

**RELATIONSHIP BETWEEN SOCIAL ACCOUNTING PRACTICES
AND PROFITABILITY: THE CASE OF OIL INDUSTRY IN KENYA**

BY

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**A Research Project Submitted In Partial Fulfillment of the
Requirement of Master of Business Administration, School of Business
Administration, University of Nairobi**

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DECLARATION

I declare that this is my original work and has never been presented in any other college or examination body

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APPROVAL

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DEDICATION

The research project is dedicated to my parents who demonstrated exceptional tenacity and resilience in the face of deprivation to take me through school.

I pray to the Almighty God to grant them full life.

ACKNOWLEDGEMENTS

Let me begin by registering my special gratitude to Mr. H.O.Ondigo for the indelible mark that he has imprinted in my academic life, not only due to his guidance on this research process, excellent communication skills as a lecturer in Management, but also because he is a very intelligent and inspiring personality. I sincerely do not know what I would have done without my good Lecturer.

I wish to sincerely thank all my lecturers at University of Nairobi, School of Business for guiding me through this rigorous but enriching process.

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My wonderful children: Mayiani, Moriaso and Matiya deserve special mention for developing keen interest in my academic life, but more importantly, for not despairing despite daddy's long hours of absence from home due to academic commitments. I wish them God's blessings to grow into responsible citizens of the world. May they know and appreciate the Almighty God as the author of life

The very final appreciation goes to the Almighty God, without whose gift of life and constant guidance, this research project would not have been a reality. Thank you all.

TABLE OF CONTENTS

DECLARATION.....	ii
DEDICATION.....	iii
ACKNOWLEDGMENT	iv
CHAPTER ONE: INTRODUCTION.....	1
1.1 Background of the Study	1
1.1.1 Social Accounting Practices	2
1.2 Research Problem	3
1.3 Objectives of the Study.....	4
1.4 Value of the Study	5
CHAPTER TWO: LITERATURE REVIEW.....	6
2.1 Introduction.....	6
2.2 Theories of Social accounting practices	6
2.2.1 Stakeholder Theories.....	8
2.2.2 Social Contracts Theory.....	9
2.2.3 Legitimacy Theory.....	9
2.3 Benefits gained from Enhanced Social Responsibilities Accounting.....	10
2.3.1 Consistency of Behaviour	10
2.3.2 Accomplishment of Business Mission.....	11
2.3.3 Creation of Brand Identity	13
2.3.4 Social Aspects versus Strategic Issues.....	14
2.3.4 Ready Markets	15
2.3.5 Value for Customer Needs.....	17
2.3.6 Proper Allocation of Resources	18

2.3.7 Competitive Advantage	19
2.4 Empirical Review.....	21
2.5 Conclusion	23
CHAPTER THREE: RESEARCH METHODOLOGY	25
3.1 Introduction.....	25
3.2 Research Design.....	25
3.3 Target population.....	25
3.4 Sample size and sampling procedure.....	26
3.5 Data Collection	26
3.6 Data Analysis	26
3.7 Analytical model.....	27
3.8 Data Reliability and Validity	28
CHAPTER FOUR: DATA ANALYSIS, FINDINGS AND INTERPRETATION ..	30
4.1 Introduction.....	30
4.2 Profile of Respondents.....	31
4.2.1: Period which the respondents have held the position	32
4.2.2 Duration since Establishment of the Company	33
4.2.3 Number of employees in the organization	33
4.2.4 Annual turnover of the company.....	34
4.3 Involvement in social accounting practices	35
4.4 Factors influencing the choice of social accounting practices activities	39
4.5 Inferential findings.....	45
4.6 Discussion of findings.....	47

2.3.7 Competitive Advantage	19
2.4 Empirical Review.....	21
2.5 Conclusion	23
CHAPTER THREE: RESEARCH METHODOLOGY	25
3.1 Introduction.....	25
3.2 Research Design.....	25
3.3 Target population	25
3.4 Sample size and sampling procedure.....	26
3.5 Data Collection	26
3.6 Data Analysis.....	26
3.7 Analytical model.....	27
3.8 Data Reliability and Validity	28
CHAPTER FOUR: DATA ANALYSIS, FINDINGS AND INTERPRETATION ..	30
4.1 Introduction.....	30
4.2 Profile of Respondents.....	31
4.2.1: Period which the respondents have held the position	32
4.2.2 Duration since Establishment of the Company	33
4.2.3 Number of employees in the organization	33
4.2.4 Annual turnover of the company.....	34
4.3 Involvement in social accounting practices	35
4.4 Factors influencing the choice of social accounting practices activities	39
4.5 Inferential findings.....	45
4.6 Discussion of findings.....	47

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS	49
5.1 Summary of Findings.....	49
5.2 Discussion and Conclusions	50
5.3 Recommendations.....	51
5.4 Limitations of the study	51
5.5 Suggestion for Further Studies.....	52
REFERENCES.....	53
APPENDICES	60
Appendix I: Questionnaire	60

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

An accounting framework influences how a corporation defines success. Organizations have a great deal of flexibility within the framework. They may go through the process in different ways, and report on the process differently, tailoring it to fit their needs and requirements. An organization can choose to report on any indicators that it sees fit, thereby making it possible to fit many 'proving and improving' tools within the framework, including quality systems or indicators of impact that are required by purchasers, funders, or lenders (Patten, 1992).

Given the lack of common practices around social impact assessment, many social ventures are judged solely by their financial metrics even if social goals are a primary driver. Social accounting broadens this focus to include social and/or environmental objectives which are traditionally not reflected in accounting statements. Social accounting seeks to encompass a broader definition of what is counted and what is excluded. It does this by including traditionally non-monetized inputs and accounting for social and environmental outputs. Thus, by redefining success in terms of social impact or environmental sustainability, social accounting can strengthen the business case for investments in social ventures (Auka, 2006).

In articulating and presenting the true costs and benefits of employee volunteering, corporations can organizations are using social accounting programs in a more strategic manner including more appealing volunteering options; improving employee training and support programs; and assessing the value of these programs to employees, the corporation, and society. As well, it can help the corporation describe how corporate financial, in-kind and skilled human resources are leveraged to address social issues. It also makes the case for supporting employee volunteering programs, both inside the corporation and with external stakeholders.

1.1.1 Social Accounting Practices

Social accounting (also known as social and environmental accounting, corporate social reporting, social accounting practices 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. Social accounting is commonly used in the context of business, or social accounting practices (social accounting practices), although any organization, including NGOs, charities, and government agencies may engage in social accounting (Crowther, 2000). External social accounting or reporting seeks to demonstrate how the reporting organization integrates (or wishes to be seen to integrate) with the society and systems within which it operates. Internal social (management) accounting seeks to provide information to help an organization's managers operate in a more socially sustainable manner. Ideally, these internal and external social accounting processes are not completely separate from the mainstream financial or management accounting processes within an organization, and both sustainability and financial employees would be involved in collecting and presenting the data (Crowther, 2000).

Social accounting practices include a wide range of activities. According to Donnelly, Gibson & Ivancevich (1992), socially responsive activities can be classified into eight categories. These include socially responsible actions in the product line, marketing practices and employee education and training. Others include environmental controls, actions in employee relations, employee safety and health, employment and advancement of minorities and corporate philanthropy.

Social accounting practices emphasize the notion of corporate accountability. Social accounting is often used as an umbrella term to describe a broad field of research and practice. The use of more narrow terms to express a specific interest is thus not uncommon. Environmental accounting may e.g. specifically refer to the research or practice of accounting for an organization's impact on the natural environment. Sustainability accounting is often used to express the measuring and the quantitative analysis of social and economic sustainability (Dey, 2007).

Social accounting practices for accountability purposes is designed to support and facilitate the pursuit of society's objectives. These objectives can be manifold but can typically be described in terms of social and environmental desirability and sustainability. In order to make informed choices on these objectives, the flow of information in society in general, and in accounting in particular, needs to cater for democratic decision-making. In democratic systems, Gray argues, there must then be flows of information in which those controlling the resources provide accounts to society of their use of those resources: a system of corporate accountability (Dey, 2007).

1.2 Research Problem

Business firms are the economic engine of society and the making of profits is a social responsibility (Henderson, 2005). Thus, corporations are integral members of global society. Well run corporations are increasingly realizing that incorporating social accounting practices activities into their operations is serving to underscore their bottom lines. Corporate managers remain accountable to their shareholders, of course for profit maximization at the same time ensuring to remain philanthropic to the society. The more substantial part of the social accounting practices agenda is about corporate accountability to codes of conduct. Carroll (2000, p. 187) states that organizations are expected to practice "social responsibility" or be a good "corporate citizen". Carroll (1979) argues that corporations should not only be judged on their economic success but also on non-economic criteria.

A study done by Ngahu (1987) revealed that managers are over proportionately concerned with consumer aspects as compared to social aspects. He recommends further study into this area. Kweyu (1993) carried out a survey on the awareness of social accounting practices among executives of medium scale manufacturing firms in Nairobi. A study done by Makau (2006) on the extent to which social accounting practices influences consumer purchase decision was broad. Auka (2006) studied the factors influencing practice of social accounting practices among financial institutions in Kenya.

Okeyo (2004) carried out a study on the Rationale and Determinants of Levels of Corporate Social Responsibility among firms in Kenya, and found out that average

profitability, industry sector and management style as factors that determined levels of CSR involvement in Kenya. The top four rationales of CSR were found to be long-term strategy, high public visibility, response to society's needs and use of CSR as a competitive advantage.

Despite the wide and broad research done on effects of social accounting, none of the past study has focused on the oil sector. Over and above, past studies have not linked social accounting with the profitability. This study therefore sets to fill the existing void in research by answering the question, what are the relationship between social accounting practices and profitability for oil companies in Kenya?

1.3 Objectives of the Study

The main objective of the study is to investigate the relationship between social accounting practices and profitability in the oil industry.

Specific objectives include

- i. To find out the relationship between social accounting and consistency of behaviour in oil companies in Kenya;
- ii. To investigate the relationship between social accounting and accomplishment of business mission oil companies in Kenya;
- iii. To establish the relationship between social accounting and creation of brand identity oil companies in Kenya;
- iv. To analyze out the relationship between social accounting and value for customer needs oil companies in Kenya;
- v. To find out the relationship between social accounting and proper allocation of resources oil companies in Kenya.

1.4 Value of the Study

A study of this nature which cuts across major business areas may be important to the government agencies and policy makers, the student as well as firms in the energy sector:

Government agencies and policy makers may use the results to formulate positive National Policies based on a framework that is relevant and sensitive to the forces influencing business performance. Other government agencies whose interest lies on improved services delivery for economic development and creating investor confidence. It will assist the government in pointing out areas of difficulties in the allocating of resources towards addressing priority needs. The study will also help the government in formulating a policy on the regulatory process in the economy in the areas that necessitate brand protection, in order to ensure orderly economic growth and development.

