

**A SURVEY INTO SOCIAL ACCOUNTING
DISCLOSURE IN PUBLISHED ANNUAL
FINANCIAL STATEMENTS.**

**THE CASE OF COMPANIES QUOTED AT THE
NAIROBI STOCK EXCHANGE (NSE).**

BY

NABHAN, MOHAMED ALI.

**A MANAGEMENT RESEARCH PROJECT SUBMITTED IN PARTIAL
FULFILLMENT OF REQUIREMENTS FOR THE DEGREE OF
MASTER OF BUSINESS AND ADMINISTRATION (MBA),
FACULTY OF COMMERCE, UNIVERSITY OF NAIROBI.**

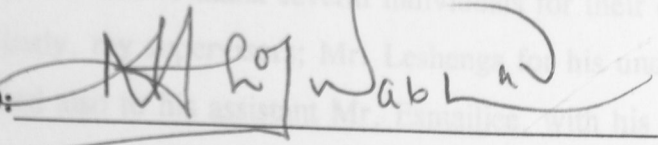
OCTOBER, 1995.

DECLARATION:

ACKNOWLEDGEMENTS

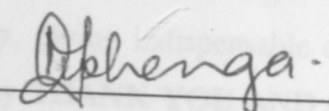
All Praise goes to the Almighty God, ALLAH, The Lord, The Cherisher and Sustainer

THIS MANAGEMENT PROJECT IS MY ORIGINAL WORK AND HAS NOT BEEN SUBMITTED FOR A DEGREE IN ANY OTHER UNIVERSITY.

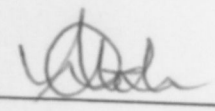
SIGNED:  DATE: 16/8/1996

NABHAN, MOHAMED ALI.

THIS PROJECT REPORT HAS BEEN SUBMITTED FOR EXAMINATION WITH MY APPROVAL AS UNIVERSITY SUPERVISOR.

SIGNED:  DATE: 16/8/96

LISHENGA. J.L. (SUPERVISOR)

SIGNED:  DATE: 16/8/96

ESMAILJEE, A.E.K. (ASSISTANT SUPERVISOR)

**LECTURERS,
DEPARTMENT OF ACCOUNTING,
FACULTY OF COMMERCE,
UNIVERSITY OF NAIROBI.**

ACKNOWLEDGEMENTS

All Praise goes to the Almighty God, ALLAH, The Lord, The Cherisher and Sustainer of the Worlds, with whose benevolence of the good things that lead to the completion and perfection of the study.

I would like to thank several individuals for their contributions.

Firstly, my supervisors; Mr. Leshenga for his understanding and guidance through the project, and also to his assistant Mr. Esmailjee, with his guidance, never-ending advice, co-operations and constructive contributions have greatly improved the quality of this research.

Secondly, my fellow MBA (1993) colleagues for their assistance and discussions during the course and the Nairobi Stock Exchange and companies involved in the study by providing relevant materials for the successful completion of the project.

Thanks are also due to the academic staff of the Faculty of Commerce for their extended co-operations and academic support throughout my academic life in the University, and My Brothers in Faith for always sparing an extra moment to offer an encouraging word which made my pursuit for knowledge comfortable.

Lastly I would like to express my appreciation to all those who have contributed directly or indirectly, giving indispensable co-operation, assistance and encouragement throughout the study. **I say THANK YOU AND GOD REWARD YOU ALL.**

Nabhan, Mohamed Ali

TABLE OF CONTENTS:

| | PAGE |
|--|-------|
| DECLARATION | (i) |
| ACKNOWLEDGEMENTS | (ii) |
| DEDICATION | (iii) |
| TABLE OF CONTENTS | (iv) |
| LIST OF TABLES | (v) |
| LIST OF FIGURES | (vi) |
| ABSTRACT | (vii) |
| CHAPTER ONE: INTRODUCTION | |
| 1.1 Background of the Study | 1 |
| 1.2 Statement of the Problem | 2 |
| 1.3 Objectives of the Study | 3 |
| 1.4 Importance of the Study | 12 |
| 1.5 Overview of the Study | 13 |
| CHAPTER TWO: LITERATURE REVIEW | |
| 2.1 THE CONCEPT OF BUSINESS SOCIAL RESPONSIBILITY: | |
| 2.1.1 Introduction | 14 |
| 2.1.2 Arguments in favour of Business Social Responsibility | 15 |
| 2.1.3 Arguments against Business Social Responsibility | 16 |
| 2.2 THE CONCEPT OF SOCIAL ACCOUNTING: | |
| 2.2.1 Introduction | 20 |
| 2.2.2 Development of the Concept of Social Responsibility Accounting | 22 |

TABLE OF CONTENTS:

| | PAGE |
|---|--------|
| DECLARATION | (i) |
| ACKNOWLEDGEMENTS | (ii) |
| DEDICATION | (iii) |
| TABLE OF CONTENTS | (iv) |
| LIST OF APPENDICES | (vii) |
| LIST OF TABLES | (viii) |
| ABSTRACT | (ix) |
| | |
| CHAPTER ONE: INTRODUCTION | |
| 1.1 Background of the Study..... | 1 |
| 1.2 Statement of the Problem..... | 10 |
| 1.3 Objectives of the Study..... | 11 |
| 1.4 Importance of the Study..... | 12 |
| 1.5 Overview of the Study..... | 13 |
| | |
| CHAPTER TWO: LITERATURE REVIEW | |
| 2.1 THE CONCEPT OF BUSINESS SOCIAL RESPONSIBILITY: | |
| 2.1.1 Introduction..... | 14 |
| 2.1.2 Arguments in favour of Business Social Responsibility | 15 |
| 2.1.3 Arguments against Business Social Responsibility | 16 |
| 2.2 THE CONCEPT OF SOCIAL ACCOUNTING: | |
| 2.2.1 Introduction..... | 20 |
| 2.2.2 Development of the Concept of Social Responsibility Accounting..... | 22 |

| | |
|---|----|
| 2.3 THE NEED FOR THE AREAS OF SOCIAL ACCOUNTING DISCLOSURE... | 24 |
| 2.4 SOCIAL DISCLOSURE: | |
| 2.4.1 Introduction..... | 28 |
| 2.4.2 Approaches towards Social Disclosure..... | 29 |
| 2.4.2.1. Descriptive Approach..... | 29 |
| 2.4.2.2. Cost Outlay Approach..... | 30 |
| 2.4.2.3. Cost Benefit Approach..... | 31 |
| 2.4.3 Social Disclosure and Social Performance..... | 33 |
| 2.4.4. Social Disclosure and Economic Performance..... | 35 |
| 2.5 SOCIAL DISCLOSURE AND THE GENERAL ACCEPTED ACCOUNTING PRINCIPLES. | 39 |
| 2.6 SOCIAL DISCLOSURE AND THE REPORTING STANDARDS..... | 41 |
| 2.7 SOCIAL COST-BENEFIT ANALYSIS..... | 44 |
| 2.8 IMPLICATION OF SOCIAL ACCOUNTING..... | 46 |
| 2.9 PROBLEMS OF SOCIAL ACCOUNTING DISCLOSURE..... | 50 |

CHAPTER THREE: RESEARCH METHODOLOGY:

| | |
|---|----|
| 3.1 Research Design..... | 51 |
| 3.2 Population..... | 51 |
| 3.3 Sample..... | 52 |
| 3.4 Data collection..... | 52 |
| 3.5 Respondents..... | 54 |
| 3.6 Data Analysis Methods | |
| 3.6.1 Identification of social information items disclosed..... | 54 |
| 3.6.2 Data Analysis Instruments..... | 54 |

LIST OF APPENDICES:

CHAPTER FOUR: DATA ANALYSIS AND FINDINGS.

