

SOCIAL ACCOUNTING PRACTICES AMONG KENYAN FIRMS: AN EMPIRICAL STUDY OF COMPANIES QUOTED AT NAIROBI SECURITIES EXCHANGE

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CITATION: Mwasa, I., Sira, F. N. & Maina, L. (2014). Social accounting practices among Kenyan firms: An empirical study of companies quoted at Nairobi Securities Exchange. *International Journal of Social Sciences and Entrepreneurship*, 1 (11), 144-152.

ABSTRACT

Profit and shareholders wealth maximization have for long dictated accounting and reporting practices, the concern for the social costs and the benefits of the business practices have given rise to the need for environmental and social accounting. The Significance of the study was to determine how companies are reporting positive and negative externalities to the society. The main objectives of the study was to establish the most popular themes of social accounting in Kenya, determine how and location for disclosure of social accounting information. The population of the study was fifty seven companies quoted in NSE and longitudinal study was carried from 2008-2010. Census method was used to collect data. Secondary data was collected from published annual financial statement of all listed companies. The population of companies is categorized into four market segment, Content analysis and descriptive analysis was used in analyzing data. It was established in the year 2008, companies practicing social accounting were 72%, while 2009 were 75% and in 2010 were 81%. It was also established that community involvement and environment themes was leading in practice of social accounting. Finally, it was established that companies prefer non-monetary form over monetary form of presentation and also they prefer using separate location to using chairman's report in annual reports.

Key Words: *Social Accounting; Environmental Accounting; Nairobi Security Exchange*

Introduction

Kenya has observed a spectacular evolution in community and investors stance towards the environment in the past few decades. Ever-increasing sensitivity of environmental pollution, global warming and diminishing supply of natural resources has attracted direct societal awareness towards the environmental activities of business organizations. This concern about the

impact of enterprises on society is a global one. The expectations of consumers, employees, investors, business partners and local communities as to the responsibility of businesses in society are increasing.

Social accounting (also known as social and environmental accounting, corporate social reporting, corporate social responsibility reporting, non-financial reporting, or sustainability accounting) is the process of communicating the social and environmental effects of organizations' economic actions to particular interest groups within society and to society at large (Gray et al 1987).

Social accounting (SA) emphasizes the notion of corporate accountability. According Adams (2008) defines social accounting in this sense as an approach to reporting a firm's activities which stresses the need for the identification of socially relevant behavior, the determination of those to whom the company is accountable for its social performance and the development of appropriate measures and reporting techniques.

National Environmental Management Authority (NEMA) was established under the environmental management and coordination Act.1999, as the principal instrument of the government in management of Kenyan environment. It's under the Ministry of Environment and Natural Resources (MENR). NEMA act as the watchdog of Kenyan environment and requires companies to be environmental responsible especially in areas of waste management and exploitation of natural resources. NEMA provides no regulations that obligate the public companies prepare environmental reports in their annual reports.

The registrar of companies regulates companies to operate under Companies Act Cap 470, although there is no regulatory framework that obligates public companies to report social and environmental costs to stakeholders, but only stipulates that companies have to report on their economic issue.

Problem Statement

According to Iyoha (2010), state that society needs social accounting reports in much the same way that capital markets require financial information supplied by financial accounting system. Users of social accounting information need the data that allow them to assess whether the entity is being socially, financially and environmentally responsible.

According to Davies and Okorite (2007), where the social activities of organizations are fairly reported in the financial statements, duly audited and attested to and published by the organization for all to see, some of the problems would be minimized, if not eliminated. Therefore there exist no studies that focus on social corporate responsibility reporting, in published annual financial statement of companies quoted in Nairobi security exchange, in recent years.

General Objective

Assess social accounting practice in listed companies in Kenya.

Specific Objectives

1. To determine the most popular themes of social accounting disclosed in the annual reports of companies in Kenya.
2. To determine how social accounting is disclosed in the annual reports of companies in Kenya.
3. Determine the location of presentation of social accounting in the annual reports of companies in Kenya.

Literature Review

The theories within the positivist group offer potential in-depth insights to explain the underlying motivations for corporate social and environmental disclosures. Legitimacy theory explains how an organization wishing to maintain its license must comply with the expectations of the community in which it operates (Deegan, 2002). Stakeholder theory suggests that an organization will respond to the concerns and expectations of powerful stakeholders. Institutional theory explains how organizations embrace operating policies that are similar in form to those embraced by powerful stakeholders (DiMaggio & Powell, 1983). Agency theory explains that organizations will take actions to maximize management and shareholder interests (Watts & Zimmerman, 1978). Political cost theory explains that organizations will take actions to reduce their political costs such as those relating to increased taxes and regulation (Watts & Zimmerman, 1978).

Hence, all of these theories seek to identify and predict the driving factors behind the organisational disclosure decisions. While there are some similarities, agency and political cost theory rely upon the economics-based assumptions that all action is driven by individual self-interest (tied to wealth maximization) (Deegan, 2006). Unlike agency and political cost theory, stakeholder, institutional and legitimacy theory do not rely on the central assumption that all action must be driven by individual self-interest. For example, legitimacy theory relies upon the central notion of an organization's social contract with society and predicts that management will adopt particular strategies (including reporting strategies) in a bid to assure the society that the organization is complying with the society's values and norms (which are predicted to change over time) (Deegan, 2006).