The study will help the researcher to gain problem solving skills as well as the skills of academic report writing. The researcher will also benefit through the communication and writing skills that will be gained by the time the research project is completed. In the academic field, future researchers can use the study as a reference point if one is researching on social accounting practices and the related topics. The findings of the study will be of use to trainers in marketing in that it will assist them in knowing the areas which should be given concentration when training managers on social accounting practices.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This section discusses the literature review on the effects of enhanced social aspect in Social Accounting Practices. The section presents the discussion in both the theoretical review and the past studies.

2.2 Theories of Social accounting practices

To assume their social responsibilities, companies need to work in a legislative environment that defines and outlines corporate duties for the communities where they work. Based on this, it would be necessary to expedite the enactment of laws to oblige industrial enterprises to assume their responsibility and to issue accounting standards to this effect (Jarbou, 2006). The accounting disclosure of social-environmental performance has not been satisfactory and is still in need of more development (Al-Khouli, 2004). It is necessary to develop the principles of disclosure and transparency to include the disclosure of the costs of environmental pollution reduction as one of the main elements of the concept of social accounting (Bamzahir, 2003). Some of the possible solutions shed light on the concept of social responsibility accounting and environmental accounting. They determine the concept and characteristics of the social cost of pollution and state the components of this cost. Additionally, they establish a measurement of cost items borne by the economic unit to minimize pollution, protect human beings, as well as livestock, and determine the agricultural wealth of the society (Swaity, 2004). Amman Stock Exchange companies contribute to social responsibility by practicing community service activities and providing fringe benefits to their workers; they do so 5 *International Management Review* Vol. 4 No. 2 2008 without having a clear philosophy, but neither do they have a supporting or opposing philosophy to the concept of social responsibility (Olayan, 1994). Italian companies have obvious weaknesses in handling environmental accounting, which only includes some aspects of disclosure of

the environmental effect caused by the industrial enterprises to the surrounding environment (Bartolomeo, 1997).

There has been an attempt to reach an appropriate method of environmental accounting application for industrial enterprises through the following steps, called the "environmental footprint," concerned with the materials and energy in the production and operation processes. Output includes materials, energy, residuals, and determination and understanding of the environmental costs of the enterprise; tracking and separating nonfinancial data from the raw materials and energy; tracking and recording the environmental costs; a review of the proposed decisions, taking into account the extent to which they incorporate environmental costs; a non-financial measurement of environmental performance; and advanced techniques to transform environmental costs into products and operations by using an activity-based cost (ABC) system and an activity-based management (ABM) system (Stone, 1997). Most companies emphasize the data demonstrating the funds spent on anti-pollution activities and the enterprise's willingness to preserve the environment (Niscala & Britis, 1995).

There are positive indicators of social responsibility accounting practices in companies and business organizations in developing countries, especially the Arab countries, yet the practice of social responsibility is not serious enough, as there are no specialized activities in companies or factories to apply social responsibility accounting. Nor is there planning or research to specially target and define the consumers, public, or owners' needs. Rather, the practice is carried out in an improvised and random manner. Concept of Accounting for Social Responsibility The call for developing types of social responsibility came at the annual meeting of the American Accountants Association (AAA) in 1969, which urged accountants to evaluate development of the concepts of income on a social basis; in response the AAA and the American Association of Certified Accountants formed economic social accountancy committees. The AAA published a book titled *Social Measurement*, and, in the same year, the Incorporated Economic Committee published a collection of three books titled

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2.2.1 Stakeholder Theories

The stakeholder theory of the firm is used as a basis to analyze those groups to whom the firm should be responsible. As described by Freeman (1984), the firm can be described as a series of connections of stakeholders that the managers of the firm attempt to manage. Freeman's classic definition of a stakeholder is "any group or individual who can affect or is affected by the achievement of the organization's objectives" (Freeman, 1984, p. 46). Stakeholders are typically analyzed into primary and secondary stakeholders.

Clarkson (1995, p. 106) defines a primary stakeholder group as "one without whose continuing participation the corporation cannot survive as a going concern" – with the primary group including "shareholders and investors, employees, customers and suppliers, together with what is defined as the public stakeholder group: the governments and communities that provide infrastructures and markets, whose laws and regulations must be obeyed, and to whom taxes and obligations may be due" The secondary groups are defined as "those who influence or affect, or are influenced or affected by the corporation, but they are not engaged in transactions with the corporation and are not essential for its survival".

An important question that has been addressed is to which groups do managers pay attention? Mitchell *et al.* (1997) develop a model of stakeholder identification and salience based on stakeholders possessing one or more of the attributes of power, legitimacy and urgency. Agle *et al.* (1999) confirm that the three attributes do lead to salience. Thus, we might anticipate that firms would pay most attention to those legitimate stakeholder groups who have power and urgency. In practice this might mean that firms with problems over employee retention would attend to employee issues and those in consumer markets would have regard to matters that affect reputation. Stakeholder groups may also become more or less urgent; so environmental groups and issues became more urgent to oil firms following the Exxon Valdez oil spill (Patten, 1992).

2.2.2 Social Contracts Theory

Gray *et al.* (1996) describe society as “a series of social contracts between members of society and society itself”. In the context of social accounting practices, an alternative possibility is not that business might act in a responsible manner because it is in its commercial interest, but because it is part of how society implicitly expects business to operate.

Donaldson and Dunfee (1999) develop integrated social contracts theory as a way for managers to take decisions in an ethical context. They differentiate between macro social contracts and micro social contracts. Thus a macro social contract in the context of communities, for example, would be an expectation that business provide some support to its local community and the specific form of involvement would be the micro social contract.

Hence companies who adopt a view of social contracts would describe their involvement as part of “societal expectation” – however, whilst this could explain the initial motivation, it might not explain the totality of their involvement. One of the commercial benefits that was identified in the Australian study (CCPA, 2000) was described as “licence to operate” – particularly for natural resource firms. This might be regarded as part of the commercial benefit of enhanced reputation, but also links to gaining and maintaining legitimacy (Suchman, 1995).

2.2.3 Legitimacy Theory

Suchman (1995) defines legitimacy as “a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs and definitions”.

Suchman points out that “legitimacy management rests heavily on communication” – therefore in any attempt to involve legitimacy theory, there is a need to examine some forms of corporate communications.

Lindblom (1994) notes that legitimacy is not necessarily a benign process for organizations to obtain legitimacy from society. She argues that an organization may employ four broad legitimating strategies when faced with different legitimating threats: Seek to educate its stakeholders about the organization's intentions to improve that performance; seek to change the organization's perceptions of the event (but without changing the organization's actual performance); Distract (i.e. manipulate) attention away from the issue of concern and seek to change external expectations about its performance.

Thus there is a need to examine any particular corporate behaviour within its context and in particular to look for alternative motivations.

Thus legitimacy might be seen as a key reason for undertaking corporate social behaviour and also then using that activity as a form of publicity or influence (Gray *et al.*). A converse view to this, i.e. not that business uses its power to legitimate its activity but, rather that society grants power to business which it expects it to use responsibly, is set out by Davis (Wood, 1991): "Society grants legitimacy and power to business. In the long run, those who do not use power in a manner which society considers responsible will tend to lose it." In effect, this is a re-statement of the concept of a social contract between the firm and society.

2.3 Benefits gained from Enhanced Social Responsibilities Accounting

2.3.1 Consistency of Behaviour

Consistency refers to the behavioural element of social resources over time and across all facets of an organizations operation. Adherence to stated values and careful selection (and development) of business partners, who have matched social commitments, is the litmus test of an organization's own credibility. Failure to "walk the talk" is a common source of criticism of many companies claiming to be socially responsible. Consumers are adept at seeing through a veneer of credibility and demand long-term consistency of behaviour from organizations purporting to be socially responsible. Lafferty *et al.* (2002)

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point to a growing body of evidence strongly supporting the view that positive profitability is positively correlated to purchase intention and that consumers discriminate between firms and their product/service offerings.

Doherty and Meehan (2004) stress that Social Accounting Practices has significant implications, not only for how a company interacts with its customers, but also for the behavioural standards reflected in internal policies, upstream relationships with suppliers and the governance structures of the firm. Hence, development of social resources requires organizations to take a holistic or strategic view of their values and the management policies they underpin. This in turn implies consistent adherence to externally recognized and accredited standards. Failure to consistently behave in line with the stated value commitments, using externally assured social auditing systems, will result in the kind of corporate social performance deficit highlighted by Wood (1991). That is to say espousing social commitments within ones own organization and promulgating codes of conduct across the value network will be seen as a public relations strategy if not seen to direct behaviour (action in Wood's model) over time.

Ethical and social commitments developed across a value network comprising business partners sharing these commitments, are thus necessary but not sufficient conditions for the development of social resources. Continually demonstrating that all facets of the network reflect these commitments are also necessary. In the “network” economy consumers are not only savvy about product market offerings; they are switched on to a wider set of business performance metrics of a social and ethical nature. Consequently, securing consumer purchases involves more than price-quality relationships. It requires long-term consistency and credibility of the value network.

2.3.2 Accomplishment of Business Mission

Business mission is an “assertion of an organization's elementary purpose: why it exists, how it sees itself, what it wishes to do, its beliefs and its long-term aspirations” (Bennett, 1996, p. 18). Thus, mission is a statement of intent. Given that mission signals to shareholders, investors, stakeholders and society a given firm's intent (Pearce and David,

1987), the following aspect of the social accounting practices-strategy relationship is offered for consideration.

Since the writings of Marshall (1920), industry has been considered an appropriate level of aggregation for analyzing the role of competition in market economies (Bloch and Finch, 2005). Beyond a Marshallian view, Porter (1980) identifies strategic groups and industry “clusters”, which are also important levels in the analysis of competition. Industry, strategic groups and clusters are vital to mission development in that they give firms a baseline or starting point for identity (Peteraf and Shanely, 1997). Furthermore, industry, strategic groups and clusters give context to the various considerations for competing such as capital requirements, fixed versus variable costs, degree of rivalry, advertising, scale economies, and location, among others (Porter, 1980, 1985).

Similarly, although some social issues may be common (e.g. energy conservation, recycling) to nearly all firms, they can be very different given a divergence of stakeholder, NGO and other social actor expectations impacting on a given industry (Logsdon and Wood, 2002; Davies, 2003; Aguilera *et al.*, 2007). Thus, a firm with the mission of building the most fuel efficient cars in the world who is, at the same time, dedicating scarce company resources to explore how to solve teenage smoking because it is a social issue, reflects a disconnect between social accounting practices and its mission, and a disconnect between a social issue and a strategic issue for that firm. According to Porter (1980), strategy is as much about what not to do, as it is what to do – it is descriptively wrong to suggest that a given firm should address all social issues (Sethi, 2003).