4.1 Overview.....57

4.2 Form of Social Accounting Disclosure Adopted..... 58

4.3 Identification of Social Information Items Disclosed.....60

 4.3.1 Popular and Rare Social Items Disclosed.....64

4.4 Extent of Social Accounting Disclosure:.....66

 4.4.1 Overall Trend of Social Accounting Disclosure.....67

 4.4.2 General Trend of Social Accounting Disclosure with respect to the
 Industrial Categories.....68

4.5 Companies's Response towards specific arguments for Social Accounting Disclosure..... 70

4.6 Companies's Response towards specific arguments against Social Accounting Disclosure...77

4.7 Others Approaches of Social Information Disclosures.....83

CHAPTER FIVE: SUMMARY AND CONCLUSIONS:

5.1 Summary of the Findings.....85

5.2 Recommendations.....88

5.3 Conclusion.....89

5.4 Limitation of the Study.....91

5.5 Suggestions for Future Research.....92

APPENDICES.....93

BIBLIOGRAPHY.....112

LIST OF APPENDICES:

| | |
|--|-----|
| Table 1: Lowest and Highest number of Social Items Disclosed within the five year period..... | 58 |
| Appendix 1. List of companies quoted at the Nairobi Stock Exchange..... | 93 |
| Appendix 2. List of sampled companies..... | 95 |
| Appendix 3. List of Social Information Items..... | 97 |
| Appendix 4: Letter to the Respondents: Questionnaire A..... | 98 |
| Appendix 5. Questionnaire A..... | 99 |
| Appendix 6: Letter to the Respondents: Questionnaire B..... | 101 |
| Appendix 7. Questionnaire B..... | 102 |
| Appendix 8: Scores from Questionnaire A..... | 105 |
| Appendix 9: Scores from Questionnaire B..... | 106 |
| Appendix 10: Summary Statistics Data of the Mean, Standard Deviation and Coefficient of Variation for the Arguments for Social Accounting Disclosure..... | 107 |
| Appendix 11: Summary Statistics Data of the Mean, Standard Deviation and Coefficient of Variation for the Arguments against Social Accounting Disclosure..... | 109 |
| Appendix 12: Percentages of social information disclosed by companies over the past five years..... | 111 |
| Table 11: Ranked Standard Deviation and Coefficient of Variation for the Arguments Against Social Accounting Disclosure..... | 81 |
| Table 12: Other Means used to disclose Social information..... | 84 |

LIST OF TABLES:

| | |
|---|----|
| Table 1: Lowest and Highest number of Social Items Disclosed within the five year period... | 58 |
| Table 2: Forms of Social Disclosure Adopted by Kenyan companies in 1994..... | 59 |
| Table 3: Social Information Items disclosed by companies from 1990 to 1994..... | 61 |
| Table 4: Total Distribution of Social Disclosure classified with respect to the Industrial Categories over the 5 years..... | 63 |
| Table 5: Percentage of Popular and Rare Social Information Items disclosed in 1994..... | 65 |
| Table 6: Overall trend of Social Accounting Disclosure | 67 |
| Table 7: General trend of Social Accounting Disclosure classified as per the Industrial Categories over the 5 years..... | 69 |
| Table 8: Companies Response towards Specific Arguments for Social Accounting Disclosure..... | 71 |
| Table 9: Ranked Standard Deviation and Coefficient of Variation for the Arguments For Social Accounting Disclosure | 75 |
| Table 10: Companies Response towards Specific Arguments Against Social Accounting Disclosure..... | 78 |
| Table 11: Ranked Standard Deviation and Coefficient of Variation for the Arguments Against Social Accounting Disclosure | 81 |
| Table 12: Other Means used to disclose Social information..... | 84 |

ABSTRACT

Corporate social responsibility has received a great deal of public and local government attention worldwide and in Kenya in the recent years. Businesses have now been urged to make a more adequate response to current issues of social concern. Overtime, these pressures have led to increased awareness in the accounting profession towards developing an adequate and reliable system concerned with the accountability and evaluation of the firms social contribution to the society. This resulted in the development of a new accounting boundary referred to as "social accounting" taking into account the disclosure of social information to the users of financial statements, an area generally overlooked in the accounting profession in Kenya.

This trend prompted the need for a survey in the above specific area of concern. Three objectives were set which will generally try to provide some empirical evidence relevant to the social accounting disclosure questions in the Kenyan setting and its overall acceptability by the Kenyan companies.

The survey explored the nature and extent of social information disclosure in the annual reports of 43 quoted companies at the Nairobi Stock Exchange (NSE) for the past five years (objective one and two), and showed that the amount and diversity of social disclosure received momentum over the years.

The categories of social information reported in the Kenyan annual reports generally fell into four broad areas of interest mainly human resource, environment, the community and consumerism. However, companies disclosed largely their human resource and community involvement aspects as compared to the others in their annual reports.

The survey also found out that 87 percent of the sampled companies adopted the Descriptive form of social disclosure while only 13 percent adopted the Cost-Outlay approach. Overall, social accounting disclosure showed a general increased trend over the five year period, with an average positive growth rate of 13.25 percent. The Industrial and Allied sector had the highest growth rate of 53.35 percent as compared to the Commercial and Service sector which had the lowest average growth of negative 3.175 percent.

The information set to achieve the third objective was collected through two structured questionnaires which were administered to 43 companies. From the annual reports of these companies, 25 companies were found to disclose the highest rate of social information in their annual reports and out of them, 20 completed questionnaire A with respect to the positive arguments towards social information disclosure. 18 companies which were considered to disclose the lowest rate of their social information received questionnaire B with arguments against social information disclosure in the annual reports of which 13 companies completed the questionnaire.

The findings indicates that companies are aware of some of the aspects of the concept of social accounting. All companies agreed that it is of self interest to disclose social information as long as the company engages in such social activities. Furthermore, companies also agreed that the disclosure of social information provided investors with a more sufficient and reliable information to evaluate their investment decisions towards a company. This indicates that social information has some form of value to the users of financial statements. However at the extreme, companies pointed out that social accounting disclosure is still a weak phenomena in Kenya. The poor disclosure of social information by companies had nothing to do with the cost or confidentiality of social information towards the company operations, but the lack of a formal measurement and an adequate system of reporting social activities have generally prevented companies from adopting the system of social information disclosure to the users of financial statements.

Overall, the evaluation of the current social accounting disclosure practice in Kenya shows to have a positive response with the increasingly reporting status of social information among the Kenyan companies in the annual corporate reports over the five year period. However there is lack of adequate awareness and uniformity on the system of social disclosure, as the contents and format of social reporting of these companies in the annual financial reports are still in the earliest form of social disclosure and varied considerably from company to company and from year to year.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The accounting profession, considered as the discipline of objective presentation and fair communication of the economic and financial measurement, has in recent years been giving increasing attention to the field of socio-economic accounting. This field has been defined by Sybil (1970) as the;

"ordering, measuring, and analysis of the social and economic consequences of governmental and entrepreneurial behavior".¹

This profession which is known to borrow a lot from other social sciences like Human Resource Management, Law, Sociology, Economics, seems to have developed concern in the areas of Social Responsibility Accounting in order to keep up with the changing needs of the makers and users of financial reports as evidenced world-wide and in Kenya.

This is evidenced in the recent KASNEB examination of 1995 which included a question on the area of social accounting;

"Recently a research was conducted by Weru Curiosity Consultants. The research exposed the accountants' lack of appreciation of the need for preparing employers and social responsibility statements. The report will be submitted to a group of accountants for discussion. Required:

- a. Explain the reasons for producing a report for employees?.*
- b. Elaborate on the scope of Corporate Social Responsibility?."*²

This is an indication of the recognition and interest in the existence of this new socio-economic accounting phenomenon in the accounting profession syllabus in Kenya. This restructuring of the accounting educational program at the time when social accounting is a new phenomenon in Kenya, indicates the importance of adequate preparation of accountants for any new demands they may face in the area of social accounting as a result of the desperate call by

¹. Sybil C. Mobley., "The Challenges of Socio-Economic Accounting", The Accounting Review, Oct 1970, p.762.

