economic issues' explanation culturally. However, social capital concept as an objective issue came to light only in the late 1980s and then, attracted an increasing number of researchers (Jackson, 2020). The social capital' scientific study is quite new, but the literature's evolution on this issue is enormous. Despite the extensive literature, a common social capital definition does not exist. It is practically and non-systematically defined and measured. The term of social capital is not a tangible phenomenon, it is rather an abstract idea (Kung, 2020).

Measurement and disclosure are at the heart of financial accounting theory. In modern business, accounting methods are used to measure the economic performance and position of business units and then it will be disclosed in the financial statements. Besides, there are many difficulties must be encountered when creating a disclosure index, such as item selection and weight. There are several theories explaining why companies disclose voluntary information (assuming the company benefits from disclosure), including agency theory, signaling theory, and political process theory, among others (Urquiza *et al.*, 2010). Since, financial users are deeply concerned about all the financial information (Mert, 2022). Although, social capital cannot be measured in a general sense, but it still has to be considered and the only way to measure it is by questionnaire at the individual level. Thus, AMDSC is important in today's business environment, as it might bring future earnings for the company (Kung, 2020; Jawabreh *et al.*, 2020).

Self-created indices typically measure voluntary information within general or mandatory information. However, some studies use disclosure indices to measure specific information, such as intellectual capital, environmental and social, or forward-looking information (Urquiza *et al.*, 2010).

There are many studies confirm the role of SC in improving firm performance, financial performance, and QAI such as: Akintimehin *et al.*, (2019); Chen *et al.*, (2018) and Wang *et al.*, (2021). Thus, it is critical for all companies to take SC into account, and it is critical that academics find a way to measure SC and disclose it in an appendix in the companies' financial report. Besides, Ievdokymov *et al.*, (2020) also revealed that SC can be measured by a questionnaire. Hence, (Haryanto *et al.*, 2017) pointed that the disclosure of social capital as one of the types of voluntary disclosure which a company can disclose information about company's socio-economic circumstances such as social communication inside and outside of the company that typically possesses a positive competitive advantage. The concept of social capital is defined as the social interaction's value which became an interesting topic for scholars. Thus, the combination of SC as a source of profits in kindness, with accounting measurement and accounting disclosure as the two main functions of accounting, is of high value to academics. Since they can also play a vital role in providing this valuable information to companies' managements. Thus, this study has shed light on this issue that will be investigated and become a key to open the scientific portal for academics in the Kurdistan Regional Government.

## 2.2 Quality of Accounting Information

Most written resources and professional bodies have argued that QAI consists of primary and secondary characteristics that include reliability, relevance as well as comparability and consistency. Reliable financial information is not relevance and vice versa (Abdelraheem *et al.*, 2021). Also, the financial information is comparable, if the company consistently uses the same accounting treatments. Beyond utility, accounting theory states that all accounting information should be relevant, reliable, comparable, and consistent. Essentially, this means that all financial statements must be accurate and in accordance with U.S. Generally Accepted Accounting Principles (Pit-ten Cate *et al.*, 2020). For further clarification, all characteristics will be explained in detail below.

Reliability is one of the essential characteristics of accounting information that must be unbiased and error-free in a way that users can rely on significantly. If the information is free of major errors

and prejudices, and users can rely on truly displaying what they want to display, then this information will be considered reliable (Abdelraheem *et al.*, 2021). Therefore, the event must be processed and presented according to the nature and economic reality of the event. All the information in the financial statements must be reliable, which can be improved through independent verified information. Reliability can be viewed as the quality of information that provide confidence to users. There are three sub-characters of reliability including honesty, verification, and neutrality. Honesty means that there is a high degree of consistency between the measurement (information) and the phenomenon to be considered. Unless the accounting information honestly expresses its intentions, it cannot be relied on. Accounting information must reflect true and complete financial facts and events, and its value and accounting data must be consistent with the financial and economic occurrences measured and informed (Al-Chahadah *et al.*, 2018).

When information influences users' decisions regarding the allocation of unusual resources, this means that the financial information is qualified and valuable which facilitates predictions about the outcome of past, current or upcoming occurrences, as well as confirmation of prior assessment (Shao *et al.*, 2021). The American Conceptual Statement defines relevance as the information ability to make a difference in a decision, describing relevant information as confirming or correcting previous prediction, or helping to shape future decisions. It is important for creditors, investors, and others to have accounting information capable in making a difference in decision. Thus, information will be relevance, which has both predictive and feedback value in addition to timelines. Relevance is one of the most significant characteristics of the information contained in financial reports and financial statements of companies listed on the capital market (Abdelraheem *et al.*, 2021).

Comparability refers to the comparison of two different events by users to identify similarities and differences. Comparison can be completed based on time to identify trends in the company's financial statements, or based on the financial position to evaluate and compare the company's relative position and performance with different companies. The accounting information of an enterprise is worthless if it is not comparable with other enterprises. The application of the same accounting treatments by different organizations to similar events leads to appropriate comparability. Hence, this secondary character can be enhanced through compliance with international accounting standards. Comparability permits financial statements' users to compare information between different interval to make decisions (Hamdaoui, 2020).