More specifically, social accounting practices should be strategized in the context of what the firm is trying to achieve, which takes into consideration specific actor expectations, industry and other levels of competitive reference (e.g. strategic group). Such an approach is vital to building social accounting practices into strategy in a way that reflects its actual business importance to the firm's mission (Burke and Logston, 1996). By way of example, some firms signal that social accounting practices is a fundamental purpose – mission – of their existence. As part of its mission, The Body Shop makes

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cosmetics that do not hurt animals. Here, The Body Shop has addressed a social issue – animal cruelty – through the very core of their business: developing the highest quality, innovative, effective and safe cosmetic products.

However, finding the right balance between mission and the level of social accounting practices is not always easy. An imbalance can lead to a firm being spread too thin between its economic charter and other social responsibilities, thus raising concerns about long-term viability, given finite resources (Pearce and Doh, 2005).

2.3.3 Creation of Brand Identity

The way organizations behave, talked about, reported and perceived by their publics, influences greatly the management of their reputation. Kitchen and Schultz (2002) support that there is a strong link between brand strength and company profitability. The existent literature indicates that many successful and profitable organizations spend significant amounts of money in fulfilling their social responsibilities. The rationale could be purely commercial, by raising their profile and improving their reputation through being associated with “good deeds” they can generate higher profits. However, their actions may be motivated by an understanding that what is good for society is also good for the organization, or they may be motivated by pure altruism. Irrespective of the motives, the end result is improved corporate reputation.

Kitchen and Schultz (2002) highlight the need for corporations to become more accountable by exercising social responsibility and in doing that their behaviour should reflect the current attitudes and values held by society in general. Social Accounting Practices becomes an essential component of corporate success. In today's global market, corporations need to recognize that stakeholders share the need to know about the company behind the brands. In fact, this knowledge can influence their perceptions regarding the brands.

The way in which organizations act, and the way they are perceived by their target publics and the general public is a fundamental factor in managing their reputation. Hence, a good reputation has to be earned. A competitive advantage depends on

reputation as well as on people, products, and prices. An organization's position in the marketplace depends on its acting in an ethical manner and also on how ethical its publics perceive it to be. Organizations may have a good reputation, a bad reputation, or no reputation at all. An organization's reputation can be seen as the sum of the public's beliefs about it, which are based on their experiences with its products/services and the organization's employees, what they have read, and heard about it from others and the media, and the way the organization and its managers are seen to behave.

2.3.4 Social Aspects versus Strategic Issues

Building the social issue of social accounting practices in the fundamental purpose of the firm does not necessarily happen without proper reflection and understanding of the environment (and the personal values and convictions of a firm's top leaders). Understanding the environment and its implications for the firm rests within the domain of strategy. Andrews (1971) and Ansoff (1980) posit that issues that firms must address consist of those that are both internal and external. However, while there are many issues to consider, not all are strategic. Ansoff (1980) argues that for an issue to be strategic, it must be a forthcoming development at a level of importance such that the issue can significantly impact on a firm's ability to meet its objectives. To identify issues of this type, research and analysis, using a variety of techniques, is the prescribed course of action (Andrews, 1971; Porter, 1980). Given that the identification and understanding of strategic issues is primarily a research and analysis function of strategy, from a social accounting practices perspective, the unit of analysis and techniques of analysis are particularly important to assess the impact of factors of a social nature.

The unit of analysis is social-related problems and issues. According to the definition of Mahon and Waddock (1992), social problems can objectively exist before they become social issues. In this sense, strategically and opportunistically, there are unmet social needs and social issues. Unmet social needs are social problems that are developing in society but have not yet been officially defined or propagated to the level of an issue by social actors or stakeholders. On the other hand, social issues are "official" in the sense that they have reached, through various actor actions, the formal attention of

governmental policy makers and corporate managers. Thus, analysis of these two social-related factors is important to address their strategic significance.

In order to analyse and assess unmet social needs, a number of techniques are potentially useful. Media coverage and expert testimony, for example, are important mediums to monitor in that they can disclose early signals of unmet social needs while scenario planning is a useful technique in that it enables firms to explore future scenarios that take into account shifts in consumer patterns, reactions of competitors and the possibility of litigation and regulation (Swartz, 1996). By example, growing concern over obesity in the US was evident in the media at least five years before the first warning by the US Surgeon General that obesity had become an epidemic (Lawrence, 2004). Furthermore, expert testimony, such as that of Harvard University's Walter Willett, explained that [childhood] obesity was in part linked to the marketing of "junk food" (Lawrence, 2004). Thus, the problem of obesity was shifting from individual responsibility to external, environmental factors including corporate marketing. In the case of obesity, many fast food restaurants, for example, have been caught off guard and some lawsuits encountered as a result, damaging reputations and costing significant resources (Burros, 2006). However, through techniques such as media monitoring, analysis of expert testimony and scenario planning, the shift might have been anticipated much earlier and an unmet social need identified.

2.3.4 Ready Markets

A market consists of the set of all actual and potential buyers of a product or service (Kotler and Armstrong, 2005). However, according to Cahill (1997), for a firm to strategically address markets, they must address specific target markets. A target market is a group of buyers for whom an offering should be appropriate and to whom the firm will direct the major part of its marketing time, resources and attention. Kotler and Armstrong (2005) suggest that target marketing is about analyzing and assessing each market segment's attractiveness and selecting one or more segments to focus on. This has ramifications for the social accounting practices-strategy relationship.

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Assessing markets for specific target opportunities can be a complex exercise although, in general, marketing theory suggests that in order to develop market segment profiles that can be assessed strategically, a variety of variables need to be explored including demographic, geographic, psychographic and behaviorist variables (Bearden *et al.*, 2003; Kotler and Armstrong, 2005). Once these variables have been assessed, choices have to be made with respect to which segments to ultimately serve. Here, evaluation includes the market potential of each segment (i.e. growth of the segment), the firm's sales potential (i.e. market share), competitive assessment (i.e. nature of competition, competitive rivalry) and cost estimates/resource requirements (i.e. ability to achieve competitive advantage). Although simplistically described here, these are the basic requirements that marketing theory prescribes for assessing, evaluating and choosing which target markets the firm will serve. However, an additional variable needs to be considered when assessing market segments strategically; namely, a “social dynamics” variable.

Social dynamics refers to the underlying expectations that a given market segment places on the role of business in society currently or possibly in the future (thus, “dynamic” is used to reflect the potential changing nature of societal expectations). For example, in the food and beverage industry, consumer expectations for detailed nutrition facts on packaging has risen in recent years which has implications for how products are developed and marketed. Is such demand across all food and beverage segments, or only certain ones? Similarly, in the apparel industry, more and more consumers are interested in where and how clothes are manufactured given the backlash against “sweat shop” practices, which has implications for manufacturing location, supply chain standards and employee policies. Is such interest across all apparel segments, or only certain ones? Overall, for firms to more adequately build social accounting practices into strategy, the social dynamics variable becomes important in terms of understanding the current and emerging characteristics of target markets. Further, if assessing various social factors of a given market segment is important to the general understanding of that segment, then it is also important in terms of understanding specific target customer needs.

2.3.5 Value for Customer Needs

Some scholars have suggested that the sole purpose of any firm is to create value for the customer (Slater, 1997). Although agency theory challenges such a purpose (Khurana *et al.*, 2005), creating value for customers is certainly a strategic function of business. How does the firm create customer value? Multiple answers have been given in the literature to answer the question. For purposes here, two key aspects are addressed: market orientation; and innovation.

Market orientation has been identified in the marketing and strategic management literature as important to firm strategy (Hult and Ketchen, 2001). Market orientation, as a construct, grew out of the idea that firms who effectively implement the marketing concept will achieve better corporate performance than less market-orientated rivals (Kotler, 1991). Although variations exist, a general conception of market orientation includes a customer orientation dimension, a competitor orientation dimension and a market information sharing dimension. Of particular interest is the customer orientation dimension.

Customer orientation is defined as the actions designed to understand the current and latent needs of customers in the target markets served so as to create superior value for them (Narver and Slater, 1990). Here, a variety of actions are prescribed in order to learn about the current and latent needs of customers and the wider forces that shape those needs (Day, 1999). As pointed out, social-related forces are increasingly shaping markets and, by extension, the customer needs that are developing. The analysis of unmet social needs and social issues appears to be just as important to the understanding of customer needs as traditional factors, such as age, income, personality characteristics, usage rates, education, price sensitivity and the like. However, understanding target customers and their current and latent needs is not the same as creating superior value for them. In order to create superior value, firms must construct offerings that appeal to customers, are more attractive than competitors and that ultimately offer benefits that exceed the buyers payment in a purchase exchange (Gale, 1994). Such offerings are the result of innovation (Slater, 1997).

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Evolutionary/Austrian economics has long described innovation as a driving force behind economic growth and competitive success (Jacobson, 1992). Firms can embrace unmet social needs and social issues as a real opportunity for innovation, rather than treating them as a threat to take lightly or as factors which they can ignore. Here, by leveraging knowledge gained from target markets, target customer needs and the unmet social needs and/or social issues directly affecting those markets and customers, firms can explore the opportunity to change the competitive playing field, for example, by introducing entirely new consumer offerings, developing new processes or creating new market segments directly aimed at fulfilling an unmet social need or a social issue (Chan Kim and Mauborgne, 2004). In this context, a firm can fulfill its responsibilities by meeting a societal demand, while in the process creating both economic benefit and consumer utility (McWilliams and Siegel, 2001; Mackey *et al.*, 2007; Husted and Salazar, 2006).

2.3.6 Proper Allocation of Resources

A major facet of social accounting practices is concerned with matching internal resources with a changing external environment in a way that enhances profitability over time (Hamel and Prahalad, 1994). In terms of the internal aspect, resources have been described as activities (Porter, 1980), assets (Dierickx and Cool, 1989), core competencies (Prahalad and Hamel, 1990), capabilities (Day, 1994) and dynamic capabilities (Teece *et al.*, 1997). Generally, resources consist of the factors necessary to create, operate and sustain a firm, be they tangible or intangible factors (Barney, 1991). Although many such resources exist, the important point of departure for resources in a social accounting practices-strategy context rests with resource specificity.