². Kenya Accountants and Secretaries National Examination Board, CPA Examination PartIII, Financial Accounting IV, Question 2, 15 th July 1995.

the clients for more services.

Social accounting has been defined by Burton (1977) as;

*"the recognition, measurement, analysis and disclosure of the activities of an entity which impact upon the fiscal, physical, or emotional well-being of those who are directly associated with the entity by geographic proximity or as investors, employees, beneficiaries of services, or customers or clients, or those who are indirectly affected by the entity's operations."*³

The issue of Social Responsibility Accounting (SRA) has generated intense debate and interest for almost three decades. Part of the controversy stems from the term, social responsibility. The concept of business social responsibility implies obligations on the part of a business to make decisions or pursue policies which are socially desirable and which requires business to operate the system so as to fulfil the expectations of the general public.

In this connection, management is being held responsible not only for the efficient and effective conduct of the business as expressed in profitability, but also for what they do in minimizing costs placed on the society by the company and in solving the endless number of social problems of the society they are operating in. This is a significant departure from the basic economic responsibility of purely generating profits. However the precise limits or boundaries of this concept still remain undefined.

In spite of the absence of generally accepted limits of the concept of business social responsibility, there is a growing consensus that business organizations should be socially responsible. Surveys by Holmes (1976)⁴ and Ostlund (1977)⁵ have indicated that many business executives have started to view social responsiveness as necessary, even if it means a reduction in short-run profits or no long-run returns. This is also the case in Kenya.

³. Burton, E.J., "Towards A Theory of Corporate Social Accounting; A Comment", The Accounting Review, Vol.LII, No.4, October 1977, p.974.

⁴. Holmes, S.L., "Executive Perceptions of Corporate Social Responsibility", Business Horizons, Vol.19, No.3, 1976, pp 34-40.

⁵. Ostlund, L.E., "Attitudes of Managers towards Corporate Social Responsibility", California Management Review, Vol.19, No.4, 1977, pp 36-49.

Kweyu (1993)⁶, who studied the managerial attitude towards business social responsibility in Kenya observed that all managers interviewed agreed that a business that wishes to capture favorable public image will have to show that it is socially responsible and, efficient production of goods and services is no longer the only thing society expects from businesses.

The Kenyan Government and the public have also increasingly accepted this view and they judge each business in terms of its social costs and benefits contributed to the society as a whole.

In 1991⁷, the then Minister for Research, Science & Technology, Mr G. Muhoho commented "while we detest industries for polluting the environment we need them for creating employment and manufacturing goods which would otherwise cost the country much foreign exchange". He also reported that both Thika Cloth Mills & Kenya Paper Mills are spending Kshs.8 million to install treatment plant to reduce pollution and that the industries need to protect the environment. In 1995⁸, the Minister of Environment and Natural Resources, Mr Sambu also reported that the Government has directed three companies in Ruiru town to put effluent treatment works, two of them are from the nail manufacturing industry and one was a processing firm. A study commissioned by the government revealed that the three firms did not meet environmental standards on effluent discharge and thus polluting the air.

Kenyan residents' complaints also led to the closure of Kel Chemical Company and Sulfuric Acid Manufacturing Company because of pollution, noise, and offensive smell. The public also staged many demonstrations against the companies which do not consider the well being of the society.

⁶. Kweyu, M., "Managerial Attitude towards Business Social Responsibility, A Case of Bank Managers in Nairobi" unpublished MBA project, University of Nairobi, 1993.

⁷. Nation Newspaper Limited, Daily Nation, Act fast to serve Athi River, Residents worried about factories, June 26, 1992 & Daily Nation, Rising Pollution scares Residents, May 8, 1991.

⁸. Nation Newspaper Limited, Daily Nation, October 5th 1995, "State Order on Waste Disposal".

With these changes in society values, Kenyan businesses may find themselves compelled to undertake social accounting because of being pressed to engage into and account for social responsible activities. In this respect, companies will be involved in a new form of disclosure by including the economic and social aspects of their operations in their corporate financial reports.

Corporate financial report has been defined by Glantier (1988) as;

"a deliberate release of financial information, whether numerical or qualitative, required or voluntary through formal or informal channels in order to furnish investment decision makers with financial information about the reporting company".⁹

An impetus towards corporate social reporting was provided by the Trueblood Report in 1973. According to this AICPA study, which developed twelve (12) separate objectives of financial reports, one of the objectives, was addressed to SRA and it pointed out;

"an objective of financial statements is to report on those activities of the enterprise affecting society which can be determined and described or measured and which are important to the role of the enterprise in its social environment".¹⁰

Therefore if financial statements are to be of benefit and to cater for the wide range of its users, financial reporting must incorporate Social Responsibility needs of the users of financial information.

The fact that there is a growing consensus that the traditional measurements of performance derived from the Income Statements and Balance Sheet are too narrow to reflect what many companies are trying to do or supposed to be trying to achieve in terms of their economic and social activities has led to the incorporation of the Funds Flow Statements, Cash Flow Statements, Value Added Statements and Employee Report in the corporate annual financial reports among many companies worldwide. Therefore the incorporation of social

⁹. Glantier M.W, "Accounting Theory and Practice" Pitman London, 1988.

¹⁰. American Institute of Certified Public Accountants, "Report of the Accounting Objectives of financial statements," (Trueblood report), New York, 1973, p.68.

accounting disclosure can be acceptable as a component of the financial disclosure of the company to enable it to cater for all the needs of the users of financial statements as per the argument above.

Social accounting disclosure has been defined as;

"the publication by the company (or other organization) of information to enable interested parties to assess its performance in social terms rather than just in terms of profitability".¹¹

The need for social accounting disclosure is recognized world-wide. In 1974, the National Association of Accountants in U.S.A carried out a survey among 695 of its members which revealed that 71 per cent of the respondents agreed that a system of accounting for social responsibility was needed. 90 per cent of the respondents identified a need for both descriptive and numerical measurement of social performance.

We would therefore expect that in the fullness of time, financial statements would disclose the economic and social benefits created by the enterprise, and economic and social costs incurred. In this way, they may disclose also the net contribution which the firm is making towards the society, whether positively or negatively. However it is still debatable;

Arthur Anderson et al., (1972) pointed out that, the information necessary for proper ethical enforcement and accountability to the broader social goals (of corporations) should not be integrated with the information needed for economic decisions.

It is also argued that such social reporting cannot be done since there is no agreement about the method of reporting or the elements that should be included: How can we do something when no one told us to do and how to do it ?

It is argued that the lack of social accounting disclosure is also prompted by the difficulties faced in measuring social costs and benefits among companies.

However, challenging the statement of measurement difficulty in some of areas of social accounting disclosure, Joel (1976) pointed out that;

¹¹. Rob Gray & Bob Perks, "How desirable is Social Accounting", Journal of Accountancy, April 1982, p 101.

"There does not exist the same barriers to full disclosure in this area as there exists in other areas such as pollution. The measurement of a firm's human resources is more objective than other social costs. There can be objective standards to measure minority recruitment and employment and occupational health and safety. Because of the relative ease of furnishing this information, there is no reason why in the very near future these and other meaningful statements cannot be prepared along with the conventional financial statement".¹²

Supporters of social accounting also argue that a company should engage in social responsibility accounting because in the first place, it is good for public relations. If a company is pursuing social activities, then it is in the company's interest to report to the society its achievements and costs.

It is also argued that some corporation are not really interested in socio-economic accounting disclosure because, in reality, it will make them look much worse by the public since they do not engage in such activities.

These statements encapsulates some of the views about the need for and purpose of corporate social reporting and hence bring out the existing debate for SRA.