Consistency means compatibility from one period to another with stable policies and procedures. Compatibility can be reached by applying the same accounting treatment to similar occurrences from one period to the next. Thus, constant accounting addressing need to be applied from time to time without making any changes (Abdelraheem *et al.*, 2021). However, this does not mean that the company cannot convert the accounting method to a new, justified and preferred method. Besides, companies are required to disclose the cause and effect of such conversion. According to basic principle of accounting information, a method that used to do accounting should be continued from one to another financial year, subsequently profit & loss can be compared. According to the concept of consistency, once a business decides on a certain way to treat an accounting item, all similar items will be treated in the same way in the future. The principle of consistency states that all accounting treatments should be followed consistently for current and future periods unless changes are required by law to provide better presentation of accounts. This principle prevents account manipulation and makes financial statements comparable over historical periods (Pit-ten Cate *et al.*, 2020).

Many factors can affect the financial decision-making process, such as economic, industrial and political factors. Therefore, the disclosures' quality in the companies' financial reports influences the decision-making quality. Besides, in order to avoid misunderstandings and improve understandability, the information disclosed quality in the financial reports should be maintain. The disclosure of financial information plays an important role in the quality decision-making process. The general purpose of financial information is to provide financial information to parties who will use the report to support decision-making (Agustiningasih *et al.*, 2017). Haryanto *et al.*, (2017) found that the quality of financial reporting is related to the level of completeness of financial disclosures, and the degree of completeness is linked to the social capital of the company. In this regard, this study sheds light on the impact of AMDSC on QAI, in order to be a key to open the scientific portal for researchers in the KRG.

### 3. Literature review and hypothesis

#### 3.1 Relationship between accounting measurement & disclosure of social capital and quality of accounting information

Many studies have been conducted on social capital, measurement, disclosure, and the accounting information quality of the entire world (Abbas et al., 2021; Latif and Shah, 2021; Malo-Alain et al., 2021; Mert, 2022; Nguyen and Ha, 2020; Srivastava and Muharam, 2021; Tajpour et al., 2021). Ievdokymov et al. (2020) exposed that social capital can be measured through a questionnaire at the individual level and accordingly disclosed. Thus, this research has used this method to measure SC, which is not considered at all in this region. Thence, Wang et al. (2021) revealed that social capital affects information sharing, which provides adequate and timely information for interested users and improves the quality of disclosure. This can be interpreted as enhancing QAI because timeline is one of the sub-dimensions of relevance of accounting information (Abdelraheem et al., 2021). Accordingly, SC can be a variable for improving QAI. Also, Ahmed (2021) mentioned that the disclosure is important for making optimal decisions for interested users. Besides, Chen et al. (2018) emphasized that social capital is an important factor in enterprise performance. Moreover, Amiran et al. (2022) found that the quality of accounting information can be influenced by accounting measurement. This can bring up the idea of combining SC measurement and disclosure, or, in other words, how important it is to measure and disclose social capital in the financial statement.

Besides, Akintimehin et al. (2019) discussed that social capital plays a significant role in the company's business performance. Hence, Macgregor and Ibanichuka (2021) confirmed that firms' performance is significantly related to quality accounting information, which consists of reliability and relevance as the main characteristics (Hameed et al., 2022) and comparability and consistency as sub-characters (Mita et al., 2018). On this base, SC might significantly affect QAI. Also, Gofwan (2022) discovered that there is a positive and significant relationship between the quality of accounting information and financial performance. These references would have allowed for a more thorough analysis of the literature and a deeper understanding of the theoretical foundations of this research. Likewise, Lim et al. (2017) argued that disclosure quality is crucial for users in decision-making since it gives value to the accounting information. And SC is accounting information from a social accounting perspective (Jones & Taylor, 2012).

With all these references, none of them investigated all these variables together, which can lead to a more rigorous critique of the literature and help deepen the theoretical underpinnings of accounting research. As the main function of accounting is measurement and disclosure (Lee, 2020), the measurement and disclosure of non-financial capital such as social capital (Tajpour et al., 2021) has not been considered by KRG scholars and academics; therefore, the measurement and disclosure of social capital in accounting will be investigated in this research to discover its effect on QAI. Besides, the three sub-dimensions of reliability have not been considered by researchers in the KRG. Thus, they need to be explored and examined to improve the quality of accounting information. Hence, the relevance of accounting information can be further improved by investigating its three sub-dimensions, which KRG scholars have not taken into account. Thence, comparability and consistency, as secondary characteristics of accounting information (Mita et al., 2018), have not been studied properly by academics in this region.

For this purpose, this research investigates the direct effect of AMDSC in improving the QAI by taking the four characters of AI, which comprise reliability, relevance, comparability, and consistency (Hamdaoui, 2020), as well as considering the sub-dimensions of reliability and relevance to inspect the link between variables. However, AMDSC might have an indirect effect on the QAI, but this research only focused on the direct effect. Thus, based on the previous literature, the following hypotheses have been formulated:

**H1:** AMDSC has a significant direct effect on reliability

**H2:** AMDSC has a significant direct effect on relevance.

**H3:** AMDSC has a significant direct effect on comparability

**H4:** AMDSC has a significant direct effect on consistency.

### **3.2 Relationship between the dimensions of quality of accounting information**

Chen et al. (2020) and Outa et al. (2017) argued that relevance is affected by comparability. Similarly, Ross et al. (2019) stated that comparability improves forecast accuracy (which almost equals predictive value, which is a sub-dimension of AI relevance (Abdelraheem et al., 2021)) in US organizations. This means that the sub-dimensions of QAI can affect each other. Hence, Duong and Truong (2020) discussed that comparability boosts the value of accounting information and leads to an improved decision-making process. Furthermore, Imhof et al. (2022) indicated that comparability increases the usefulness of financial information, and Ghosh et al. (2020) showed that financial information will be useful if it is relevant. This document shows how comparability affects AI positively. However, the reliability of AI has not been considered before by the scholars as being affected or not by comparability.