Specificity refers to the degree to which resources are leveraged to capture or internalize at least some benefits for engaging in social accounting practices that are specific to the firm, rather than simply creating collective goods which can be shared by others in the industry, community or society at large (Porter, 1985). In this sense, firms not only take ownership for fulfilling their social responsibilities, but also capture exclusive benefits that can be of strategic value.

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To demonstrate, assume a firm contributes money to a local symphony orchestra which benefits symphony-goers and others in the community who feel pride in or value classical music. Neither of these benefits is specific to the firm who makes the donation because there is no exclusive enjoyment (or benefit) granted to the firm. Similarly, if a firm produces chemical products and in the process uses waste water treatment technology to protect the environment, public benefits are created which are available to the entire community. Here, the firm only benefits to the extent that it also shares in a healthier environment and avoids fines or censure for failing to comply with federal pollution standards.

On the other hand, consider a manufacturing firm that invests resources in cogeneration technology which recaptures heat discharged through smokestacks and converts it to energy, substituting electrical power purchased from the local utility. In this case, the benefits of cogeneration are highly specific to the firm in the form of energy costs saved. The benefit spillover to the public is the firm's contribution to aggregate energy conservation. In this example, the firm not only acts in a socially responsible manner (thereby meeting societal expectations for conserving energy), but by addressing a social issue through the use of innovative technology, also creates benefits that are highly context specific.

2.3.7 Competitive Advantage

Considering the positioning approach in light of unmet social needs and social issues, it is possible to pursue a strategy focused on capturing a market aimed at the social dimension (McWilliams and Siegel, 2001). A good example is firms who are finding ways to differentiate products in light of the obesity issue. For example, Whole Foods Market has become the largest retail food chain in the world specializing in health and organic foods. Whole Foods Market is not only meeting the welfare of society and addressing a social issue by offering differentiated products designed to properly nourish and maintain the health of individuals, but is consistently growing sales and profits, demonstrating that what is good for society does not have to be a burden to firms and what is good for firms does not have to be a burden to society (Husted and Salazar, 2006).

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With respect to the RBV, the main emphasis is on creating, possibly acquiring and leveraging resources that are causally ambiguous, socially complex, difficult to imitate and that pass through critical time-dependent stages (Amit and Schoemaker, 1993). One way to create such resources is through demonstrating responsible management practices with the firm's stakeholders (which, as noted, can include addressing unmet social needs and social issues). For example, firms who are able to engage stakeholders beyond market transactions – which can be imitated by competitors – to develop long-term relationships create socially complex, time-dependent resources based on reputation and trust; reputation and trust can enhance the value of these relationships, which is not so easily imitated by competitors (Barney and Hansen, 1994).

According to Barney (1991), developing socially complex, time-dependent and inimitable resources, such as stakeholder relationships, can lead to CA and be a source of superior performance. Similarly, Jones (1995) argues that firms who develop relationships with stakeholders based on honesty, mutual trust, and cooperation are in a better position to gain an advantage over firms that do not. The reason being is that developing trust and cooperation between stakeholders takes time, which in turn leads to mutually beneficial value exchanges. Such exchanges are beneficial to the firm's stakeholders in that they receive value in excess of the effort required to engage in the exchanges; to the firm, they gain advantages that lead to improved performance (Prahalad, 1997). Further, the ethical characteristics of honesty and trust reduce transaction costs because fewer protective devices are needed if the firm has trustworthy agents and less time is spent in negotiation if initial claims are truthful (Hosmer, 1995). Thus, the costs of an option based on these characteristics are lowered, so that it may become the preferred option, especially where transaction costs are high relative to other costs. In this sense, trustworthiness has been argued to be a source of CA (Barney and Hansen, 1994). Logically, this has strategic implications for the ethical responsibility of the firm per Carroll's (1979) conceptualization of social accounting practices.

Stakeholder theory also recognizes that firms have explicit costs (e.g. payments to bondholders) and implicit costs (e.g. environmental costs, human resource costs). Stakeholder theory predicts that if firms try to lower their implicit costs by acting socially

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irresponsible (e.g. not investing in pollution control systems, treating employees poorly) they will actually incur higher explicit costs, which can result in a competitive disadvantage. Reflecting this logic, Alexander and Buchholz (1982) argue that demonstrating high levels of responsibility towards stakeholders is an indicator of superior management skill, which leads to lower explicit costs. Additionally, the actual costs of stakeholder management versus the benefits may be minimal. For example, enlightened employee management policies may have a relatively low cost, but the gains in productivity, morale and retention can yield substantial performance advantages over less responsible firms (Huselid, 1995).

2.4 Empirical Review

In-depth empirical studies of the organizational consequences of social accounting interventions remain relatively rare. Larrinaga-González and Bebbington (2001) undertook an in-depth case study of the implementation of environmental accounting in a Spanish electricity utility. The outcome of this ambitious experiment was ultimately regarded as a “failure” by the authors because it did not produce the intended organizational change, but the major contribution of the work lies in its insights into the context within which the intervention took place. Drawing in part from an earlier unpublished case study by Duncan and Thomson (1998), the paper argues that the significance of this organizational context may be understood using the notion of an “assemblage” of competing elements. Each element of the assemblage may contribute to, detract from, or be neutral to, the intended organizational change. Given the outcome of the experiment, it is not surprising that many of these elements are “negative” ones that evidence organizational appropriation. Particularly significant elements can act as “fulcrum points” that decisively shift the outcome of the accounting intervention one way or the other. In the case study, the locus of control over the organizational discourses which the new form of accounting was intended to influence was seen as especially significant. Secondly, and relatedly, the paper argues that the legitimacy of a new form of accounting depends on its alignment with the prevailing organizational rationality, and offers the tentative conclusion that:

... [accounting] will only be accepted if it delivers the "right" message and if it does not create an alternative source of accounting-based discourse that challenges existing power positions ... for accounting to be effective it must be aligned with substantive changes in the organization itself (Larrinaga-González and Bebbington, 2001, p. 286).

Ball and Milne (2007), offer a substantial challenge to the social accounting "community" over (what they see as) its complacency and privilege. They suggest that the community is "only talking to itself" and failing to engage with practice, and/or actively engage with more mainstream areas of academe. Faced with the overwhelming range and importance of issues that fall within the purview of social accounting, the authors see an avoidance of novelty, a pursuit of sameness and a narrowing of ambition. Bebbington and Dillard (2007) suggest that scholars should be less anxious about their own careers and promotion and rather more exercised by the social and environmental issues that daily grow more pressing.

Owen (2008) notes the way in which some areas of research are abandoned (e.g. accounting to and for employees and trades unions) whilst others are freely embraced (the environment) and he wonders about the efficacy of any attachment to marginal, managerial, and pragmatic engagements as a mechanism for change. He calls for a more rigorous and (uncomfortably) more radical research agenda. Gray *et al.* (2009) offer a rather gloomy review of the community and its lack of radical momentum coupled with its increasing attachment to more procedural approaches to research that begin to look a little like "normal science". They exhort scholars to consider other means of seeking change through confrontation and greater engagement with – and work through – civil society and its organizations.

O'Dwyer's (2005) case study of the construction of a social account in an Irish overseas aid agency is also downbeat in its overall assessment of the outcome of the accounting intervention. However, O'Dwyer's study also provides useful insights into the complex reasons underlying such an outcome. In particular, O'Dwyer draws attention to the ways in which powerful controlling interests in the aid agency were able to manipulate, and

consequently suppress, aspects of the social accounting process which could have helped empower stakeholders and in turn bring about organizational change. Without a formal mechanism to support “genuine” dialogue, stakeholders were argued to be powerless to prevent the emasculation of the social accounting process by management.

It may be seen from this brief and, by no means exhaustive, review that a feature of prior empirical studies of social and environmental accounting interventions is the general emphasis on resistance to change and appropriation, rather than tangible change. In this scenario, even if the stated intentions or rhetoric surrounding the intervention might promise organizational change, the consequences of intervention are quite different. The potential of accounting as an enabling vehicle for change is suppressed by a more influential assemblage of other macro and micro-level factors that combine to produce institutional appropriation. In her case study of environmental accounting implementation in the public sector, Ball (2005) develops the notion of an assemblage of elements used in the change/appropriation model of Larrinaga-González and Bebbington by drawing on the work of Oliver (1992). Oliver develops a generic model of political, functional and social pressures for change in organizations in which emphasis is given to the significance of pressures as possible antecedents of organizational change, in the sense that change, if it is to succeed, must first overcome existing institutionalised behaviour Seal, 2003). In her case study (Ball 2005, pp., 350-1) usefully distils the basic elements of Oliver's model:

2.5 Conclusion

The sensitivity of social accounting currently is a concern over the impact and development of sustainability, accountability and large organizations: a matter within which social accounting has a considerable potential. If sustainability is the “elephant in the bedroom” (the issue which so dominates all other issues but is still too rarely spoken of analytically) then social accounting is one but only one of the means by which the serious exigencies of sustainability might be addressed and ameliorated. But understandings of and approaches to such complex matters must be mediated through subtle and thoughtful academic process: and whilst our pre-empirical predispositions play

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a crucial role in how we address such concerns, it is here that multi-disciplinarily (both including and beyond systems thinking) offers potential insights. Interestingly, though, it looks, very broadly, as if the challenge to adopt multi-disciplinarily in social accounting is a straw person: the area is intrinsically multi-disciplinary. The call that social accounting might adopt more cross-disciplinary analysis, however, is more telling and is one of the ways in which social accounting may well productively develop in the future.

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CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter represents research design, population, sample and sampling technique data collection and the data analysis.

3.2 Research Design

This study adopted the descriptive survey design on oil companies in Kenya. Descriptive surveys are designed to measure the characteristics of a particular population, either at a fixed point in time, or comparatively over time (Gay, 2004). The design was considered appropriate for the study because according to Kothari (2003) survey is concerned with describing, recording, analyzing, and reporting conditions that exist or existed. Gay (2004) argues that survey method is widely used to obtain data useful in evaluating present practices and in providing basis for decisions. Questionnaires were used and administered to the managers in the various oil companies Based. Closed-ended questions were predominantly administered to gather for subjective answering. However, a number of open-ended questions were used to give room for quality information that could have been overlooked.

3.3 Target population

Population is the entire group of individuals, events or objects having common characteristics. (Mugenda and Mugenda, 1999). Cooper and Schindler, (2006) call it a population of interest from which the individual participants or object from which the measurement was taken. The target population for this study were all 33 different oil companies in Nairobi.

3.4 Sample size and sampling procedure

Although researchers want to gather information about the characteristics of populations, they usually study a smaller group (a sample) carefully drawn from the population and then use the findings from the sample to make inferences about the population (Ary, 2006). Sampling is the process of selecting the subject or cases to be included in the study as representative of the target population (Mugenda and Mugenda, 1999).