Nevertheless, the corporate report (1975), issued by the Accounting Standards Committee of United Kingdom, identifying seven group of users (constituting Management, Investors, Creditors, Employees, Financial Analysts, Government and the Public) of financial information from having a reasonable right to receive information from corporations, did recognize indirectly the need for social accounting disclosure.

By identifying and reporting various social costs and responsibilities in the annual reports, all segments of the population will thus benefit; Management in planning goals and setting priorities, Investors in making more appropriate investment decisions from increased disclosures of corporate social affairs, and the Public by knowing how it is affected by the activities of the company since social reports include information on the company's effect on the customer satisfaction, the employee welfare, the local community and the environment.

¹². Joel Siegel & Martin Lehman, "Own up to Social Responsibility", Financial Executive, March 1976, p.48.

Overall, since the accountant is naturally known as a communicator in his process of presenting the firm's economic activities in a useful manner, it will then be good for the firms who have implemented a socially responsible program, to communicate their social responsibility efforts and the results to the public so that they can make their evaluation.

Already, accounting is beginning to play an important role in the activities of governmental agencies which are concerned with some of the serious social problems such as urban congestions, poverty, pollution and crime (Estes 1972)¹³. It also plays an important role in measuring national economic health, and has the potential to contribute to the development of national measures of the quality of life (Terleckyj 1973)¹⁴.

Support for social accounting may thus be based on three proposition;

1. that companies have social responsibilities.
2. that companies should produce social reports.
3. that social reports should be produced by accountants in an accounting format.

This concept of socio-economic accounting is thus expected to widen the scope of conventional accounting by considering the social effects of business decisions as well as their economic effects.

Furthermore, the scope of social accounting information varies considerably among companies. Beresford (1974)¹⁵ analyzed the reporting of social information by the fortune 500 industrial companies and found that the social type of performance disclosed among these companies could be classified as broadly as follows;

- 1) Environment controls
- 2) Minority employment

¹³. Estes, R. W. " Socio-Economic Accounting & External Diseconomies, The Accounting Review" April 1972, pp.284-290.

¹⁴. Terleckyj, N.E, "Measuring Progress towards Social Goals", Management Science, August 1973.

¹⁵. Beresford, D.R , " How Companies are reporting Social Performance" ,Management Accounting, August 1974.

- 3) Responsibility to personnel
- 4) Community activities
- 5) Product improvement

To date, some Kenyan companies appear to have also recognized the need for social accounting disclosure. The chairman's statement in the Barclays Bank of Kenya Limited annual reports and accounts 1994 states that;

*"We have continued to recognize the need to contribute to the social and economic well being of the communities in which we operate. 1994 was another active year on our social responsibility front. Altogether a total of over Sh 14m was disbursed to 277 organization throughout the country".*¹⁶

Brooke Bond Kenya Limited annual reports and accounts 1994 also pointed out that;

*"Brooke Bond has participated in the activities of the lake Naivasha Riparian Owner Association whose objective is to manage the preservation of this virtually important area of natural beauty.....During the year, there were improvements in the hospital facilities. New equipment for blood analysis was purchased for Kericho".*¹⁷

These disclosed social issues among Kenyan companies through the annual reports suggest that there is an acceptance for this new phenomena among management who see themselves as being socially responsible.

Beresford (1974)¹⁸ argues that social disclosure practices varied considerably in scope, format, use of quantitative and financial measures and the significance of the items disclosed. He carried out surveys in the U.S and found that social information disclosure has increased dramatically in the recent years. This survey conducted over time revealed the three basic approaches towards social disclosure employed by a number of companies:

¹⁶. Barclays Bank of Kenya Limited, Chairman Statement for the year ended 31st December 1994, Barclays Bank of Kenya Limited Annual Reports and Accounts 1994, p.11.

¹⁷. Brooke Bond Kenya Limited, Chairman Statement for the year ended 31 December 1994, Brooke Bond Kenya Limited, Annual Reports and Accounts 1994, p.7-8.

¹⁸. Beresford, D.R., Op.Cit, August 1974.

- 1). Separate sections in annual reports which were usually described as social reports.
- 2). Separate sections in the Presidents (Chairman's) letter to shareholders, very often addressed to shareholders and employees.
- 3). Coverage of social matters as part of major topics of interest in reports.

Compared to the system of social accounting disclosure in the U.S and U.K, the scope of social responsibility disclosure in Kenya is limited. No near insight of the first financial report to include a numerical social accounting disclosure exists apart from some few companies disclosing their social contribution through their chairman's reports.

The interest in the disclosure of social responsibility activities is a recent phenomenon in Kenya. The manner in which social information have been reported to the public is in its earlier forms of disclosure. Esmailjee (1993) in his paper on "Social Accounting , The State of Art", pointed out that social accounting in Kenya is in its earlier forms; Companies highlight their social activities in their annual reports mainly in descriptive nature. Reporting tends to be very brief, sketchy, and least informative and not in financial terms.

This indicates that social performance is not reported in a systematic manner among companies. Although many corporations are taking part in social responsibility programs, we expect a variety in the form of disclosure in Kenyan companies annual reports.

This indicate that the form of disclosure for the few companies that engage in SRA disclosure are expected to differ in their social information contents and will vary considerably since individual firms decide for themselves the nature of their social accounting disclosure.

Inspite of a good deal of public interest in social performance by Kenyan corporations noted earlier, no review or standard has been proposed by the Institute of Certified Public Accountants of Kenya (ICPAK) on reporting the social responsibility activities assumed by enterprises. Some companies seem to be willing to disclose this information voluntarily to the users of financial statement.

Finally, since social accounting is believed by others to be the beginning of a major expansion of the boundaries of accounting, others may believe it is a passing cloud, a curiosity. Assuming that social accounting marks the beginning of the expansions of the accounting boundaries as seen in the U.S.A, surveying the area would be a step forward to Kenya's companies interest towards social accounting. Thus it would be appropriate at this stage to undertake the necessary steps to survey the areas of disclosure, the trend of social accounting disclosure among the business communities in Kenya, and why some companies undertake such a disclosure while others do not.

1.2 Statement Of The Problem

According to the concept of business social accounting, business corporations should incorporate social accounting information in the annual financial reports to users of financial reports. Furthermore, with the advent of the era of "transparency and accountability", the demand for social accounting disclosure is increasingly being of concern to the society at knowing the desirable and undesirable byproducts of economic activities.

Today, active consumer groups, the public and the government departments demand it and in future legislation promoted by these groups may make it mandatory. But to date, the Companies Act (CAP 486) of the laws of Kenya, which governs and regulate the activities of corporations make no provision for the requirement of social disclosures in the annual reports of corporations. Neither has ICPA(K) developed any standards that deal with the measurements and reporting of social responsibilities assumed by the individual enterprises nor does the Nairobi Stock Exchange require the listed companies to file with them reports relating to social responsibility. Therefore the area of accounting for social responsibility still continues to lie at the discretion of individual companies in Kenya.

Although several studies have attempted to examine the form of mandatory and voluntary corporate financial disclosure in annual reports respectively in Kenya (Wole 1992) and (Kinya

1.4 Importance Of The Study:

1993), there is lack of any organized research studies and literature in Kenya that has been devoted to the study of corporate social accounting disclosure, unlike in the developed economies such as U.S.A. and U.K where several studies have been conducted on the various aspects of the concept of social accounting disclosure in the financial reports.

Despite social accounting disclosure being a new phenomenon and the lack of any mandatory regulation towards this disclosure in Kenya, companies are voluntarily engaged in reporting several social responsibility activities in their annual financial reports and it appears that companies have progressed substantially further than the literature.

However the areas, trend determination and the reason behind this disclosure is unknown. In this atmosphere, what areas of social responsibility activities are disclosed in the annual financial statements? Is the trend towards Social Accounting disclosure improving? what categories of companies undertake more of social accounting disclosure and why some companies are more involved in this disclosure activity as compared to others? are some of the pertinent questions that need to be answered. Thus the present study will therefore address itself to these questions and attribute some knowledge of this field of social accounting to the Kenyan company's financial reports and hence would contribute immensely on its reporting status in this part of the world.

