

The impact of the theory of legitimacy on the disclosure of organizations in Jordan using a linear regression model

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ABSTRACT

The purpose of this paper is to identify the impact of the theory of legitimacy on the disclosure of organizations in Jordan. The theory of legitimacy and the disclosure of organizations are considered. The main finding that was the legitimacy of the organization (independent variable) is effect on all dependent variables (the continuity of the organization, media, closure organization for their contributions to the Social, organization's commitment to legal requirements) using simple linear regression model.

Introduction

In deciding what information to report companies follow the general practice of providing information that is of sufficient importance to influence the judgment and decisions of an informed users often referred to as the "full disclosure principle" it recognizes that the nature and amount of information included in financial reports reflects a series of judgmental trade – offs.

This trade – offs strive for:

Sufficient detail to disclose matters that make a difference to users .

Sufficient condensation to make the information understandable (Kieso, et al, 2011).

Traditional disclosures requirement are included in the following statements:

- 1- Income statement.
- 2- Statement of financial position.
- 3- Statement of cash flows.

In recent years the scope of accounting information expanded beyond conventional accounting information, examples of new accounting disclosures are as follows (Belkaoui, 2004).

- 1- Value added reporting.
- 2- Employee reporting.
- 3- Human resource accounting.
- 4- Social accounting and reporting.
- 5- Budgetary information disclosures.
- 6- Cash flow accounting and reporting
- 7- Disclosures about the environmental performance of the entity.

There are a number of theoretical arguments as to why corporate management might elect voluntary to provide particular information to parties outside the organization. These arguments were grounded within positive accounting theory, but there are some alternative theoretical perspectives that address this issue. These theories are:

Legitimacy theory, stakeholder theory and institution theory.

These theories are sometimes referred to as "system – oriented theories or also been referred to as" open – systems theories (Deegan and Unerman, 2011). Within this prospect the organization is assumed to be influenced by and in turn to have influence upon the society in which it operates. The main groups influenced by the organization and have influence upon it are: investors, (owners), employees, suppliers, consumers, creditors, media and government.

Within legitimacy theory accounting disclosure policies are considered to constitute a strategy to influence the organization's relationships with the other parties with which it interact.

The purpose of this paper is to identify the impact of the theory of legitimacy on the disclosure of organizations in Jordan.

Problem Definition

In addition to determine the importance and extent of using the legitimacy of the organization, the main problem raised by this paper is that the achievement of such use, the realization of its advantages of legitimacy of the organization with the disclosure of organizations in Jordan.

The problem of this paper can be stated as follows:

- 1- Is there effect of the legitimacy of the Organization on the continuity of the organization?
- 2- Is there effect of the legitimacy of the Organization on Media?
- 3- Is there effect of the legitimacy of the Organization on closure organization for their contributions to the Social?
- 4- Is there effect of the legitimacy of the Organization on organization's commitment to legal requirements?

Theoretical Framework

Theory of legitimacy asserts that the organization seeks to ensure that they are perceived as operating within the bounds and norms of their respective societies, that is they attempt to ensure, that their activities are perceived by outside parties as being “legitimate”. These bounds and norms are not considered to be fixed, but change over time, there by requiring organizations to be responsive to the ethical or (moral) environment in which they operate (Deegan and Unerman, 2011).

Legitimacy is not a constant concept but a relative one it is relative to the social system in which the organization operates and in time and place.

For an organization seeking to be perceived as legitimate, it is not that actual conduct of the organization that is important, it is what society collectively knows or perceives about the organization conduct that shapes the legitimacy.

So we can observe that the organization is legitimate when it is Judged by the society to be just and worthy to support legitimacy therefore a measure of the attitude of society toward a corporation and it’s activities (Suchman, 1995).

Legitimacy theory depends on the idea of a “social contract” between the organization and the society in which it operates.

The social contract is a concept used to explain a group of implicit and explicit expectation that society has about how organization should conduct its operations.