However, Tontiset and Kaiwinit (2018) pointed out that a number of factors affect reliability, such as predictive and confirmative value, entity-specific material, comprehensiveness, objectivity, freedom from errors, and verifiability, without mentioning the comparability of AI. Thence, Mapelli et al. (2022) revealed that consistency has an influence on information reliability, and again, other parts of QAI such as relevance and comparability have not been mentioned. However, Gunarathne and Lee (2021) confirmed that consistency allows accounting management to be reliable and predictable in its actions. This means consistency affects reliability and relevance, but comparability is ignored. Besides, Shuraki et al. (2020) discussed that comparability is the objective of an enterprise, and consistency aids in achieving this objective. This allows us to believe that consistency can affect comparability positively. Moreover, KRG scholars have struggled to focus on the influence of AI characters on each other. Therefore, in order to clarify the proposal model whether the dimensions of QAI influence each other or not, the following hypotheses have developed:

**H5:** comparability has a significant direct effect on relevance.

**H6:** consistency has a significant direct effect on reliability.

**H7:** consistency has a significant direct effect on comparability.

**H8:** consistency has a significant direct effect on relevance.

**H9:** comparability has a significant direct effect on reliability.

## **4. Research methodology**

### **4.1 Research design**

For conducting this research primary data is used through questionnaire, so the received responses are objective (Wang *et al.*, 2020). The questionnaire was sent to 10 manufacturing companies in Kurdistan Region / Iraq, Sulaimani. It contains 27 questions, which are designed to test the five dimensions of the research hypothesis.

### **4.2 Sample**

The researchers used stratified random sampling to collect sample data from 252 full-time employees of a manufacturing companies in Kurdistan Region/ Iraq. Therefore, the researchers chose each company as a separate stratum. The company's administrative committee properly recognized the research and managed the process, which helped to ensure the quality and sensitivity of the feedback. Researchers do not choose samples that are representative of the entire population they want to study. Therefore, this study used a disproportionately stratified sample of a stratified random sample as it provides better population coverage as researchers can better control for subgroups and ensure they are included (Rahman et al., 2022).

### **4.3 Sample size**

In total, the manufacturing companies sampled by the authors have approximately 500 employees. Each company has 40 to 50 employees. Initially, the researchers, hand-distributed the questionnaires in Kurdish, Arabic and English and briefly explained the questions to the participants. At the time, the researchers collected responses by examining every participant in the company. However, only 260 participants responded to the questionnaire, 8 of which were incomplete and were therefore excluded from further analysis. In terms of valid responses, the minimum number of employees to complete the

questionnaire per company is 18 and the maximum is 30 employees. To prevent the usual method variance problem, the research proposed Harman's single factor test, which shows that the explained variance for the first dimension is 36%, which is well below the 50% threshold.

#### 4.4 Instrumentation

There were five dimensions in this survey: accounting measurement and disclosure of social capital (AMDSC), reliability, relevance, comparability and consistency which scales in 27 questions. The researchers took AMDSC from the work of Craig & Diga, (1998) and Lee, (2015). Reliability and relevance by Nalukenge *et al.*, (2012) have been used in this research. Comparability and consistency have been taken from the work of Kanakriyah, (2016). All the questions are modified by the researchers to fit this research. A five-point Likert scale has been used. The answer to the question ranges from 1 (strongly disagree) to 5 (strongly agree).

Reliability for each dimension is calculated by using Cronbach's alpha method. Cronbach's alpha is predictable to be over 0.70 for the variable to be considered reliable (Budur and Poturak, 2021). As shown in Table 1, correlation values of 0.8262 for AMDSC, 0.9081 for relevance, 0.8222 for consistency, 0.8066 for comparability and 0.8276 for reliability were observed, well above the threshold. One of the questions that has been asked to the respondents regarding AMDSC is: "Members who work in this company have confidence in one another."; or "The presence of social capital in the financial statements affects the decision of users of the financial statements." Besides, for Reliability: "All daily transactions that take place are recorded in this enterprise." Hence, Relevance: "Information in the books of account is used in predicting future incomes." Furthermore, Consistency: "Social interactions leads to consistency in accounting methods." At the end for Comparability: "Social interactions provide information improve the comparison process among companies."

#### 4.5 The proposed model

Structural equation modeling (SEM) is used to test the hypothesized relationships of the proposed model. The proposed model is shown in Figure (1).