1.3 Objectives Of The Study

The main objective of this study is to survey the area of social accounting disclosure in the annual financial reports in Kenya with respect;

1. To find out, the areas of social accounting information disclosed in the annual financial reports of the companies.
2. To establish the trend of social information disclosure among the different industrial sectors.
3. To find out the reasons behind some companies engaging in social accounting disclosure while others do not.

1.4 Importance Of The Study:

This study is expected to be of interest particularly to the following.

1. Business Community:

Knowledge of companies opinion in the area of social accounting disclosure will undoubtedly contribute in increasing awareness to the business community in deciding what efforts to give in order to make a more appropriate means of disclosing social accounting information in their financial statements.

2. Corporate Accountants.

Corporate Accountants would increase their knowledge on SRA and hence meet the challenge to come up with a systematic manner of disclosing such information. Accountants would hence expand their services in the area of social disclosure to the companies.

3. Stockbrokers and Security Analysts.

Since they provide advisory services to investors, this study will be an invaluable source of social information from companies to stockbrokers in providing investments advices to socially sensitive investment decision makers.

4. The Institute of Certified Public Accountants of Kenya (ICPAK)

Knowledge of issues surrounding social accounting disclosure is likely to be useful in furthering the interest of ICPA(K) members into this area. It would contribute immensely to predict the future on the state of social reporting in Kenya and therefore in this respect would guide the standard setters on areas requiring regulation.

5. Researchers and Scholars.

Social accounting disclosure in Kenya, as evidenced in local libraries, remains a fairly un-researched area in the reporting status. This study is likely to set pace for more studies in the area of social accounting. As a result may prove to be of interest to them.

6. Academicians and Students.

This study would increase their knowledge on the issues of corporate social disclosure in the Kenyan setting as it is expected to contribute to the available literature to the concept.

1.5 Overview of the Study:

The project report is organized into five chapters. Chapter One gives a brief introduction towards the need and development of SRA process worldwide and in Kenya. The chapter also brings out the Statement of the Problem, the Objective of the Study, its Importance to the Kenyan environment, and an Overview of the research report.

The Second Chapter, reviews the existing literature and some empirical studies on the area pertinent to the study especially the existing debates on social responsibility, the need for social corporate reporting against Generally Accepted Accounting Principles (GAAP) and the reporting standards.

Chapter Three, deals with the Research Methodology which covers the Research Design and Data Analysis Methods used to achieve the objectives set in Chapter One.

The Fourth Chapter deals with the findings of the research which are presented and discussed in form of Percentages, Means, and Co-efficient of Variation.

The Fifth and Last Chapter, deals with the summary of the findings of the survey, some Recommendations, Conclusion, Limitations of the Study and some suggestions for future research on the area of SRA in the Kenyan setting.

CHAPTER TWO

LITERATURE REVIEW

2.1 THE CONCEPT OF BUSINESS SOCIAL RESPONSIBILITY

2.1.1 Introduction

In the past few years, corporations have been receiving mounting social, political and economic pressures to pay greater attention to the wider social and environmental consequences of corporate activities in the decision making process. The governments, which have been known gradually to assume the greater responsibility for many social and community service, have greatly limited their social activities front and this has made it necessary for businesses of all sizes to play a new and dominant role in social responsibility. As a result, corporate managers are adopting a new attitude about their role on the kinds of social responsibility activities their companies should undertake.

According to Davies (1960), business social responsibility implies;

"businessman's decision and actions taken for reasons at least partially beyond the firm's direct economic or technical interests".¹⁹

Management is required according to Davies's definition to have a wider perspective and extend their vision beyond the traditional business interest of maximizing shareholder's wealth. Social responsibility here occurs when a firm recognizes that it is not merely accountable to its shareholders but to the society. However the accounting professional bodies failure to exert a major influence on the development of social accounting is partly due to lack of agreement that such concept of social responsibility be supported.

The is because the concept of business social responsibility has been a subject of debate among the business community all over the world, with arguments for and against social responsibility activities.

¹⁹. Davis Keith, "Can Business Afford to Ignore Social Responsibility?" California Management Review, Spring 1960, pp.70-76.

2.1.2 Arguments in favour of Business Social Responsibility

Companies assume a contract with the society which in other words implies that they exist by the implicit approval of their "host" society thus must fulfil the wishes of that society if they are to survive. Since an enterprise owes its existence to the society, it is argued that its legitimacy depends on its acceptance by the public and in meeting the conditions set by the society. This implies that the society gives a business its charter to exist and that charter can be revoked or amended at any time when that business fails to live up to the society's expectations.

This shows that companies are expected to be more "socially responsible" and therefore members of businesses must accede to what the society demands from them to survive in the industry. Refusal would earn the businesses the wrath of the society.

Enterprises also need to engage in social responsibility activities in order to minimize any governmental intervention in the business. Government intervention in the business industry leads to imposition of new regulations that govern the activities of the business. For example, when Kel chemical (K) Ltd proved to be a health hazard to both the workers and its immediate external environment, the Kenya Government intervened and led to the closure of the company due to the nation-wide concern. These regulations tend to be costly to businesses and hence restrict the freedom of the company's flexibility of making decisions.

Enterprise are known to sacrifice their resources for some society gains. These social gains are expected to improve the enterprise's image through society appreciation and support for the company. The firms in turn benefit by gaining more customers, better employees, and other benefits like a better environment to conduct the business. It is said that a good reputation of a business concern over pollution and the environment is likely to have more economic advantages, such as a low level of industrial disputes and favourable customer and public relations as compared to other companies. Therefore a good corporate image will in the long run lead to profit gain to the company.

It is also argued that businessmen have vast amounts of social powers which in turn affects the disadvantaged. Businesses influence the life of individuals in various ways like controlling eating, working, dressing and cleaning habits. Hence it will only be fair that they are given equal amount of responsibilities commensurate to their social power.

Hezel (1968)²⁰ also argued that many of the problems facing the society are a making of businesses through application of inappropriate technology in pursuit for their private gains. It is known that the modern social system is so complex and interdependent to many internal acts of businesses to influence our external world. Since enterprises are responsible for the social costs imposed on the society by their economic agents, it is argued that it is only justifiable for them to undertake the responsibility of solving such problems created by their undoing.

It is also argued that business have the additional resources to handle social problems. Since other social institution have failed in solving social problems, businesses should try to solve these problems on the economy in which they are operating in.

Overall, companies might reject the principle of extended social responsibility, but it still behoves them to stay ahead of public opinion on matters of social concern or place the future of the firm at stake.

2.1.3 Arguments against Business Social Responsibility

This section represents the view of the followers of Adam Smith (1877)²¹ who vehemently opposed any contributions to the society by businesses. They insist that the sole mission of the business is to make profit and profit is the property of the owners of the business. No management is allowed to go against it as it denies the shareholders rightful use of their money towards the company mission. Management, according to them, is just charged with a

²⁰ . H. Hezel., "Should Business Tackle Society's Problems", Harvard Business Review, July/August 1968, p.80.

²¹ . Adam Smith, "An Inquiry into the Nature and Causes of the Wealth of Nations", Modern Library Edition, 1977, pp 424-425.

"stewardship" responsibility and is accountable to shareholders as far as their responsibility is concerned. Management should be socially responsible as individuals and not as stewards of the firm. As stewards, they have no legal right to direct resources to socially responsible activities as it will not only reduce the earning ability of the firm, but also lower the dividends and price of the firm's stock.

Those who also argue against corporate social responsibility usually start with the immediate problems of what constitute social responsibility. Most people agree that companies have social responsibilities in a general way, but this does not mean much unless these responsibilities are defined. However there is no agreement between the business community and society to what constitute their social responsibilities. Their definitions of social responsibility are therefore likely to be inconsistent, arbitrary and subjective as a social responsible policy towards one group may be against the interests of another. Therefore a company's acceptance or non-acceptance of its social duties lies on its own accord and not to the discretion of the society.