Due to the small number of oil companies in Nairobi, the researcher considered drawing a respondent from every company. A senior manager was selected from each company to respond the questionnaire.

3.5 Data Collection

Data collected was expected to be both quantitative and qualitative. The study used both primary data and secondary. Data was collected using structured questionnaire containing both closed and open-ended questions. The respondents were the senior management personnel in each company. The researcher targeted management since they are in a position to assess the social aspect of the corporate responsibility and the direct impact on performance of the various oil companies. The population was reached using questionnaires sent through their email addresses or handed out to them. Their consent was sought in form of a letter explaining the purpose of the study.

Confidentiality of their responses was guaranteed through the same letter assuring them that it would be preserved. Data collected from the feedback of the questionnaires was compiled and tabulated to make the analysis easier. For the secondary data document, sources employed whereby use of previous document or materials to support the data received from question and information from interview that includes book and magazines available in the libraries were visited as well as information from the websites.

3.6 Data Analysis

Data collected from respondents were both quantitative and qualitative in nature. Quantitative data was analyzed using the Statistical Package for Social Scientists (SPSS)

3.4 Sample size and sampling procedure

Although researchers want to gather information about the characteristics of populations, they usually study a smaller group (a sample) carefully drawn from the population and then use the findings from the sample to make inferences about the population (Ary, 2006). Sampling is the process of selecting the subject or cases to be included in the study as representative of the target population (Mugenda and Mugenda, 1999).

Due to the small number of oil companies in Nairobi, the researcher considered drawing a respondent from every company. A senior manager was selected from each company to respond the questionnaire.

3.5 Data Collection

Data collected was expected to be both quantitative and qualitative. The study used both primary data and secondary. Data was collected using structured questionnaire containing both closed and open-ended questions. The respondents were the senior management personnel in each company. The researcher targeted management since they are in a position to assess the social aspect of the corporate responsibility and the direct impact on performance of the various oil companies. The population was reached using questionnaires sent through their email addresses or handed out to them. Their consent was sought in form of a letter explaining the purpose of the study.

Confidentiality of their responses was guaranteed through the same letter assuring them that it would be preserved. Data collected from the feedback of the questionnaires was compiled and tabulated to make the analysis easier. For the secondary data document, sources employed whereby use of previous document or materials to support the data received from question and information from interview that includes book and magazines available in the libraries were visited as well as information from the websites.

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tools Version 16.0. Secondary data was analyzed using both descriptive and regressive statistics such as frequencies, mean scores, standard deviations, R^2 as well as ANOVA. The basis of using descriptive approach was to give a basis for determining the weights of the variables under the study while the regressive statics was to develop the nature and magnitude of relationship between the demand for social accounting practices and profitability. The findings were then presented using tables, pie charts, and bar graphs for easier interpretation. On the other hand, qualitative data was analyzed using content analysis. This analysis enabled the researcher to analyze the data that were not quantitative in nature. At the same time the method allowed respondents to express their feelings on certain issues to a larger extent as compared to the quantitative analysis.

3.7 Analytical model

Given the organization performance as indicated by profitability, the consistency of behaviour in major decision making, social aspects versus strategic issues as well as proper allocation of resources, the analytical model relating the dependent variable with independent variables can be formulated as follows:

$$Y = \beta_0 + \beta_1C + S + \beta_3R + \varepsilon$$

Where:

Y = Profitability. It is the dependent variable in the variable relation

β_0 = Represents the fixed portion of profitability within the relevant range and measured in units

β_i = It represents the slopes for the regression curve and called the regression coefficients. In this model, it indicates the change in profitability when each independent variable changes by 1 unit. It is measured in percent/ratio

- C = Consistency of Behaviour. It is an independent variable and measured by the number of strategic decision made within a period against those implemented. Also represents the accomplishment of business mission
- S = Social Aspects versus Strategic Issues; an independent variable and measured by the number of corporate social activities accomplished with a period
- R = Proper Allocation of Resources; an independent variable and measured in percent/ratio of resources allocated to social accounting practices, versus the profitability
- ϵ = A random/error term and a disturbance to the deterministic relationship. It captures all factors influencing profitability not explained by the rent paid per month, the repayment period, interest rate on the home mortgage, mortgage interest relief as well as age of the home mortgage borrower

For diagnostic test, T- Test will be used to find out the strength of the relationship between the profitability mortgages and the factors that affect it.

3.8 Data Reliability and Validity

Borg and Gall (1989) define validity as the degree to which a test measures what it purports to measure. Mugenda and Mugenda (1999), define validity, as the accuracy and meaningfulness of inferences, which are based on the research results. In other words, validity is the degree to which results obtained from the analysis of the data actually represent the phenomena under study.

A pilot study was conducted in 3 departments to determine instrument validity of the questionnaire. The 3 departments were not included in the final study. The researcher ascertained instrument validity by comparing the pilot study responses to the expected responses. Discrepancy was addressed by the relevant adjustments, corrections and rephrasing of statements where necessary. Content validity was used to examine whether the questionnaire answers the research questions, Borg and Gall (1996). It involves

scrutinizing the questionnaire to ascertain that the content was a comprehensive representation of the elements to be measured. The instrument was designed to include all the elements under study.

Mugenda and Mugenda (1999) define reliability as a measure of the degree to which a research instrument yields consistent results or data after repeated trial. Piloting will enable the researcher to test the reliability of the instrument. To ensure reliability, the researcher employed the test-retest technique. This involved administering the test to an appropriate group. After some time has passed say two (2) weeks, the same test was administered to the same group. The two sets of scores were co-related using the Pearson's product moment correlation coefficient formula, as below, to determine the correlation coefficient (r) between the two sets of scores.

$$Re = \frac{2r}{1+r}$$
 ; Where Re = reliability coefficient between the two sets of scores. Reliability coefficient above + 0.6 is acceptable.

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CHAPTER FOUR

DATA ANALYSIS, FINDINGS AND INTERPRETATION

4.1 Introduction

This chapter discusses the data analysis, findings, interpretation and presentation. Analysis was done through SPSS and presented using tables, bar graphs and pie charts. Findings were then interpreted using frequencies and percent. For Likert-Scale data, output was interpreted using means and standard deviation. Response rate was found to be 69.8 percent as illustrated by Table 4.1.

Table 4.1: Response Rate

Response Rate		
	Frequency	Percent
Total Population	33	100.0
Return Rate	30	90.9

Source: Research Data (2011)

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4.2 Profile of Respondents

Table 4.2: Positions held in the organization

Positions held in the organization		
Position held	Frequency	Percent
Administrative Assistants	7	23.3
Accountant	4	13.3
Business Development manager	2	6.7
Human Resource Manager	4	13.3
Front court officer	8	26.7
Manager Intern	1	3.3
Research and Development Manager	1	3.3
Accounts Clerk	2	6.7
Head of Operations	1	3.3
Total	30	100.0

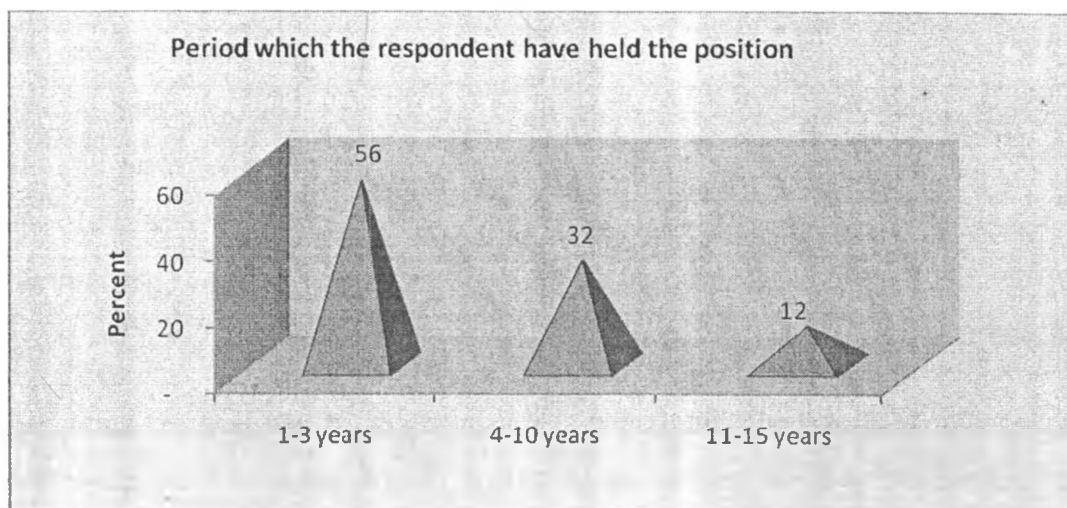
Source: Research Data (2011)

Table 4.2 illustrates the position which the respondents held in the organization. According to the findings 13 percent of the respondents were administrative assistants, 13 percent accountants, 13 percent human resource managers and 27 percent front court officers. Others were business development managers (7 percent) and accounts clerks (7 percent). Findings from the positions held by the respondents indicates that majority of them were in a position of delivering relevant information on social accounting practices, by virtue of their positions and considering the small size of some of the oil companies.

4.2.2: Period which the respondents have held the position

Figure 4.1 illustrates the period of holding position

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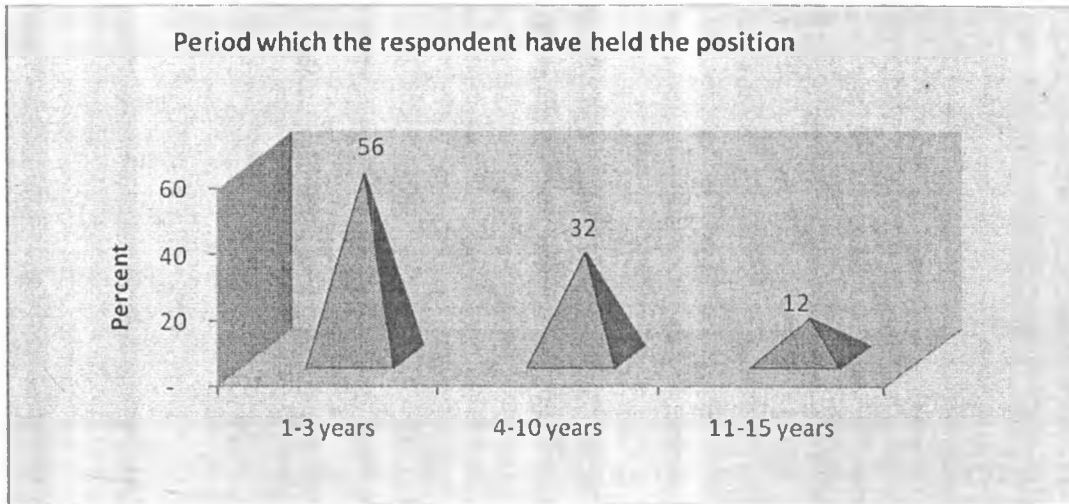
Source: Research Data (2011)

Concerning the period which the respondents had held their positions, the findings revealed that majority (56 percent) of them had held their respective positions for 1-3 years, 32 percent for 4-10 years and 12 percent for 11-15 years. The duration of the employees in the organization was important in finding out if they were in a position to assess the organization's social accounting practices activities. From the findings most of the information would be on short term activities that would take less than 5 years to implement.