Traditionally profit maximization was perceived to be the main measure of corporate performance, in other words a corporation’s profits were viewed as a comprehensive measure of organizational legitimacy, but public expectations show changing recently.

The most important increase in legislation related to social issues including the environment, employee health and safety and other social requirements. The society increasingly expects business to make efforts to repair or prevent damage to the physical environment, to ensure the health and safety of employees, consumers and others who effects directly or indirectly by the activity of the organizations. It assumed within legitimacy theory that society allows the organization to continue operations to the extend that it generally meets their expectations (Deegan and Unerman, 2011).

Legitimacy theory emphasizes that the organization must appear to consider the rights of the public at large not merely those of its investors. Failure to comply with social expectations may lead to sanctions being imposed by society for example in the form of legal restrictions imposed on an organization’s operations or by the side of society through limited resources (for example the investors refused to invest or the employees refused to work), or reduced demand for its products.

Legitimacy of the organization can be made in the following:

The legal requirements.

Non-legislated social expectations, about organizations activities.

Sometimes there is an imperfect correlation between the law and social norms.

The main reasons for the differences are:

Legal system is slow to adapt to changes in norms and values of the society.

In capitalistic regime the law established to serve mainly capitalists (investors) not the society.

The public disclosure of information in annual reports can be used by the organization to implement one of two strategies:

1- Providing information to counter or off set negative news which may be publicly available.

2- Providing information to inform the interested parties about the attribute of the organization that were previously unknown.

Operational Definitions

According to theoretical framework of this paper, there are some operational definitions as follows:

The legitimacy of the organization

The legitimacy of the organization relative concept means that the activity of the organization is the right thing and the appropriate and desirable under certain measurements and values and beliefs that have been developed by the community, thus, the legitimacy is a measure of the behavior of society towards the organization and its activities, , where the legitimacy conferred by either the license granted by a state to exercise its activity, or by the satisfaction of their employees and beneficiaries of services. As well as from all other parties affected by its activity.

Disclosure

The concept of an accounting means providing adequate information about the events of the organization and its activities for the users of that information in order to enable them to make and take the decision.

Hypotheses of the Paper

According to the theoretical framework, the following hypotheses might be formulated:

H₀₁: There is no effect of the legitimacy of the Organization on the continuity of the organization.

H₀₂: There is no effect of the legitimacy of the Organization on Media.

H₀₃: There is no effect of the legitimacy of the organization on closure organization for their contributions to the Social.

H₀₄: There is no effect of the legitimacy of the organization on organization's commitment to legal requirements.

Methodology of the Paper

Population and Sample of the Paper

The population of this paper was all the teaching staff members who hold a PHD and MSE in accounting departments in private universities such as (ISRA, PETRA and ISLAMIC) in Jordan for the year 2013-2014. Those are 40 members, an appropriate sampling technique was followed to choose members, it means that the simple random sampling, as per the following steps (Amir and Sonderpandian,2002) :

1- 15 primary questionnaires were randomly distributed. The means were calculated for the answers, and then variance was found to be $\sigma = 0.162$. Both researchers considered an error of $e = 0.05$ and with a true confidence level of 95%, the critical values were $z = \pm 1.96$.

2- By applying the rule:

$$n = z^2 \sigma^2 / e^2$$

We find that the sample size will be:

$$n = (1.96)^2 (0.162)^2 / (0.05)^2 = 40$$

The final sample size was 40 questionnaires. These questionnaires were distributed on each accounting department in private universities amounting to 3 universities. These questionnaires were distributed on each department (15 questionnaires at ISRA University, 15 questionnaires at PETRA University and 10 at ISLAMIC University in Jordan.

Data collection Methods

For the purpose of data collection, the researchers depended on the findings of previous studies and published article which addressed the subject of this paper. The questionnaire was developed accordingly within the theoretical framework, and was distributed over the teaching staff members and received by hand.

The questionnaire consisted of two parts, the first aimed at collecting identification data about the subject, such as: gender, age, academic rank and university education experience.