Social responsibility also acts as a constraint on the firms wealth. Without doubt, the creation of wealth is the major responsibility of a business. Acceptance for further social responsibilities would place restraints on the activities of the business towards any wealth creation opportunities of an already burdened and threatened competitive sector of the economy. This will affect not only the shareholders, but the employees, the customers and the management of the company when they engage in social activities.

A less extreme argument is that companies are acting primarily in the interest of shareholders which produces both "good" and "bad" effects on the society. The "good" effects (for example, employment, wealth creation) outweigh the "bad" effect (for example, pollution). Any demand for increased attention to the "bad" effect by the society might have a drastic effect on the ability to produce the "good" effect among some companies in an uncertain and competitive economic climate.

Companies lack of perception and appropriate knowledge, skills or expertise to work effectively with social issues is another argument put forward against business social responsibility. Those trained in this sphere are government officials, politicians, voluntary organization, and specialists and not the business community as they really do not feel at home in social matters.

Opponents of social responsibility also further their argument by stating that enterprise have enough power vested in their hands. Undertaking social responsibility would imply concentrating economic, political and now social power in the few hands and this may lead into excessive concentration and misuse of power by the few.

Finally, there are costs of meeting these social responsibility when a firm engages in social projects while its competitors does not. A company which pursues a policy of increased social responsibilities compared to its competitors will not only limit its opportunities, but also likely to incur high cost of production through extra social affairs. Therefore, if businesses are pushed into social obligations, these additional costs will drive out marginal firms who are unable to compete, both in the domestic and international market. This makes social responsibility invalid to the business community.

Furthermore, the costs incurred by the firm in discharging their social responsibility is likely to be met by the customer through price increase. Therefore, the burden of any social responsibility activities shifts to the consumer through higher prices on goods and services. Hence it can be argued that business's function is economic not social, and economic values should be the sole criteria to be used to enhance and benefit the society.

It has already been seen that there is a fear of acceptance for an expanding social role to businesses which will inevitably produce unfortunate results to the business and the society as a whole. "Business of business is business"²² and that social responsibility is a departure from the profit ideology. But the fact that businesses are dealing not only with the business community but also with the wider society, corporate managers will have to consider the needs of all the coalition groups in mind to operate smoothly.

The expression "the public's right to know", and the society's pressures upon the companies to report and explain their activities, has resulted in individual companies becoming more interested in the development of new and improved means of communicating their corporate activities through social accounting disclosure.

Not surprisingly, these arguments conflict, and produce no simple answer to whether companies should accept additional social responsibility and therefore engage into social accounting disclosure or not. Given the arguments "for" being most persuasive, and if the law is an expression of the demands of society, for example in Kenya, those judgements expressed in Acts of Parliament which include the Employment of Women, Young Person and Children Act (Cap 227) the Workmen's Compensation Act (Cap 236), the Dangerous Act (Cap 245), the Factories Act (Cap 514), then these defined social responsibility does command a general acceptance for all concerned.

All in all, the Committee for Economic Development stated that "it is not a right but a duty of benefit to support society in the interest of long run benefit"²³ Therefore businesses cannot afford to ignore the broader public demands. They must not only provide quantities of goods and services, but also contribute to the quality of life. Survival depends on the responses to the changing expectations of the public towards social responsibility.

²². Reavis, C., "The Business of Business is.....?", Business and Society, 1975, pp.74-75.

²³. The Committee for Economic Development, "Social Responsibility of Business Corporation", Statement by Research and Policy Committee, July 1971, p.27.

2.2 THE CONCEPT OF SOCIAL ACCOUNTING:

2.2.1 Introduction:

The recent favourable attitude of the concept of social responsibility among the users of financial reports has resulted to the development of the concept of Business Social Responsibility Accounting. Accounting being a way of measuring and reporting values that enable decision making, needs to incorporate social accounting. The question of for whom, how and when social accounting should be prepared is yet to be answered.

Social responsibility accounting stems from the concept of social responsibility. Accordingly it is reasonable and logical to argue that accounting profession interest towards a more corporate measurements and disclosure, should assume the role of informing the public of the social responsibilities of the company.

The concept of business social responsibility as indicated earlier underlined the debate about social responsibility accounting. Like its "parent" social responsibility, there is little agreement as to what constitutes social responsibility accounting. This is a characteristic of a developing area.

In the light of this background, social accounting is defined as;

"the process of selecting firm-level social performance variables, measures, and measurement procedures; systematically developing information useful for evaluating the firms social performance; and communicating such information to concerned social groups, both within and outside the firm".²⁴

A report of the Committee on Accounting for Social Performance established by the American Accounting Association in 1976²⁵, provided a more broader concept of social accounting which will best serve the profession. They defined it as including;

- (i) accounting for and evaluating the impact of corporate social responsibility programs.
- (ii) Human Resource Accounting (HRA).

²⁴. Kavasseri V. Ramanathan, Op.Cit., p. 519.

²⁵. American Accounting Association, Report of Committee on Accounting For Social Performance, The Accounting Review Supplement, to Volume XLX1, 1976, pp 38-67.

- (iii) measurement of selected social costs
- (iv) measuring the full impact of an entity on society
- (v) social reporting for items (i)-(iv)
- (iv) accounting for public (governmental) program

Though companies do recognize the need for social accounting, and practically publish information reflecting this area, there is an absence of generally accepted techniques applicable for disclosing their social activities among companies. The corporate report (1975) concluded inter-alia on the issue of social accounting that;

".....in our opinion, such a proposal should be impractical at present time since the necessary generally agreed measurement techniques are not available".²⁶

The need to find a way forward has prompted some authors to state the objectives towards which social accounting information might be directed. Romanathan (1977)²⁷ suggested three objectives for social accounting information;

- 1) to identify and measure the periodic net social contribution of an individual firm, which includes not only social costs and benefits internalized to the firm, but also those rising from the externalities affecting different social segments.
- 2) to help determine whether an individual firm's strategy and practices which directly affect the relative resource and power status of individual, communities, social segments and generations are consistent with widely shared social priorities on the hand and individuals legitimate aspirations on the other; and
- 3) to make available in an optimal manner to all social constituents relevant information on a firm's goals, policies, programs and contribution to social goals.

²⁶. Accounting Standards Steering Committee, "The Corporate Report, London, The Institute of Chartered Accountants in England & Wales, 1975.

²⁷. Kavasseri, V. Ramanathan, " Toward A Theory of Corporate Social Accounting", The Accounting Review, Vol.LII, No.3, July 1976, p 520.

The first two objectives are a pre-requisite for the achievement of the third objective. It is necessary to attain these measurement objectives to realize the third objective which is the reporting objective.

2.2.2 Development of the Concept of Social Responsibility Accounting.

Social Accounting like most recent developments in this field has its origins in the U.S.A. The U.S.A has provided a breeding ground for ideas because of;

1. large sophistication
2. strong government
3. Securities and Exchange Commission (SEC)

The 1970's appears to be the years in which the initial academic interest and development progress towards social accounting occurred in the U.S. A number of Social Accounting issues have been the subject of committee deliberations and reports by all major accounting bodies in the U.S during this time (1971, 1972, 1973, 1974, 1975), and in addition a number of these issues have been also a subject of learning and rule making by the SEC and the basis of a number of serious attempts by accounting academics to develop a comprehensive theory of corporate social reporting.

Early 1975, that fearsome guardian of investors interest (SEC) was sued in a U.S district court for failing to adopt regulations requiring broader disclosure in the environment and equal opportunity area. During the year, SEC conducted a public hearing on the possibility of requiring the disclosure of matters of primary concern in the SEC statement and or corporate annual reports.