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4.2.3 Duration since Establishment of the Company

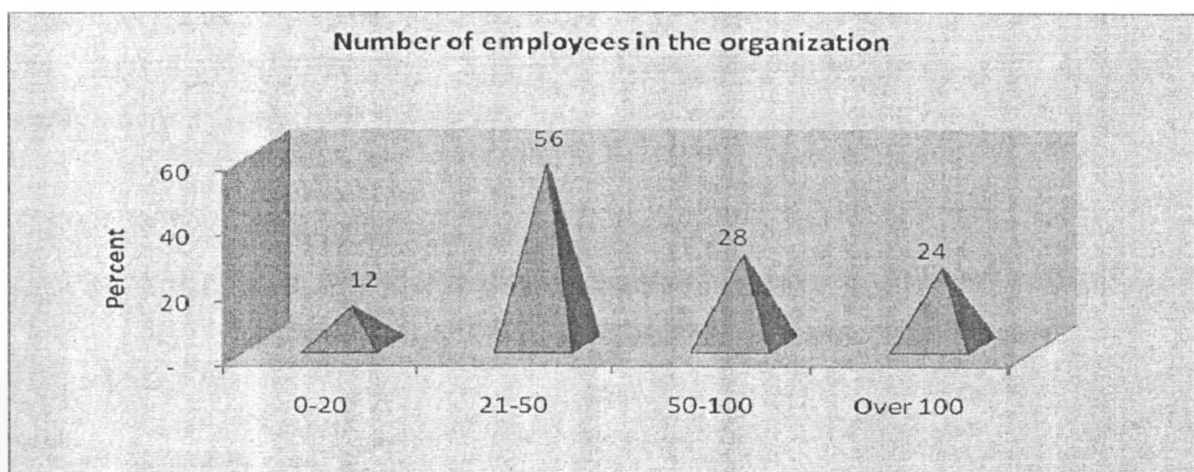
Table 4.3: Duration since Establishment

Duration since Establishment		
Duration	Frequency	Percent
20 years and below	21	70.0
21 to 40 years	2	6.7
41 to 60 years	1	3.3
Over 100 years	1	3.3
No response	5	16.7
Total	30	100.0

Regarding the year which the organizations were established, majority (70 percent) of them were established less than 21 years ago, while 7 percent were established between 21 to 40 years ago. Only 7 percent were over 40 years since their establishment. This indicates that the oil industry is a fast growing industry in Kenya.

4.2.4 Number of employees in the organization

Figure 4.2: Number of employees in the organization



Source: Research Data (2011)

Regarding the number of employees in the organizations, majority (56 percent) of the organizations had 21-50 employees, 28 percent had 50-100 employees and 24 percent had over 100 employees. Moreover, 12 percent had less than 20 employees.

4.2.5 Annual turnover of the company

Table 4.4: Annual turnover of the organizations

Annual turnover of the company		
Turnover	Frequency	Percent
5 M-10 M	17	64
11-20 M	3	8
21-30 M	4	12
31-100 M	4	12
Over 100 M	2	4
Total	30	100

Source: Research Data (2011)

Concerning the annual turnover of the petrol station, majority (64 percent) of the them had a turnover of 5-10 million, 12 percent had a turnover of 21-30 million and 12 percent had a turnover of 31-100 million. Moreover, 8 percent had a turnover of 11-20 million and 4 percent had a turnover of over of 100 million. This shows that the petrol stations organizations in Kenya were the main contributors to the economy of Kenya.

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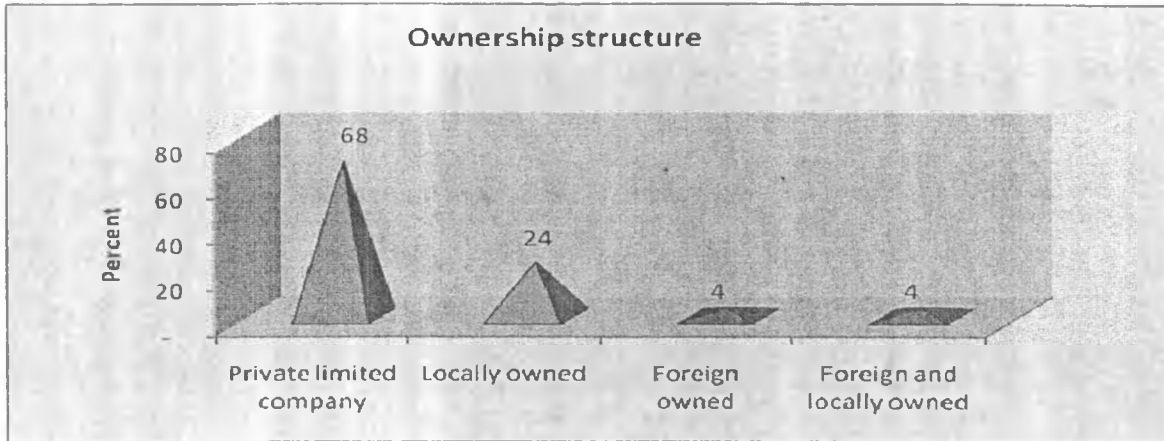
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4.2.6 Ownership structure

Figure 4.3: Ownership structure



Source: Research Data (2011)

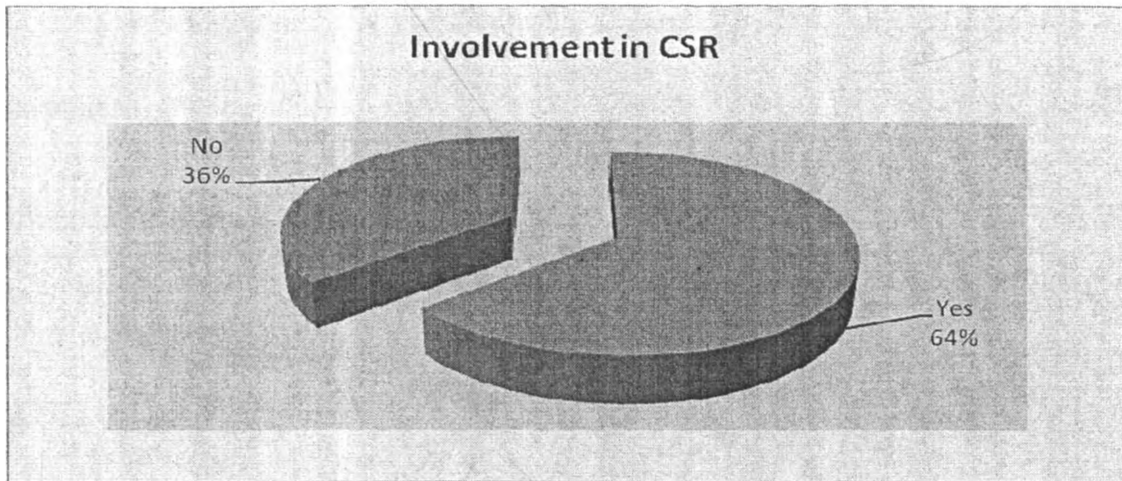
The researcher sought to find out the ownership structure of the organizations as illustrated by Figure 4.3. According to the findings majority (68 percent) of the respondents were private Ltd companies, 24 percent were locally owned and 4 percent were foreign owned. In addition, 4 percent of the organizations were foreign and locally owned.

Public companies are open to public scrutiny unlike private Ltd companies. This will be important in establishing whether without the pressure from the public, oil companies have an obligation to meet the needs of the community since they provide their products and services directly to them.

4.3 Involvement in social accounting practices

The researcher sought to investigate if the oil companies were involved in carrying out social accounting practices (Figure 4.4) and what specific activities they were involved in (Table 4.5). Other findings in this section included how often the practices were carried out (Figure 4.6), if they were entrenched in strategy (Figure 4.5) and the stakeholders involvement (Table 4.6 and Figure 4.7).

Figure 4.4: Involvement in social accounting practices



Source: Research Data (2011)

Figure 4.10 illustrates whether the respondents' organization have been involved in any social accounting practices activities. According to the findings majority (64 percent) of the respondents' organizations had been involved in social accounting practices activities while 36 percent had not been involved in social accounting practices activities. This is an indication that majority of Oil companies in Kenya are involved in social accounting practices. There is a wide range of social accounting practices activities that an organization can choose to be involved in based on their policies or preferences.

Table 4.5: Social accounting practices activities adopted by the organizations

social accounting practices activities adopted by the organizations							
social accounting practices Activities	Greater extent	Moderate extent	Neut ral	Low extent	No exten t	Mea n	Std Dev
Good working conditions for employees	60	28	12	-	-	4.5	0.70
Employees welfare	36	48	16	-	-	4.2	0.69

Product safety	40	32	28	-	-	4.1	0.82
Truthful advertising	48	28	20	4	-	4.2	0.89
Environmental issues	16	40	20	12	12	3.4	1.23
Community activity	44	16	24	-	16	3.7	1.43

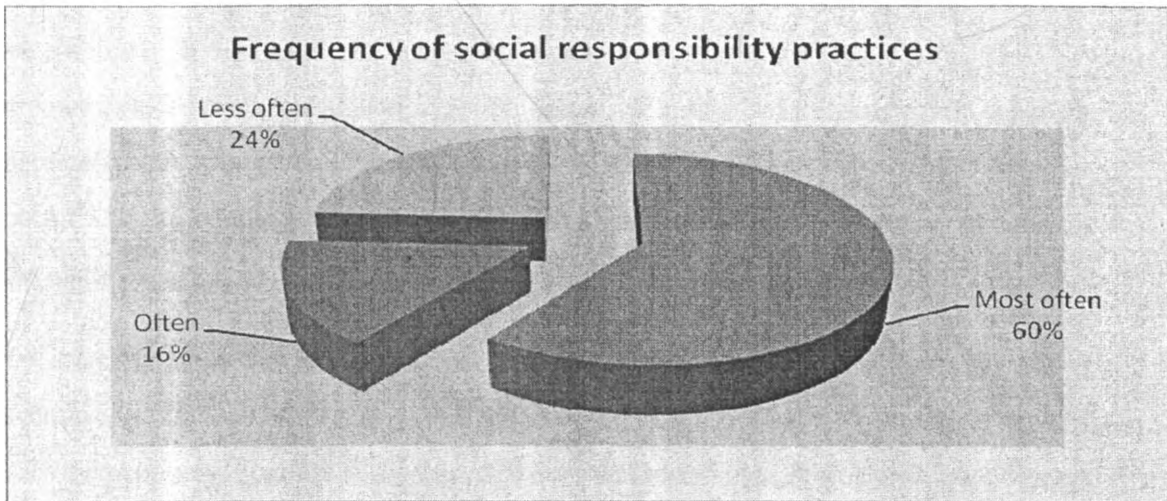
Source: Research Data (2011)

Table 4.5 illustrates the activities the organization had been involved where a five-point likert scale was used to analyze them. There were five levels of extent to which the organizations had been involved in the activities. The five levels were greater extent which was given 5 points, moderate extent which was given 4 points and neutral which was given 3 points. Moreover, there was low extent which was given 2 points and no extent given 1 point. A mean and standard deviation were worked out for the analysis.