Research Methodology

Sample and Source of Data

The unit of analysis is fifty seven companies from four segment listed at NSE for the year of study 2008-2010. These segments are Agricultural segment, Commercial and service segment, Finance and investment segment and Industrial and Allied segment. The study examined the social accounting practice within the financial statement of companies using census method.

Data Analysis and Presentation

Content analysis is defined as a research technique for the objective, systematic and qualitative description of the manifest content of communication (O'Dwyer, 2005). It is clearly defined by Weber (1988) as a method of coding the text or the content of a piece of writing into various groups or categories based on selected criteria (Jamil et al., 2003). This study used content analysis to measure social accounting disclosure. This method was chosen due to its ability to analyze different types of communication tools including those in written code. Content analysis was used to examine written materials contained in the annual reports. This type of analysis was used due to the fact that this study only focuses on one document, which is the annual report. Content analysis was used in numerous studies on social accounting disclosures (Gray et al., 1995; Jamil et al., 2003; Kuasirikun and Sheen, 2004).

Descriptive analysis: By using content analysis, the researcher has codified the written material in the annual reports into four (4) themes namely; human resources, environment, consumer and product and community involvement. The data was analyzed using descriptive analysis with aid of Statistical package for social sciences (SPSS-Ver18)

Results and Discussions

Adoption of Social Accounting

Table 1: Frequency distribution table of companies that have adopted SA

	2008		2009		2010	
	Frequency	Percentage	Frequency	Percentage	Frequency	Percentage
Yes	41	72	43	75	46	81
No	16	28	14	25	11	19

From table 1 it was found that 72% of the companies trading in NSE in 2008 were practicing social accounting, 75% in 2009 and 81% in 2010. The trend of adoption of social accounting is above 50% and was improving from 2008 to 2010. This indicates most Kenyan firms are embracing social accounting practice.

Social Accounting Themes

Tables 2: trend of social accounting practice

Themes	2008 (%)	2009 (%)	2010 (%)
Human resource	32	49	61
Environment	47	56	61
Consumer and product	32	49	53
Community involvement	56	61	70

Table 2 shows the trend of social accounting disclosures of themes. Across the period 2008-2010 the disclosure for all themes as steadily grew every year with community involvement leading. The analysis therefore reveals that disclosure of social and environmental activities is specifically on the discretion of the companies.

Format of Presentation

Table 3: format social accounting disclosure in annual reports

	2008(%)	2009(%)	2010(%)
Monetary form	43	43	47
Non- monetary form	57	57	53

From Table 3 shows that in 2008 43% of the companies disclose social accounting information using monetary form and 57% disclose with Non-monetary formats. The year 2009 43% used monetary form and 57 used non monetary format while in 2010 47% used monetary format and 53% in non-monetary form.

Table 4: Non-Monetary Form Presentation

	2008(%)	2009 (%)	2010(%)
Narrative	68	65	62
Picture	29	32	36
Tables and Graphs	3	3	3

Companies prefer narrative form disclosure to pictures and tables and graph. Many companies were also found to have used the non monetary format to disclose human resource information and environmental contribution primarily related to retirement benefit, training and development and some community based projects such as adopting school, scholarships and donations

Location of Disclosure of Social Accounting in Annual Reports**Table 5: location for social accounting disclosure in the annual reports**

	2008(%)	2009(%)	2010(%)
Chairman statement	25	22	27
Separate location	75	78	73

Table 5 shows that of the 25% companies disclose social accounting information in the chairman's statement in 2008, while 22% in 2009 and 27% in 2010; 75% disclose social accounting information in the separate location in 2008 while 78% in 2009 and 73% in 2010. His result is also consistent with Mamman (2004) and Ebimobowei (2011) study that Directors report is the most preferred location of social accounting information.

Table 6: category of separate location in the annual report

	2008(%)	2009(%)	2010(%)
Corporate governance report	21	25	28
Managing director	21	23	32
Sustainability report	19	19	19
Value added statement	4	4	4
End note	46	51	52

The paper discovers that end note is the most popular location where social accounting information is disclosed by companies in Kenya while value added statement is least used although it's most explanatory.

Conclusions

It was also established that companies engage in long term project such as building school and support of public school, scholarship programs, medical health center for employees and community, sponsorship of sports, waste management program and continuous product improvement.

Finally, the study found that monetary form of presentation clearly communicates information, and more suitable for making decision that are reliable and relevant, this because non monetary especially narrative provide qualitative data that is difficult to do analysis.

Recommendations

Firms should adopt added value statement, to report on social corporate responsibility. These statements provide clear breakdown of costs and benefits accrued in practice of social accounting.

The government should encourage social corporate responsibility and reporting through use of tax incentives for companies. This would promote companies that have not adopted social accounting adopt and practice.

Companies should adopt reporting of social and environmental accounting in separate section particularly they should use sustainability report to give more details of company's practice in social corporate responsibility.

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