SEC wanted to know whether social accounting information would be useful in investors decisions. This resulted in requirements that listed companies file a report of:

- 1) The material effects that compliance with federal, state and local environment protection laws may have upon capital expenditure, earning and competitive position.

- 2) Litigation commercial or known to be contemplated against registrants by a government authority pursuant of federal, state and local environment regulatory provision.
- 3) All other environmental information of which the average prudent investor ought reasonably to be informed.

SEC's view was rather narrow. Not all decisions should be viewed from the "eyes" of the investors. The society is among the seven groups of people identified by the corporate report (1975) who have vested interest in a business organization and its activities. SEC's view is largely influenced by its position as a guardian of investor's funds.

During the same time the House of Representative in U.S introduced of a bill referred to as the "National Employment Priorities Act of 1975" towards corporate social performance. The bill required prenotification to affected employees and communities of dislocation of business concerns, to provide assistance (including retraining) of employees who suffer employment loss through dislocation of business concerns, to business concerns threatened with dislocation of and to affected communities to prevent Federal support for unjustified dislocation and for other purposes.

Hence by 1976, the American Accounting Association had already established six consecutive year committees to investigate various dimensions of the broad field of "social accounting".

No specific date had been fixed for the first corporate social performance disclosure but however the first forms of social disclosure in the U.S.A occurred some time before the public and corporate interest in social accounting got momentum. Although no standards have been proposed by FASB (Financial Accounting Standards Board) for the measurement and reporting of the social responsibility activities assumed by enterprises nor required by law, reporting social performance has become a way of life for companies in that nation. Some of the early social disclosures include;

1. A social balance sheet in the corporate annual report of Abt Associates for the year 1971.
2. Atlantic Richfield in 1975 published a booklet titled "participation"

3. Minnesto Mining and Manufacturing Company produced a report in 1975 titled, "Report on Equal Employment Opportunity".

The standards however developed later partially though steps based on the areas of social concern, for example centered on employees issues like;

- i) Accounting and reporting by defined pension plan (1980)
- ii) Disclosure of pension information (1980)
- iii) Accounting for terminal benefits paid to employees (1983)
- iv) Disclosure of the post retirement health care and life insurance benefit (1984) that can be quantified.

2.3 THE NEED FOR AREAS OF SOCIAL ACCOUNTING DISCLOSURE:

Corporate social accounting, at its most fundamental level, is not more than an internal information system designed to allow the comprehensive assessment of all those corporate resources excluded from conventional information system.

Corporate resources as in the contexts of social accounting can be defined as including labour force(employees), customers, the environment and the community. A change in each of these resource with respect to the firm will tend to affect the value of the firm. Real value here implies its ability to generate profits in the present and the future.

The areas of social accounting developed from the users of corporate reports concern towards the need for more information on the corporate resources which seems to have a greater impact on the companies operation and the management of the firms resources overtime.

Micheal (1973) points out;

*"Striking employees, poorly motivated managers, disgruntled customers, tardy suppliers, hostile communities, restrictive government officials each can cripple the operations of the corporations."*²⁸

²⁸ Micheal O. Alexander, "Social Accounting, If you please," Canadians Chartered Accountants, January 1973, Vol. 102, No.2., p. 23.

i) Employees;

Employees being one of the important element of the corporate resources has currently been included in the conventional accounting system referred as human resource accounting that is accounting for employees. This shows that they have an identifiable effect in the resource value of the firm. This resource forms one of the area of concern towards corporate social responsibility directed on the well being of the employees. Employees are known to affect the company's in different directions for example, a new semi-skilled production worker is likely to cost a company less in terms of the amount to hire, train and familiarize with his job than for a manager.

In the process of their employment contract this resource (employees) are expected to face with minor accidents during their daily routine work, which could amount to several shillings in medical attentions, losses in production, investigation and reporting costs and finally accidents compensations. Similarly, this will affect the employees job turnover, incorporated by high recruitment and training costs. Without these factors being put into consideration, it could lead to low productivity. If we add these costs, the total would in many companies today be surprisingly and frighteningly high. Therefore, these factors have a great impact towards the company's resource value as chances of success are improved when training, job enrichment and upgrading programs are available towards this resource. Investments in employees are costly, and their impact is of profound demand to the users of corporate reports in making their investments decision nowadays.

ii) Consumerism;

The firm's social responsibilities of making sure its products are labelled, packaged, and represented in such a manner that the quality and quantity are not affected has clearly set forth to the development of one of the areas of social responsibility accounting for the companies. Consumerism nowadays has to be considered. Areas such as poor quality and unsafe products

when not put into account will have a great impact on the volume of returned goods and hence the real value of the corporate resources. Losses in sales is probably the best indicator of a corporate inability to satisfy its customers demand and make profits in the future. Poor consideration on consumerism concept can result into heavy complaints, law suits, larger complaints department, high legal fees, compensation, high advertisement costs to the company and increased government role towards customer protection on the expenses of the company's resources. These costs would finally have a more detrimental effects on the corporate resources and thus has been of concern to the users of financial statements in making investment decisions.

iii) Environmental Controls;

Basically, this means accounting for pollution. Pollution has been receiving recognition by the accounting profession. Lack of attention to these environmental factors can greatly affect the company's operation. Poor control of the environmental factors brings out law suits which could be passed against the company's through higher costs of production. Public complaints can affect the reputation of the company's name and hence moves the focus of management time from its usual responsibility of making profit into solving other problems. Continued complaints could finally results into investigation by relevant authorities towards the company's operation. In case of a negative result, this would imply high unproductive investments by the shareholders and also resulting into legislative constraints affecting the operation of the company through pollution control, treatment plants and at times factory closure like the Kel Chemical Industrial in Kenya. Just as public investments decisions can no longer be made without considerations of the environmental and social effect nowadays, it is becoming much more difficulty to make commercial investments decisions without comparable analysis of social information on the environmental factors to the investments decision makers.

iv) Community Involvement;

2.4.1 The influence of the community involvement, whether through higher rates or poorer local services can affect corporate resources and performance in one way or another. Taking alcoholism and drugs among the labour force could result into recruitment of low productive workers, higher medical costs, insecurity and delayed in return on investments. Community complaints could also lead to loss of sales and thus returns on the corporate resources. Therefore, only with community information disclosure, can decision makers really understand what is happening and how the company's operation will be affected in the present and the future before making any investment decisions to benefit them.

Overall, the costs in each of these areas are real, they affect profits and cashflows and consume management time. They indicate a waste or a loss, just as machine breakdown or bad debts. As such, the value of these resources to the company is no less than that of plant and machinery. Just as inadequate or ageing machine will be detrimental to production efficiency, so will an unstable and inefficient community and the environment in which the company operates in.

Therefore it is impossible to evaluate the importance of these influences that is customers, the environment to the company and the magnitude of any waste or losses being incurred, nor to determine what actions are required to rectify this situation without the companies disclosing such social information. This has necessitated the need for social accounting disclosure for decision makers to evaluate the real value of the corporate resource of the company.

Though it may be argued that return on investment may still be a valid method for evaluating the economic potential of new investments, excluding the possible economic effects on the social and environmental areas can imply unproductive investments decision on the future of the corporate resource among the investors.

2.4.2 Approaches towards Social Disclosure.

2.4 SOCIAL DISCLOSURE

2.4.1 Introduction

Corporate social accounting reporting is rapidly trying to become normal business practice in the world. The main purpose of social reporting or disclosure is

"to provide information on or (increasingly) to account for the social policy in order to provide a general insight into the social policy pursued by the organization".²⁹

Despite such widespread and growing concern and support for accounting for corporate social performance, progress has been slow.