To a greater extent, the organizations were involved in good working conditions for employees with a mean of 4.5 and standard deviation of 0.70. In addition they were involved to a moderate extent in employees' welfare, product safety and truthful advertising with a mean of 4.2, 4.1, and 4.2, standard deviation of 0.69, 0.82 and 0.89 respectively. Also the organizations to a moderate extent were involved in community activities with a mean of 3.7 and standard deviation of 1.43. Moreover, to a neutral extent they involved in environmental issues with a mean of 3.4 and standard deviation of 1.23.

Concerning social accounting practices activities and strategy. Majority (72 percent) agreed that the social accounting practices activities were part of the organizations' strategy while 28 percent said they were not.

Figure 4.5: Frequency of social responsibility practices



Source: Research Data (2011)

Concerning, how often the social accounting practices activities are practiced in the respondents' organization, majority (60 percent) practiced the social accounting practices activities most often, 24 percent less often and 16 percent practiced often. This confirms that since corporate responsibility activities are part of strategy, then the organization is committed to ensuring that they will be done most often.

Table 4.6: Stakeholders involvement in carrying out social accounting practices activities

Stakeholders' involvement in carrying out social accounting practices activities							
Stakeholders	Greater extent	Moderate extent	Neutral	Low extent	No extent	Mean	Std Dev
Employees	48	32	16	4	-	4.2	0.86
Other Stakeholders	12	44	40	4	-	3.6	0.74

Source: Research Data (2011)

Concerning the stakeholders' involvement in carrying out social accounting practices activities, a five-point likert scale was used to analyze them. There were five levels of extent to which the organizations had been involved in the activities. The five levels were greater extent which was given 5 points, moderate extent which was given 4 points and neutral which was given 3 points. Moreover, there was low extent which was given 2 points and no extent given 1 point. A mean and standard deviation were worked out for the analysis.

To a large extent the employees and stakeholders were involved in carrying out social accounting practices activities with a mean of 4.2 and 3.6, standard deviation of 0.86 and 0.74 respectively. Results from this study therefore indicate that, employees were more involved in social accounting practices activities in their respective firms than other stakeholders. These results however indicate that it pays to involve stakeholders in carrying out social accounting practices activities. According to Bateman & Zeithaml 1993, organizations can improve their images and avoid unnecessary and costly regulations if they are perceived as socially responsible.

4.4 Factors influencing the choice of social accounting practices activities

The researcher sought to determine the factors influencing the choice of social responsibility activities adopted by oil companies (Table 4.7) as well as challenges faced in implementing these activities (Table 4.8). The researcher also sought to find out if the respondents considered the activities to be beneficial to their organizations (Figure 4.8 and Table 4.9) and if they provided a competitive advantage in the industry (Figure 4.9).

Table 4.7: Factors that influence social accounting practices activities

Factors that influence social accounting practices activities							
Factors	Greater extent	Moderate extent	Neutral	Low extent	No extent	Mean	Std Dev
Financial performance	44	20	36	-	-	4.1	0.89
Level of competition in the industry	16	40	32	4	8	3.5	1.06
Government regulations	8	20	56	-	16	3.0	1.08
Energy industry regulations	8	20	48	12	12	3.0	1.06

Source: Research Data (2011)

The research sought to know the extent to which various factors influenced social accounting practices activities. A five-point Likert scale was used to analyze them. There were five levels of extent to which the organizations had been involved in the activities. The five levels were greater extent which was given 5 points, moderate extent which was given 4 points and neutral which was given 3 points. Moreover, there was low extent which was given 2 points and no extent given 1 point. A mean and standard deviation were worked out for the analysis.

To a great extent, financial performance and level of competition in the industry with a mean of 4.1 and 3.5, standard deviation of 0.89 and 1.06 respectively influenced social accounting practices activities. In addition, government regulations and industry regulations with a mean of 3.0 and 3.0, standard deviation of 1.08 and 1.06 respectively were neutral on influencing social accounting practices activities. This is an indication that financial performance is the major factor in influencing a firm's involvement in social accounting practices activities.

Table 4.8: Challenges of implementing social accounting practices activities

Challenges of implementing social accounting practices activities							
Challenges	Greater extent	Moderate extent	Neutral	Low extent	No extent	Mean	Std Dev
Financial constraints	40	20	28	4	8	3.8	1.23
Attitude of management towards social accounting practices	8	24	36	20	12	3.0	1.11
social accounting practices not being entrenched in the organization's strategies	16	8	32	28	16	2.8	1.26

Source: Research Data (2011)

Table 4.8 below illustrates the challenges faced by the organizations while implementing social accounting practices activities. Regarding the challenges of implementing social accounting practices activities; a five-point likert scale was used to analyze them. There were five levels of extent to which the organizations had been involved in the activities. The five levels were greater extent which was given 5 points, moderate extent which was given 4 points and neutral which was given 3 points. Moreover, there was low extent which was given 2 points and no extent given 1 point. A mean and standard deviation were worked out for the analysis.

A financial constraint was a challenge in implementing of social accounting practices activities to a large extent. This had a mean of 3.8 and standard deviation of 1.23. The attitude of management towards social accounting practices and social accounting practices not being entrenched in the organizations' strategy to a moderate extent also

paused a challenge to the implementation of social accounting practices activities. These had a mean of 3.0 and 2.8, and a standard deviation of 1.11 and 1.26 respectively.

This is an indication that, financial constraint is the most prevalent challenge encountered by oil companies in Kenya in implementing of social accounting practices activities. As entrenched by Margolis & Walsh, (2001) firms whose financial performance is weak are less likely to engage in socially responsible corporate behaviour than firms whose financial performance is strong. This is because firms that are less profitable have fewer resources to spare for socially responsible activities than firms that are more profitable.

The researcher also sought to find out if the social accounting practices activities had been of benefit to the respondents' organization, majority (76 percent) confirmed that social accounting practices activities had been of benefit while 24 percent said that they were not of benefit. This clearly indicates that firms practicing social accounting practices reap benefits.

Table 4.9: Specific benefits from social accounting practices activities

Specific benefits of social accounting practices activities							
Benefits	Most significant	More significant	Significant	Less significant	Insignificant	Mean	Std Dev
Improved company image	60	20	12	8	-	4.3	0.97
Increased customers	40	16	36	8	-	3.9	1.03
Attract outstanding employees	12	40	28	20	-	3.4	0.94
Increased profitability	16	12	52	20	-	3.2	0.95
Increase in shareholders	4	4	44	20	28	2.4	1.05
Reduced legal and regulatory action by government	4	-	40	36	20	2.3	0.93
Increased foreign presence	4	20	24	28	24	2.5	1.17

Source: Research Data (2011)

Table 4.9 illustrates the benefits of social accounting practices activities to the organizations. From the findings, the most prevalent benefits included improved company image, increased customers as well as attracting outstanding employees with mean of 4.3, 3.9 and 3.4 respectively. Increased profitability is also rated at a mean of 3.2

with a standard deviation of 0.95. However, it was revealed that, social accounting practices is less significant in reducing legal and regulatory action by government and assists very little in increasing in company's shareholders as given by mean of 2.3 and 2.4 respectively.

In addition, social accounting practices have little impact on increasing the foreign presence of a firm. This is an indication that benefits derived by oil companies in practicing social accounting practices largely include improved company image, increased customers as well as attracting outstanding employees. These factors generally lead to improved profitability of a firm. As stated by Margolis & Walsh (2001), financial performance is a factor that determines a firm's involvement in social accounting practices. However, creating corporate image remains the outstanding benefit derived by Oil companies which practice social accounting practices. These firms realize that, if the needs of society are not satisfied, a firm will ultimately cease to exist because a firm operates by public consent to satisfy society's needs (Gordon *et al* 1990).

Regarding if the social accounting practices activities gave the respondents' organization a competitive advantage in the industry, majority (76 percent) of the respondents confirmed that practice of social accounting practices gave the organization competitive advantage in the industry while 24 percent said it did not. This indicates that, social accounting practices provided the organizations' with a competitive advantage in the industry. According to a study carried out by Okeyo (2004), competitive advantage was found to be one of the top four rationales of practicing social accounting practices for a firm. Other rationales included the long-term strategy, high public visibility as well as response to society's needs.

4.5 Inferential findings

Given the organization performance as indicated by profitability, the consistency of behaviour in major decision making, social aspects versus strategic issues as well as proper allocation of resources, the analytical model relating the dependent variable with independent variables can be formulated as follows:

$$Y = \beta_0 + \beta_1C + \beta_2S + \beta_3R + \varepsilon$$

Where:

- Y = Profitability. It is the dependent variable in the variable relation
- β_0 = Represents the fixed portion of profitability within the relevant range and measured in units
- β_i = It represents the slopes for the regression curve and called the regression coefficients. In this model, it indicates the change in profitability when each independent variable changes by 1 unit. It is measured in percent/ratio
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- ε = A random/error term and a disturbance to the deterministic relationship. It captures all factors influencing profitability not explained by the rent paid

per month, the repayment period, interest rate on the home mortgage, mortgage interest relief as well as age of the home mortgage borrower

Table 4.10: Coefficients

		Standardized coefficients	
	B	Beta	Sig
Constant	0.82		0.008
Consistency of behaviour	0.23	0.15	0.042
Social Aspects versus Strategic Issues	0.02	0.32	0.028
Proper Allocation of Resources	0.11	0.75	0.001

Source: Research Data (2011)

The study revealed that the most prevalent factor among the three mentioned variables was profitability with beta value of 0.75 while ownership (limited liability company) and Consistency of Behaviour had beta value of 0.32, 0.15, respectively. The significant level was 5% implying that, the higher the significant level for an explanatory variable, the lower the confidence level and thus the less the variable explains changes in the dependent variable. The analytical model has an autonomy value of 0.82 while probabilistic values were 0.23 for Consistency of Behaviour, 0.09 for Proper Allocation of Resources and 0.66 for profitability.

$$Y = 0.82 + 0.15X_1 + 0.32X_2 + 0.75X_3 + \varepsilon$$

From the model, the constant value of 0.82 implies that number of employees in the oil companies will have an index of 0.82 when coefficients for all variable factors are zero. The results also indicate that a change in Consistency of Behaviour, Proper Allocation of Resources and profitability by 1 unit in each, will result to a positive change in

profitability in the oil companies by 15%, 32%, and 75% respectively. This is an indication that the three independent variables under investigation were positively related to the dependent variable.