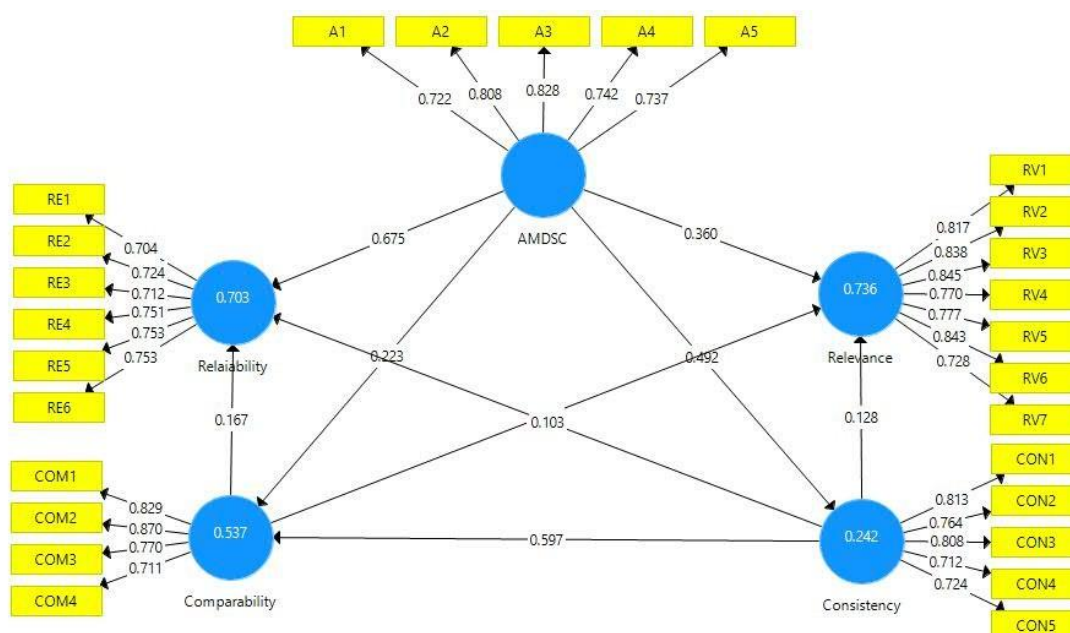


Figure 1. Model of the study (H1-H9)

#### 5. Data analyze and results

Analytical methods include IBM SPSS for EFA and IBM SmartPLS software for SEM.



## 5.1 demographic analysis

Demographic information comprises gender, position, educational level, experience in industry and age. The percentage of males and females is 83% and 17%, respectively. The position dimension of demographic information includes accountant, auditor, entry level, manager and other which stood at 19%, 11%, 15%, 18% and 31% respectively. The education level of the participants is as follows: 46% have bachelor's degree and 35 % have a high school or less, 14% have 2 years of university and 6% have PhD and master degree. 21% possess 1-3 years of experience in industry, 20% have 4-6 years, 21% have 7-9 years, and 18% have less than 1 year and 20% of the participants have worked for over 9 years in the industry. Finally, the age of participants recorded in the survey is as follows: 22% are 18-25 years old, 30% are 26-35, 25% are 36-45 a, 10% are between 46-50 and 13% of the respondents are 51 and above.

## 5.2 Measurement model assessment

**5.2.1 Exploratory factor analysis.** It is a statistical technique used to reduce data into a smaller set of aggregated variables and examine the underlying theoretical structure of a phenomenon. It is used to identify the relationship structure between variables and respondents. The researchers evaluated the internal validity of the questionnaire using Cronbach's alpha which is a measure of internal consistency, that is, how closely a set of elements are related as a group. It was recorded between 0.8066 and 0.9081, which also met the recommended threshold of 0.70 to satisfy structural reliability (Budur, 2018).

The researchers used the Kaiser-Meyer-Olkin Sampling Adequacy Index (KMO) which measures how well your data matches factor analysis, and Bartlett's test of sphericity to determine sample adequacy. Bartlett's test compares the observed correlation matrix to the identity matrix. Basically, it checks if there is some redundancy between variables, which can be summarized by a few factors. KMO (0.95) was significantly above the 0.7 threshold, while Bartlett's test of sphericity was significant at  $p \leq 0.01$ , confirming the adequacy of the EFA procedure data (Mohammed *et al.*, 2020).

**Table 1.** EFA Analysis Results, Composite Reliability, VIF and AVE

Variables	AMDSC	Comparability	Consistency	Relevance	Reliability	VIF	Alpha Cro.	rho_A	Composite Reliability	Average Variance Extracted (AVE)	
AMDSC	A1	0.7215	0.3152	0.2926	0.544	0.4163	1.5788	0.8262	0.835	0.8777	0.5902
	A2	0.8079	0.4267	0.3735	0.6304	0.5901	2.0348				
	A3	0.8277	0.4801	0.4296	0.7065	0.623	2.0236				
	A4	0.7415	0.3894	0.3753	0.5877	0.4726	1.6077				
	A5	0.7368	0.3527	0.4047	0.6333	0.509	1.5316				
Comparability	COM1	0.4356	0.829	0.5826	0.462	0.704	1.8719	0.8066	0.8109	0.874	0.6356
	COM2	0.4224	0.8697	0.5345	0.5048	0.6705	2.5529				
	COM3	0.3231	0.7702	0.5076	0.4045	0.5264	1.9052				
	COM4	0.451	0.711	0.6178	0.494	0.5912	1.3222				
Consistency	CON1	0.3783	0.5923	0.8126	0.4476	0.5628	2.53	0.8222	0.8227	0.8757	0.5855
	CON2	0.3499	0.5266	0.7636	0.332	0.4782	2.4558				
	CON3	0.2714	0.4978	0.8084	0.3781	0.4479	2.0015				
	CON4	0.4195	0.5318	0.712	0.4794	0.5084	1.5551				
	CON5	0.4378	0.5371	0.7237	0.4533	0.5312	1.5516				
Reliability	RE1	0.5916	0.4847	0.3881	0.7037	0.5601	1.4546	0.8276	0.8281	0.8744	0.5374
	RE2	0.586	0.4335	0.4456	0.7241	0.5891	1.5278				
	RE3	0.573	0.4171	0.4435	0.7116	0.5891	1.5109				
	RE4	0.6057	0.4398	0.4026	0.7514	0.5417	1.6367				
	RE5	0.5716	0.3627	0.3326	0.7529	0.4952	1.7175				
	RE6	0.6374	0.4447	0.4154	0.753	0.5803	1.6481				
Relevance	RV1	0.6265	0.6359	0.5694	0.726	0.8171	2.7882	0.9081	0.9108	0.9272	0.646
	RV2	0.6079	0.6721	0.5737	0.6551	0.8381	3.0757				
	RV3	0.61	0.6517	0.5277	0.6339	0.845	2.7934				
	RV4	0.5468	0.5381	0.5096	0.6443	0.7703	2.0272				
	RV5	0.5392	0.6037	0.5593	0.5863	0.7769	2.2377				
	RV6	0.5342	0.6676	0.5264	0.5867	0.8429	3.4167				
	RV7	0.3843	0.6619	0.482	0.4511	0.7281	2.1476				