The second part aimed at measuring the level of recognition of the importance of using the legitimacy of the organization, which consisted of one independent variable and four dependent variables.

The latter second part were formulated in a form that enables easy measuring, since Likert five –degree scale was adopted: to a very strongly agree(5), agree(4), no certain(3), not agree(2), strongly not agree(1).

To investigate the questionnaire's result reliability and the coherence between its questions, it was submitted to selected accounting teaching staff members in universities and selected experts in the field of to get their feedback and responses. The questionnaire was also subject to reliability analysis to measure Alpha Cornbach correlation coefficient, which was found to be (0.962). The minimum accepted percentage is (60%) (Amir and Sonderpandian,2002),

Thus, the conclusions of the questionnaire are considered reliable to the realization of the study objectives.

Data Analysis Methods

To achieve the objectives of the paper and test its hypothesis, the analytical descriptive causal approach was used in order to show how the teaching staff members realize the importance of using the legitimacy of the organization, which is measured, and to identify the obstacles facing the spread of this usage. Simple regression model and One - Way ANOVA with regression were used to test the hypotheses.(Haddaw, 2014) and see (Al-Otoun,2014).

Results and Discussion

The questionnaire's answers were transformed into a worksheet using SPSS (20) statistical package for the analysis. After the data were analyzed in light of the objectives and hypotheses of the paper, the results were as follows:

Descriptive Statistics and Testing of Hypotheses

1- The legitimacy of the organization with the continuity of the organization.

The results of the statistical analysis for independent variable (The legitimacy of the organization), which is measured by the fifth question of the first section of the questionnaire, demonstrated in Table (1), show that the general mean of the answers reached 3.60 and the standard deviation was 0.75. Since the general mean exceeded (3), which indicates the importance of using legitimacy of the organization with the continuity of the Organization.

First Hypothesis

H₀₁: There is no effect of the legitimacy of the Organization on the continuity of the organization.

Using simple linear regression model with ANOVA table, it was found that the simple correlation coefficient between the legitimacy of the Organization and the continuity of the organization was (0.74), it means that there is a positive and good relationship between them, while $R^2 = 0.55$, this means that (the legitimacy of the organization) explains 55% of the variance in (the continuity of the organization). Also it was found that F-value calculated= 45.87, the significance value= 0.00, which is less than 0.05, therefore the null hypothesis is rejected and the alternative hypothesis is approved. This means that the legitimacy of the organization is effect on the continuity of the organization.

Table (1) Descriptive statistics of the statements for independent variable (The legitimacy of the Organization) and dependent variable (The continuity of the organization)

Item	Statements of independent variable	Mean	SD
1	Disclosure about the organization and its financial situation just enough to gain legitimacy.	2.78	1.165
2	There is the effect of the legitimacy of the organization for the future of its operations	4.05	.932
3	Disclosure organization includes social contributions to gain legitimacy.	3.50	1.198
4	Organization deliberately to disclose correct conditions adverse to the community even recover their legitimacy or maintain it.	4.03	.768
5	Organization to respond to the concerns of the community for the disclosure of the role of the organization to preserve the environment even earn legitimacy.	3.65	.975
	General Mean	3.60	.75
	Statements of dependent variable		
1	Organization seeks through disclosure to improve its image with the community so that it can continue its work	4.05	.815
2	Organization seeks through disclosure to earn the satisfaction of owners to their management	3.93	.888
3	Community interrupts the organization that do not comply with health standards for their products.	3.78	1.250
4	Community interrupts the organization that do not comply with the standards of environmental conservation.	3.35	1.272
5	Organization seeks through disclosure earning the beneficiaries of its services so that it can continue its work.	4.05	0.986
	General Mean	3.83	.78

2- The legitimacy of the organization with media.

The results of the statistical analysis for independent variable (The legitimacy of the Organization), which is measured by the fifth question of the first section of the questionnaire, demonstrated in Table (2), show that the general mean of the answers reached 3.57 and the standard deviation was 0.72. Since the general mean exceeded (3), which indicates clearly the presence of legitimacy of the organization with media.