4.6 Discussion of findings

The study revealed that, annual turnover and the number of employees in a firm largely determine the size of the firm. This is imperative for this study in establishing the extent to which the size of a firm influences its adoption of social accounting practices. According to Pearce & Robinson (1997), each firm regardless of size must decide how to meet its perceived social responsibility.

According to the findings majority (68 percent) of the respondents were private Ltd companies, 24 percent were locally owned and 4 percent were foreign owned. In addition, 4 percent of the organizations were foreign and locally owned.

Public companies are open to public scrutiny unlike private Ltd companies. This will be important in establishing whether without the pressure from the public, oil companies have an obligation to meet the needs of the community since they provide their products and services directly to them.

Findings from this study indicate that, conducive working environment is the most prevalent social accounting practices activity practiced by oil companies in Kenya. Employees' welfare and product safety also appear as major practices. According to Johnson & Scholes, (2002), internal aspects of social accounting practices include those practices that affect employees and shareholders such as employee welfare, working conditions, job design, and intellectual property. Donnelly *et al.*, (1992) also emphasized that, every business has a social responsibility to create a product line that is safe, reliable and of a high quality. The findings imply that oil companies are more involved in the internal rather than the external activities.

Concerning social accounting practices activities and strategy. Majority (72 percent) agreed that the social accounting practices activities were part of the organizations'

strategy while 28 percent said they were not. Findings from the study therefore indicate that the organizations have not only chosen the activities to be involved in, but they are also committed to carrying them out on a long term basis since they are entrenched in their strategy. According to Thompson et al. (2007), unless a company's social responsibility initiatives become part of the way it operates its business every day, the initiatives are unlikely to catch fire and be fully effective.

To a great extent, financial performance and level of competition in the industry with a mean of 4.1 and 3.5, standard deviation of 0.89 and 1.06 respectively influenced social accounting practices activities. In addition, government regulations and industry regulations with a mean of 3.0 and 3.0, standard deviation of 1.08 and 1.06 respectively were neutral on influencing social accounting practices activities. This is an indication that financial performance is the major factor in influencing a firm's involvement in social accounting practices activities. This confirms the argument from Margolis & Walsh (2001), financial performance is a factor that determines a firm's involvement in social accounting practices. According to Campbell (2007) state regulations and the level of competition faced in a firm are also major factors that influence firms' social accounting practices.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

The main objective of the study was to establish relationship between social accounting practices and profitability of oil industry in Kenya by oil companies (petrol stations).

The findings showed that, majority of the respondents were either front court officers (27 percent) or administrators (13 percent) accountants (13 percent) and human resource managers (13 percent). Majority (56 percent) of the respondents had held their respective positions for 1-3 years and their firms were established less than 21 years ago (70 percent). This shows that the respondents were with their organizations for over one year. They were therefore in a position to provide information on the social accounting practices activities they had been involved in, within the short term period. The fact that 70 per cent of the organizations were established for less than 21 years confirms that this is a growing industry.

The study also established that, majority (56 percent) of the organizations had 21-50 employees, 28 percent had 50-100 employees and 24 percent had over 100 employees. Concerning the annual turnover majority (64 percent) of the organizations had a turnover of 5-10 million, 12 percent had a turnover of 21-30 million and 12 percent had a turnover of 31-100 million. This implies that the industry had employed a low cost strategy by keeping few employees so as to meet their other financial obligations such as the social accounting practices cost and yet be sustainable. Most oil companies in Kenya are private limited companies.

On social accounting practices adopted by the oil companies in Kenya, the researcher discovered that, majority (64 percent) of the oil companies in Kenya had been involved in social accounting practices activities. 60 percent practiced the social accounting practices activities most often. To a large extent the employees and shareholders were involved in carrying out social accounting practices activities with a mean of 4.2 and 3.6 and standard

deviation of 0.86 and 0.74 respectively. This shows that majority of the firms had embraced the corporate responsibility theory regardless of their size.

On the extent to which various factors influenced social accounting practices activities, financial performance and level of competition in the industry with a mean of 4.1 and 3.5, standard deviation of 0.89 and 1.06 respectively influenced social accounting practices activities to a great extent. On the other hand, financial constraints were top on the list of challenges faced in implementing social accounting practices activities. This may be explained by the small and medium size of the oil companies as well as the risk of their business.

The most prevalent benefits, however, included improved company image, increased customers as well as attracting outstanding employees with mean of 4.3, 3.9 and 3.4 respectively, leading to increased profitability with a mean of 3.2 and a standard deviation of 0.95. Regarding the issue of gaining a competitive advantage in the industry, a majority (76 percent) of the respondents confirmed that the practice of social accounting practices gave the organization a competitive advantage while 24 percent said it did not.

5.2 Conclusion

Most oil companies studied were found to be small and medium in size by virtue of the number of employees, over 56% of the organizations having a number of 50 employees and below. 60 per cent of all oil companies had a turnover of between 5 and 10 Million. The researcher also concluded that most of these oil companies (70 per cent) were 20 years and below and were mostly privately owned. This shows that the oil industry is growing.

The researcher concluded that majority of oil companies in Kenya practice social accounting practices, with each firm choosing its own unique activities. The range of activities the firms were involved in included good working conditions for employees, employees' welfare, product safety, truthful advertising, community activity and environmental issues. Most oil companies however were involved in employee and

product related activities as compared to their involvement in community and environmental activities. Implementation of social accounting practices activities in Oil companies was largely done through employees than through other stakeholders. It is however important to involve stakeholders in carrying out social responsibility activities since it works to enhance the image of a firm.

Financial performance, the level of competition faced and state regulations were determined as the factors influencing social accounting practices adopted by oil companies, in that order. Financial constraints, management attitude towards social responsibility and social accounting practices not being entrenched in strategy were challenges mentioned in implementing social accounting practices. 76 percent of the respondents agreed that social accounting practices activities had been of benefit to their organizations. This was reflected in the improved company image, increased number of customers, attracting outstanding employees and improved profitability.

5.3 Recommendations

Oil companies are in a competitive and growing industry. Both the new entrants and the ones already existing need to embrace social accounting practices in their strategies. Though they face the challenge of financial constraints, they need to continue practicing low cost strategy to enable them finance social accounting practices activities.

This will enable them to have a competitive advantage in the industry as well as ensure continued growth due to the improved image. Furthermore, growth will also be portrayed through increased customers leading to increased profitability thus ensuring sustainability. Oil companies should consider increasing their social accounting practices involvement in the community since this can also be used as a marketing tool among the communities that they serve.

5.4 Limitation of the Study

The study suffered from the limitation of data collection. The respondents were reluctant to fill out the questionnaires even after being convinced that the information given was

purely for academic purposes and would be treated with a lot of confidentiality. One respondent asked to be paid to fill out the questionnaire.

It took a longer time than that envisaged to fill out the questionnaires. This was because the respondents took longer than they had stated and the fact that some had moved without updating their location address with AMFI thus posing a challenge in tracing them. This also contributed to increased cost because the researcher had to visit the respondent on more than two occasions to collect the questionnaires. According to the response rate in chapter 4, even after extending the time not all the questionnaires were filled. The questionnaire required financial data which some respondents left blank. This made it difficult to analyze this particular aspect of the respondents' profile.

5.5 Suggestion for Further Studies

For further research, a study should be done on the effectiveness of social accounting practices as a strategy in the oil companies. Also an indepth study on the challenges faced in the implementation of social accounting practices activities in the oil companies in Kenya should be considered so that the new entrants can gain a clear view of this. A similar study concerning the same topical issues addressed in this paper should be studied on another population outside Nairobi.

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APPENDICES

Appendix I: Questionnaire

Part A: Demographic Information

1) Name of the respondent (Optional)

2) Gender of the respondent

Male [] Female []

3) Education level

Secondary [] Masters []

Diploma [] PhD []

Degree []

4) Position held in the organization

Top Management []

Middle Level Management []

Subordinate Staff []

Any other (Kindly specify) _____

5) Period the organization has been in existence

Less than 5 years [] 15 – 19 years []

5 – 9 years [] 20 – 24 years []

10 – 14 years [] 55 years and above []

Period the respondent has worked with the organization

Less than 3 years [] 9 – 11 years []

3 – 5 years [] 12 – 14 years []

6 – 8 years [] 15 years and above []

Part B: General Information

6) Does your company have social responsibility accounting department?

Yes [] No []

7) How would you describe the social responsibility accounting in your company?

Not effective at all [] Greatly effective []

Less effective [] Most effective []

Fairly effective []

8) How would you describe the profitability of your company as enhanced by social responsibility accounting?

Not effective at all [] Greatly effective []

Less effective [] Most effective []

Fairly effective []

9) State whether the following statements are true or false regarding social responsibility accounting and profitability in your organization

	Yes	No	Not sure
Every outstation makes major decisions on its own			
Every outstation has a social responsibility accounting department			
Managers from the various outstations are involved in determining the social responsibility accounting policy to make for the company			
The outstation does not involve at all in social responsibility accounting			
Every station decides on what to do to improve on its profitability on its own			

10) To what extent has the following social responsibility accounting practices enhanced profitability in your organization/outstations?

	Not at all	Less Extent	Moderate extent	Great Extent	Very Great Extent
Social issues					
Legal issues					
Discretionary issues					
Ethical issues					
Economical issues					

11) To what extent has social responsibility accounting enhanced the profitability of the organization in the following areas?

	Not at all	Less Extent	Moderate extent	Great Extent	Very Great Extent
Consistency of Behaviour					
Accomplishment of Business Mission					
Discretionary issues					
Creation of Brand Identity					
Accomplishment of Strategic Issues					
Creation of Ready Markets					
Value for Customer Needs					
Proper Allocation of Resources					
Competitive Advantage					

2) Any other comment