EFA decreases the number of constructs. Next is the eigenvalue of each factor, which must be equal to or greater than 1 for the related problem cluster to be considered a factor. The eigenvalue is a measure of the amount of covariance of the observed variables explained by the factor (Budur, 2020). Any factor with an eigenvalue of 1 explains a variance greater than one in observed variable. The five

dimensions have the eigenvalue described above. These factors also explained 86% of the variance. The descriptive statistics are shown in Table 1. The reliability for AMDSC 0.8262 and relevance is 0.9081. however, consistency, comparability and reliability scored at 0.8222, 0.8066 and 0.8276 respectively (Hair *et al.*, 2010). In addition, Cronbach's alphas for all dimensions were higher than 0.7, which satisfying the reliability of the structure (Budur and Poturak, 2021) (Table 1).

Discriminant and convergent validity tests are used to assess the construct validity of the model. Convergent validity is proposed to test whether the items of each construct are sufficiently correlated with each other. Average variance extraction (AVE) and composite reliability (CR) are assessed to measure the convergent validity. The predictable value of AVE is not less than 0.5 and CR is not less than 0.7. The above table lists the results for convergent and discriminant validity.

The researchers mapped clusters for each dimension, where questions under each construct were related to trust, norms and obligation; shared language, codes, and narratives; honesty, neutrality and verification; feedback value, predictive value and timelines; comparability and consistency.

According to the corresponding distribution order, the first group can be regarded as AMDSC, the second group is reliability, the third group is relevance, the fourth group is comparability, and the fifth group is consistency. The results showed that by providing sufficient scores to account for factor loading, communalities, and Cronbach's alpha, all items were properly classified under the relevant dimension (Table 1). These results indicate that the constructs can be easily formed.

Researchers used discriminant validity (DV) and convergent validity (CV) tests as part of the validity test to see whether the required distances were maintained between dimensions and items under each dimension were close enough (Khine, 2013). DV is demonstrated by showing that structural measures that in theory should not be highly correlated are actually found not to be highly correlated. CV refers to the degree to which the new scale correlates with other variables and other measures of the same structure. DV is achieved because the square root of the extracted mean variance is higher than the correlation coefficients of other dimensions.

CV was also assessed by average variance extraction (AVE) with a minimum threshold of 0.5 and composite reliability (C.R.) with a minimum of 0.7 (Fornell and Larcker, 1981). The CVs for all dimensions were above the relevant thresholds due to the presence of composite reliability (C.R.) and average variance extracted (AVE) (Table 1). AVE is a measure of the amount of variance captured by the construct relative to the amount of variance due to measurement error, and C.R. is a measure of the internal consistency of scale items.

Therefore, items grouped according to each factor are sufficient to construct the conceptual dimension. This is demonstrated by DV-CV effectiveness. With these valid and reliable measurements, the corresponding model can be established.

The comparability and consistency variables are mediating variables, and VIF has been used to assess the impact and strength of mediation (Domenek *et al.*, 2022). The variance inflation factor (VIF) is 3.4167 at its highest level. Overall, the value of the VIF indicates that multicollinearity is not a threat to our investigation, contrary to what a more stringent VIF threshold, i.e., a value of 4.5, may imply (Hair *et al.*, 2011). Table (1).

**Table 2.** Discriminant Validity

	<b>AMDSC</b>	<b>Comparability</b>	<b>Consistency</b>	<b>Reliability</b>	<b>Relevance</b>
AMDSC	0.7682				
Comparability	0.5171	0.7972			
Consistency	0.4923	0.7068	0.7652		
Reliability	0.7119	0.5888	0.5531	0.7331	
Relevance	0.6877	0.7884	0.667	0.7241	0.8037

Discriminant and convergent validity tests are used to assess the construct validity of the model. Discriminant validity is shown to see if factors have different and uncorrelated values. For instance, the comparability's AVE is found to be 0.6356 (from Table 1) hence its square root becomes 0.7972. This number is larger than the correlation values in the column of comparability (0.7068, 0.5888 and 0.7884) and also larger than those in the row of comparability (0.5171). Similar observation is also made for the latent variables AMDSC, consistency, relevance and reliability. The result indicates that discriminant validity is well established.

### 5.3 Measurement model analysis

5.3.1 Structural equation modeling. The researchers developed SEM from five dimensions of AMDSC, reliability, relevance, comparability and consistency to test hypotheses and evaluated the result of the model.