Second Hypothesis

H₀₂: There is no effect of the legitimacy of the organization on media.

Using simple linear regression model with ANOVA table, it was found that the simple correlation coefficient between the legitimacy of the Organization and media was (0.52), it means that there is a positive and fair relationship between them, while $R^2 = 0.27$, this means that (the legitimacy of the organization) explains 27% of the variance in (media). Also it was found that F-value calculated= 16.57, the significance value = 0.00, which is less than 0.05, therefore the null hypothesis is rejected and the alternative hypothesis is approved. This means that the legitimacy of the Organization is effect on media.

Table (2) Descriptive statistics of the statements for independent variable (The legitimacy of the organization) and dependent variable (media)

Item	Statements of independent variable	Mean	SD
1	Organization to respond to the media about their commitment to the laws and regulations of local and international to keep its legitimacy.	3.53	.905
2	Organization to respond to the media in the disclosure of the safety of their product in terms of health in order to ensure legitimacy.	3.55	.959
3	Organization to respond to the media to disclose their social performance even earn legitimacy.	3.58	.844
4	Organization to respond to the media in the disclosure about the quality of their products.	3.63	.838
5	Organization to respond to the media to disclose the effects of its effectiveness on the environment and their role in preserving the environment.	3.55	.876
	Grand Mean	3.565	.717
	Statements of dependent variable		
1	The media plays a big role in the discovery of the malpractices of the organization to the community and the environment.	3.75	1.080
2	The media can play a positive role in the organization to commit ethical rules in their work.	3.83	.931
3	Media lead to the awareness of the community in maintaining economic and social stability.	3.75	.927
4	The media play an important role to influence the community in important issues such as the preservation of the environment.	3.83	.903
5	The media play a major role in forcing organizations to expand disclosure to include disclosure of social and environmental as well as financial disclosure.	3.55	1.011
	General Mean	3.740	.764

3- The legitimacy of the organization with closure organization for their contributions to the social.

The results of the statistical analysis for independent variable (The legitimacy of the organization), which is measured by the fifth question of the first section of the questionnaire, demonstrated in Table (3), show that the general mean of the answers reached 3.59 and the standard deviation was 0.71. Since the general mean exceeded (3), which indicates the importance of using legitimacy of the organization with closure organization for their contributions to the social.

Third Hypothesis

H₀₃: There is no effect of the legitimacy of the organization on closure organization for their contributions to the social.

Using simple linear regression model with ANOVA table, it was found that the simple correlation coefficient between the legitimacy of the organization and closure organization for their contributions to the Social was (0.55), it means that there is a positive and fair relationship between them, while $R^2 = 0.30$, this means that (the legitimacy of the organization) explains 30% of the variance in (closure organization for their contributions to the social). Also it was found that F-value calculated= 13.97, the significance value= 0.00, which is less than 0.05, therefore the null hypothesis is rejected and the alternative hypothesis is approved. This means that the legitimacy of the organization is effect on closure organization for their contributions to the social.

Table (3) Descriptive statistics of the statements for independent variable (The legitimacy of the organization) and dependent variable (Closure organization for their contributions to the social)

Item	Statements of independent variable	Mean	SD
1	Organization gains legitimacy from their employees as a result of the disclosure of its commitment to the standards of occupational safety.	3.65	.770
2	Organization gains legitimacy from their employees as a result of the disclosure of their contribution to social security.	3.43	1.059
3	Organization gains legitimacy from their employees when discloses to provide some services to them, such as housing and transport services.	3.78	.974
4	Organization gains legitimacy from their employees when discloses allocate a portion of their annual profits as incentives for their employees when they disclose its program to link wages with productivity.	3.55	1.061
5	Organization gains legitimacy from their employees when discloses its program to link wages with productivity.	3.55	.959
6	Organization gains legitimacy from their employees when discloses its program to train their employees.	3.60	1.033
	General Mean	3.592	.709
1	Organization discloses the extent of its commitment to the standards of occupational safety.	3.60	.955
2	Organization discloses their contribution to the social security and health insurance for their employees.	3.73	.847
3	Organization discloses the transfer of employees.	3.73	.847
4	Organization discloses provide housing employees.	3.50	.877
5	Organization discloses the distribution of a share of annual profits as incentives for their employees.	3.48	.960
6	Organization discloses reveal the value added.	3.23	1.097
7	Organization discloses programs to link wages to productivity.	3.50	.934
8	Organization discloses programs to train their employees.	3.70	.823
	General Mean	3.556	0.652

4- The legitimacy of the organization with organization's commitment to legal requirements.