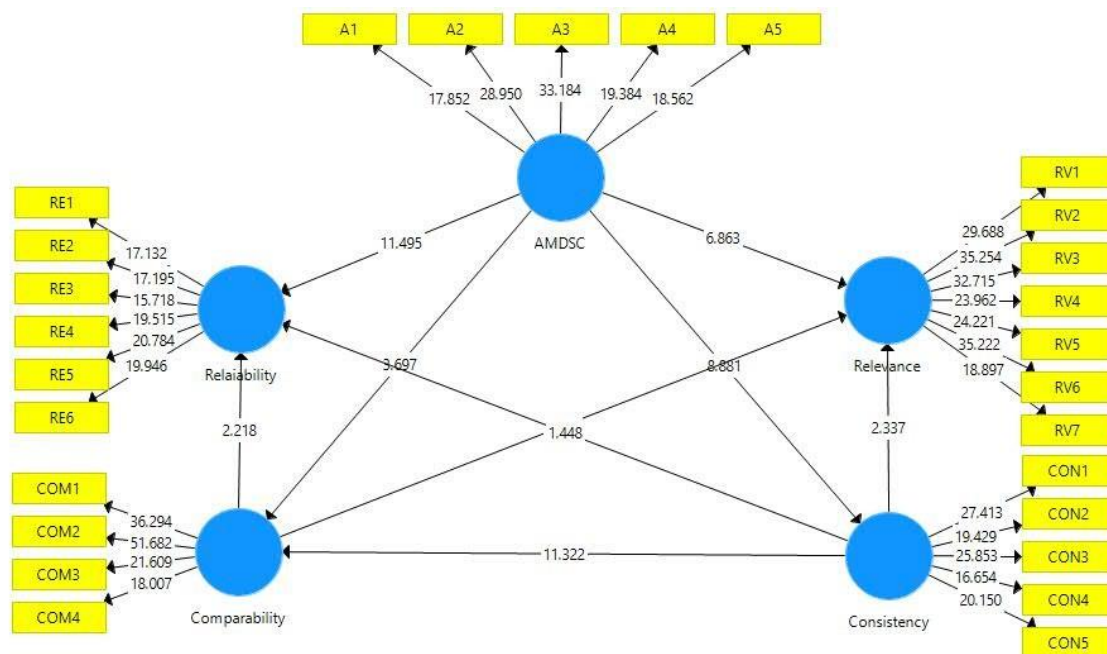


Figure 2. Hypothesized Model (H1-H9)

SEM examines the direct and indirect influence of independent variables on dependent variables. Table 3 shows the outcomes of direct effects. AMDSC significantly positively affects reliability ( $\beta = 0.6749$ ,  $t = 11.4953$ ,  $p < 0.05$ ), relevance ( $\beta = 0.3601$ ,  $t = 6.8626$ ,  $p < 0.05$ ), comparability ( $\beta = 0.2232$ ,  $t = 3.6973$ ,  $p < 0.05$ ) and consistency ( $\beta = 0.4923$ ,  $t = 8.8806$ ,  $p < 0.05$ ) of accounting information. Therefore, the data supported H1, H2, H3 and H4 (Table 3) (Figure 2).

Table 3. SEM Analysis Results

Hypothesis	Independent Variables	Dependent V.	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics ( O/STDEV )	P Values	Results
H3	AMDSC	---> Comparability	0.2232	0.2187	0.0604	3.6973	0.000	Sig.
H4	AMDSC	---> Consistency	0.4923	0.492	0.0554	8.8806	0.000	Sig.
H2	AMDSC	---> Relevance	0.3601	0.3617	0.0525	6.8626	0.000	Sig.
H1	AMDSC	---> Reliability	0.6749	0.6753	0.0587	11.4953	0.000	Sig.
H5	Comparability	---> Relevance	0.5115	0.5128	0.0591	8.6598	0.000	Sig.
H9	Comparability	---> Reliability	0.1673	0.1688	0.0754	2.2177	0.027	Sig.
H7	Consistency	---> Comparability	0.5969	0.6022	0.0527	11.3223	0.000	Sig.
H8	Consistency	---> Relevance	0.1282	0.1257	0.0549	2.3366	0.020	Sig.
H6	Consistency	---> Reliability	0.1026	0.1027	0.0708	1.4482	0.148	NonSig

Furthermore, comparability significantly and positively affects relevance ( $\beta = 0.5115$ ,  $t = 8.6598$ ,  $p < 0.05$ ), and reliability ( $\beta = 0.1673$ ,  $t = 2.2177$ ,  $p < 0.05$ ). Therefore, the data supported H5 and H9. Hence, consistency significantly and positively affects reliability ( $\beta = 0.1026$ ,  $t = 1.4482$ ,  $p > 0.05$ ). Thus, the data did not support H6. Moreover, consistency significantly and positively affects comparability ( $\beta = 0.5969$ ,  $t = 11.3223$ ,  $p < 0.05$ ), and relevance ( $\beta = 0.1282$ ,  $t = 2.3366$ ,  $p < 0.05$ ). Thus, the data supported H7, and H8. Table (3) Figure (2).

### 6. Findings and discussion

This paper highlights the need to promote social capital as a way of improving QAI in industrial companies of KRG. This study confirms that AMDSC has significant and positive effect on the QAI in KRG. The findings confirm the importance of AMDSC in improving all characteristics of financial

information as evident in positive and significant relationships between AMDSC and the dimensions of QAI.

This study found the effect of AMDSC on reliability and direct relations between them which can be useful to improve the quality of accounting information. Since accounting, measurement, and disclosure of social capital is part of accounting information and relating to reliability directly, means it can be helpful in enhancing the quality of accounting information (Malo-Alain et al. 2021). In other words, social capital consists of relational, cognitive, and structural dimensions, and reliability means honesty, verification, and neutrality (Lan and Luc, 2020). Trust and norms are the subdimensions of relational social capital, shared language, codes, and narratives are the subdimensions of cognitive social capital (Lan and Luc, 2020). They can be directly connected to honesty, verification, and neutrality, which are parts of reliability, according to meaning and practice, because they are tools that can participate in practicing reliability. Trust almost means honesty (Malo-Alain et al. 2021). Shared language, codes, and narratives can be used as a tool for practicing verification, as there are shared languages and codes in accounting such as accounting vocabulary and account guides, as well as recording accounting information is almost equal to narrative. Neutrality can be practiced through norms and obligations that are formulated as rules for the company to work unbiasedly.

The dimensions of social capital are related to the dimensions of relevance. The dimensions of the last one consists of predictive value, feedback value, and timelines (Malo-Alain et al. 2021). Shared languages, codes, and narratives can be useful for predicting the future, since accounting information is about the accounts guide which contains numbers and codes (Lan and Luc, 2020). Thus, previous financial statements which comprise of accounting information can be used for forecasting the future which approves the influence of AMDSC on predictive value and the relation between them. This reveals a simple relation between the two variables and the influence of AMDSC on relevance. Hence, they are beneficiaries in confirming and correcting the information which approve the relation between AMDSC with feedback value. Likewise, the company's norms, shared languages, codes and narratives can be helpful for providing information to users in a timely manner which approves the effect of AMDSC on timelines and the relation between them.

Comparability is the level of standardization of accounting information that allows financial statements of various firms to be compared with each other. This is the core condition of the users of the financial statements for financial reporting (Lan and Luc, 2020). Financial statements are more comparable when the same accounting procedures and standards apply to multiple reporting periods and various industry entities (Hamdaoui, 2020). Actually, comparability means making comparisons based on time and financial position. Thus, the subdimensions of AMDSC are consistent with comparability in which shared language, codes, and narrating information can help employees to identify differences and similarities within a company through making comparisons based on time, as well as outside the company by making comparisons based on financial position. Therefore, the relation and the effect of AMDSC on comparability can be approved.

The influence of AMDSC on consistency and the relation between them can be realized when the subdimensions of accounting, measurement, and disclosure of cognitive social capital, such as shared language, codes, and narrative, are used to deliver information continuously from period to period without change. Hence, if the company wants to be credible in the eyes of its stakeholders, then switching to a new accounting method is not necessary (Pit-ten Cate et al. 2020). In essence, the principle of consistency allows a company to implement an accounting principle or technique and continue to follow it constantly in future accounting stages (Hamdaoui, 2020). Changing the accounting principles or methods is necessary only when the new version improves the reported financial results in some way. If such changes are made, the effect needs to be fully recorded, with such documents included in the notes on the financial statements (Pit-ten Cate et al. 2020).

This research similar to the studies of Nuryani *et al.*, (2018); Nguyen and Ha (2020); Santos *et al.*, (2021) and Shao and Sun (2021) in investigating the role of social capital in business environment generally. However, there is no research quite similar to this research, as in this research all dimensions of the QAI were considered under investigation in order to discover the effect of AMDSC on it. Thence, the role of accounting measurement and disclosure on the QAI has not been considered by the scholars in KRG, while measurement and disclosure are the main functions of accounting.

The result of a significant correlation between AMDSC and reliability in this paper was approximately comparable to the results of study of Ou *et al.*, (2018) which considered the effect of ERP application on reliability of accounting information quality. However, it differs from this paper because, in this paper, the role of AMDSC in the reliability of the quality of accounting information is emphasized through a deep investigation into its dimensions. Hence, the effect of AMDSC on the reliability of the quality of accounting information is investigated.

Likewise, the result of a significant correlation between AMDSC and relevance in this paper was almost similar to the outcomes of study of Siregar and Nurharjanti (2021) which reviewed the value relevance of accounting information development for the primary users of financial statements that comprise investors and creditors. It agreed that the importance of the value of accounting information is necessary to increase its usefulness and can contribute to the research for the usefulness of accounting information in the future. However, it is different from this paper, since the role of AMDSC on the relevance of the quality of accounting information is considered in this paper through considering the dimensions of relevance.

Similarly, the result of a significant correlation between AMDSC and comparability in this paper was slightly similar to the outcomes of study of Weichao *et al.*, (2018); as it articulated that comparability plays a significant role in investor's achievement and use of external information to evaluate the value of the firm. Thence, the result of this paper denoted that comparability is crucial for companies' financial performance but it is required to be improved through AMDSC.

Likewise, the result of a significant correlation between AMDSC and consistency in this paper was fairly similar to the outcomes of study of Saleh *et al.*, (2021) where artificial intelligence is reported to enhance the consistency of financial statements. However, in this paper the role AMDSC in improving consistency of accounting information was investigated.

Although, this research is differed from the studies of Tantardini *et al.*, (2017); Akintimehin *et al.*, (2019); Binh *et al.*, (2020). As they ignore all the dimensions of the quality of accounting information or there is no investigation regarding the link between the sub-dimensions of social capital with the QAI dimensions, or the accounting measurement and disclosure are ignored to be examined in their research. Thus, if the manufacturers fully involve the employees and managers in making decisions and uses consensus to make the final decision, the perception of the leadership of the manufacturers' employees about the accounting information can become more reliable. In other words, manufacturers can recognize that their managers and employees act with integrity, honesty, impartiality and verifiability.