The results of the statistical analysis for independent variable (The legitimacy of the organization), which is measured by the fifth question of the first section of the questionnaire, demonstrated in Table (4), show that the general mean of the answers reached 4.06 and the standard deviation was 0.07. Since the general mean exceeded (3), this indicates clearly the presence of the legitimacy of the organization with organization's commitment to legal requirements.

Fourth Hypothesis

H₀₄: There is no effect of the legitimacy of the organization on organization's commitment to legal requirements.

Using simple linear regression model with ANOVA table, it was found that the simple correlation coefficient between the legitimacy of the organization and closure organization for their contributions to the Social was (0.77), it means that there is a positive and good relationship between them, while $R^2 = 0.60$, this means that (the legitimacy of the organization) explains 60% of the variance in (organization's commitment to legal requirements). Also it was found that F-value calculated= 56.24, the significance value= 0.00, which is less than 0.05, therefore the null hypothesis is rejected and the alternative hypothesis is approved. This means that the legitimacy of the organization is effect on organization's commitment to legal requirements.

Table (4) Descriptive statistics of the statements for independent variable (The legitimacy of the organization) and dependent variable (Organization's commitment to legal requirements)

Item	Statements of independent variable	Mean	SD
1	Organization is gaining legitimacy in obtaining legal license to operate.	3.93	.888
2	Organization seeks through disclosure obligations laws, regulations and instructions of the government to prove its legitimacy	4.35	.802
3	Organization seeks through disclosure of their social contributions application of the law to prove its legitimacy.	4.00	1.062
4	Organization seeks through disclosure of the safety of its products from a health point of application of health standards in government to prove its legitimacy.	4.08	.917
5	Organization seeks through disclosure of their contribution to preserve the environment under the laws of gaining legitimacy.	4.08	.859
6	Organization seeks through disclosure obligations international accounting standards and financial reporting to gain legitimacy.	3.95	.846
	General Mean	4.063	.704
1	Organization discloses applied the standards of financial accounting and international financial reporting.	3.58	1.059
2	Organization discloses adhering to the laws, regulations and government regulations (By law firms and tax laws).	4.00	1.013
3	Organization discloses their contributions to social application of the law.	4.05	.815
4	Organization discloses safety of its products from a health point of application of the criteria for government health.	3.83	1.035
5	Includes disclosure of the organization to maintain its contributions to the environment under the laws in force.	3.90	.841
6	Includes disclosure of the organization committed to international standards in the industry.	3.80	.939
	General Mean	3.858	.714

Conclusions

This paper has investigated the impact of the legitimacy of the organization on some of the dependent variables such as (the continuity of the organization, media, closure organization for their contributions to the Social, organization's commitment to legal requirements).

From literature review, there are a few of authors considered the impact of the legitimacy of the organization on some of the above dependent variables. In the paper it was found that all the general mean exceeded (3), this indicates clearly the presence of legitimacy of the organization with all dependent variables (the continuity of the organization, media, closure organization for their contributions to the Social, organization's commitment to legal requirements). Also it was found that the legitimacy of the organization is effect on all dependent variables. Therefore, the best of the dependent variable among the dependent variables is affected by the independent variable (the legitimacy of the organization) is the dependent variable (closure organization for their contributions to the social), because of the simple correlation coefficient was largest among the correlation coefficients as well as the coefficient of determination (R^2) was largest among the determination coefficients specifically in this paper.

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