## **7. Theoretical and practical implications**

The authors found that SC could make enormous changes in the companies' social relations which results in better performance and improving the QAI. This way, the financial statements may be considered to be more appropriately prepared. Besides, the cognitive social relation was another cause to improve the accounting information quality, because the employees and management considered the shared languages and codes such as the accounts guide that they used to record financial occurrences and narratives as recording. Many empirical studies in the accounting sector filed investigated SC and QAI in the world (Abbas *et al.*, 2021; Amiran *et al.*, 2022; Chen *et al.*, 2020; Nguyen and Ha, 2020 and Wang *et al.*, 2021).

However, there is no research in this region about SC, considering the dimensions of both SC and QAI. This research demonstrates that AMDSC affected QAI and the dimensions of QAI were affecting each other as comparability affected relevance directly and significantly, consistency influenced reliability and comparability directly and significantly, and this makes the financial information more valuable. There has been no study regarding this relationship reported in the literature in this region. However, this paper indicates that SC is indeed found in the business environment of KRG. Introducing social capital concept to employees and managements will be an important first step towards exercising social capital and repositioning it in the KRG business environment. Then, working towards measuring and disclosing it in the financial statements. Ultimately, introducing its dimensions will be crucial to accountants, since they are the accounting guide and codes that have been present in the accounting practices.

The theoretical implication is that the study highlights the importance of industrial enterprise management in promoting social capital, such as mutual trust (relational social capital), flow of information (structural social capital), and goal alignment (cognitive social capital). In general, the study of SC in the accounting literature as a source for improving the QAI is a recent phenomenon, and in KRG, in particular. The emphasis is not on social capital as a means of funding and improving QAI.

## **8. Conclusions and Recommendations**

This paper investigated the role of accounting measurement and disclosure of social capital in improving the quality of accounting information in industrial companies. Since, it might have future dimensions for earning profits dramatically (Pillai et al., 2021). Although there are many different attempts to measure social capital, there is no unified method for calculating it. Therefore, all researchers and scholars agreed that social capital is necessary to be measured and disclosed. This research revealed that AMDSC plays a significant role in improving QAI which comprise reliability, relevance, comparability, and consistency. Since, correlation analysis detected a pure relationship between variables, and regression analysis revealed the effect of the independent variable on the dependent variables. This paper further indicated that the dimensions of QAI influence each other making AMDSC more effective.

The research found that AMDSC can have an impact on reliability, especially if the subdimensions of these two variables are concerned. For instance, trust almost means honesty (Malo-Alain et al., 2021). Shared language, codes, and narratives can be used as a tool for practicing verification, as there are shared languages and codes in accounting such as accounting vocabulary and account guides, as well as recording accounting information is almost equal to narrative. Neutrality can be practiced through norms and obligations that are formulated as rules for the company to work unbiasedly. Likewise, the relations between the dimensions of social capital (Shared languages, codes, and narratives) and the dimensions of relevance (predictive value, feedback value, and timelines) can be helpful for forecasting the future, confirming and correcting the information and providing information for users on a timely manner. This approves the influence of AMDSC on relevance. Besides, AMDSC are consistent with comparability in which shared language, codes, and narrating information can help employees to identify differences and similarities within a company through making comparisons based on time, as well as outside the company by making comparisons based on financial position. Moreover, the influence of AMDSC on consistency and the relation between them can be realized when the subdimensions of accounting, measurement, and disclosure of cognitive social capital such as shared language, codes, and narrative are used to deliver information continuously from period to period without change.

Industrial companies could encourage their employees' work based on trust, norms, and obligations of the company towards improving reliability. This means that financial information can be verified and used by investors and creditors constantly, leading to similar outcomes. Hence, improving relevance means information should be relevant to users' decision-making desires. Thus, manufacturers could assert that shared languages, codes, and narratives as the three sub-dimensions of social cognitive capital can play a significant role in improving the relevance of information. Because the shared languages and codes can be considered the same codes and accounting guides used by accountants, the narrative is such as recording accounting information. Besides, improving the comparability of accounting information will help manufacturers to make comparisons based on time and financial position more properly. Thus, cognitive social capital could facilitate this comparison by using shared languages, norms, and narratives. Financial statements must be comparable from one accounting period to another.

Finally, improving the consistency of accounting information encourages manufacturers to emphasize that the accounting procedures used in the earlier period must be used constantly in the future. This means that companies must refrain from changing their accounting policies unless there is a legitimate reason to do so. The consistency concept is significant because it needs comparability, and, it permits investors and other users of financial statements to easily and correctly compare a company's financial statements. Likewise, comparability directly and significantly affected relevance and consistency directly and significantly influenced reliability and comparability. Every company should be encouraged to increase the disclosure of SC, as SC information can be a fundamental

consideration for potential investors and creditors to make informed decisions and enhance the confidence of company stakeholders.

### **9. Limitations and Future Research**

The research is limited to industrial companies in Sulaiymanih, The Kurdistan Region of Iraq. Thus, the findings cannot be comprehensive unless the other scholars further considered various companies, philosophies, agricultural or trading companies. Likewise, the sample scope could be greater to draft a more reliable addition to the literature. It might guide the industrial companies to change the measurement and disclosure of their financial information system.

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