"Apparently, no corporation has yet designed or implemented anything approaching a systematic information system for its socially relevant actions".³⁰

A survey published by one of the US "Big Eight" firms of public accountants, Ernst & Ernst, reports that 91 percent of the Fortune 500 corporation had provided social responsibility statements in their annual reports in 1976. From the data taken from the annual reports, the trend showed to be impressive. In 1971, 239 companies out of the 500 companies engaged in social disclosure in the annual reports. In 1972, 286 companies, in 1973 was 298, in 1974 it was 425 companies and in 1976, it was 496 companies. This indicated the direction of social reporting development in the US. This report showed an increase in the number of corporate social measurement disclosures and an indication of the support for the continuation of an important trend in social accounting disclosure.

²⁹. American Accounting Association, Committee on Social Costs, "Report of the Committee of Social Costs; The Accounting Review, Supplement to Vol. XLX, 1975, p.64.

³⁰. Han Schreuder, "Employee and the Corporate Social Report", The Accounting Review, April 1981, p.294.

2.4.2 Approaches towards Social Disclosure.

Surveys conducted over time revealed that three basic approaches towards social disclosure are employed. Dilley and Weygandt (1973)³¹ have identified four major approaches to social reporting which include;

1. Inventory Approach.
2. Program Management Approach.
3. Cost-Outlay Approach.
4. Cost-Benefit Approach.

These reports on social responsibility performance ranges from simple, totally subjective, verbal reports to complex, financial reports.

2.4.2.1. Descriptive Approach (Inventory Approach).

This appears to be the most prevalent form of social reporting. The descriptive reports merely list corporate social activities and are the simplest and least informative. An example of such a report is in the section of the chairman's statement of the Kenya Commercial Bank Annual reports and Accounts 1991:

"The bank attaches great importance to staff training and development because it knows that in a competitive service industry such as banking the quality of its staff will ultimately determine its market share and general profitability. We are therefore determined to make optimal investments in our human resources because only by doing so can we assure our customers of receiving high quality service which they tend to expect from us".³²

2.4.2.2. Cost-outlay approach

³¹. Steven, C. Dilley & J.J Weygandt., "Measuring Social Responsibility: An Empirical Test", The Journal of Accountancy, September 1973, pp 62-70.

³². KCB Group, Chairman's statement for the year ended 31 Dec 1991, Kenya Commercial Bank Annual Reports and Accounts, 1991, p.5-6.

Another example can be noted in the Section of Firestone E.A. Ltd annual report for 1994:

"Firestone will always strive to achieve excellence in performance, superiority in its finished products and a high degree of efficiency, utilizing all available resources to maximum benefit of employees, shareholders, customers and the community at large."³³

From the foregoing quotation, management sees itself as being social responsible simply because they are determined to make optimal investments in human resources and satisfaction to the community at large.

These reports are easy to prepare as it requires no comments on how well the activities are performed or what activities are not performed that should be performed and how much financial resource were involved.

Program management approach can also be considered as a descriptive one which involves bringing out the summaries of the social objectives and activities, plus an assessment of the extent to which those activities met the objectives. This can be a simple word summary showing the social programs undertaken, the amount spent on each activity and whether the program objectives were met.

However critics argue that these are either direct or indirect business costs and as such these activities does not actually reflect the true picture of a company being socially responsible. Comparability of financial commitments to social activities over time and across firms is impaired when firms adopt this approach. Critical voices also have argued that many social descriptive reports are nothing but public relations gestures meant to ward off grass roots attacks by social activities (Fry & Hock 1976) and are adopted by companies, which believe that useful measurement of corporate social reporting cannot be developed or is difficult to develop.

2.4.2.2. Cost-Outlay approach

In this approach, corporate expenditure is listed on each social activity undertaken. It offers a contrast to the descriptive reports in the sense that the description of activities are

³³. Firestone E.A. (1969) Ltd, "Chairman's statement for the year ended 31 December 1994, Firestone E.A. (1969) Ltd Annual Reports and Accounts 1994., P.6.

quantified. It expands the scope for analyzing the financial commitments to social activities and verifiability of the amounts recorded relative to the descriptive approach. Comparability of financial commitments to social activities over time and across firms is enhanced but limited to expenditure incurred.

This type of statement is illustrated by Diley and Weygrandt³⁴ Utility Company Statement of funds flow for social relevant activities, 1971.

This is also the case in the chairman statement in the Williamson (K) Limited annual reports and accounts 1994 in Kenya.

*"We incurred revenue expenditure of Sh 15, 953,289 on welfare activities which included housing, social and shopping facilities, schools and community projects together with refurbishing of the same. A capital sum of Sh 6,719,318 was spent on construction of labour housing facilities, schools, and other amenities as part of our long term programme in this area".*³⁵

The main disadvantage of this approach is that, there is no mention of the resulting benefits. This is because, corporate expenditure is recorded in terms of the cash outlay which is easily determined unlike social benefits that is difficult to measure. But this statement, like the descriptive approach, says nothing about what has been achieved.

2.4.2.3. Cost-Benefit approach

This is an extension of the Cost-Outlay approach. It discloses both the costs and benefits associated with the corporate social responsibilities. It is assumed that firms employing this approach make use of "shadow prices" developed by economists in evaluating the social cost and social benefits of proposed projects from the point of view of all losers and all beneficiaries within a nation. Measurement of social costs and benefits by economist will be discussed later

³⁴. Steven C. Diley and Jerry Weygrandt, "Measuring Social Responsibility: An Empirical Test," The Journal of Accountancy, September 1973.

³⁵. George Williamson (K) Limited, "The Chairman statement for the year ended 31st Dec 1994, George Williamson (K) Limited Annual Reports and Accounts, 1994, p.6.

in the paper.

The cost benefit approach is the most informative approach, as argued by Bedford (1973);

"Only by accounting disclosure of social costs, side by side with the disclosure of the company's social benefits, can the public decide whether the business institution is a contribution to society".³⁶

However it suffers from difficulties which exist in the measure of the benefits. Critics argue that output measures in monetary terms are contrived and are not meaningful, because the benefits are mainly of a qualitative nature for they are concerned with the quality of life. The case against quantification of social data has been well summarized by Pratt.

"What I do not accept is the attempt by some authors to create "social balance sheet" with precise formulae applied to various factors and presented so as to portray a quantitative (and supposedly comparable) picture of the company's social awareness. Such to me is an academic irrelevance which has no practical value what so ever. The keystone to social information provided (indeed all information provided) should be its value to readers. And we should not be weighed down by formulae where a subjective comment would be more valuable."³⁷

In contrast, some firms in the U.S.A have come up with social balance sheets and social audit. Abt Associates inc and referred to by Brooks & Davies (1977)³⁸ illustrates in their table A, a slight different series to approaches to social responsibility report organizations that might be compared with the three levels of reporting complexity. The social financial reporting is limited to the progress made in meeting legal requirements and compliance to requests from outside pressure group like product safety and environmental agencies.

Several studies by (Singhri & Desai 1971 and Buzby 1975)³⁹ on the aspect of financial

³⁶. Bedford, N.M. "Extensions in Accounting Disclosure"; Prentice Hall Inc, Englewood Cliffs, New Jersey, 1973, p.35.

³⁷. Pratt, M, "Auditing", Longman Group Limited, 2nd edition, 1990, p.460.

³⁸ Abt Associates Inc, "Social Balance Sheet", Business Week, September 23, 1972, & Leonard, J. Brooks and William, R. Davies, "Some Approaches to the Corporate Social Audit" CA Magazine, March 1977.

³⁹. Singhri & Desai H., "An Empirical Analysis of Quality of Corporate Disclosure", The Accounting Review, Vol.46, 1971, pp. 129-138 and Buzby, S., The Nature of Adequate Disclosure, "Journal of Accountancy", April 1974.

disclosure noted that the extent of financial disclosure which varies among companies is suggested by the differences influenced by several firm characteristics.

Researchers have over the last two decades undertaken empirical studies focusing on the relationships among corporate social performance, social disclosure and economic performance. These studies are reported primarily in the accounting and management literature. Not surprisingly, the researchers approach the subject with a variety of methods, using varying samples and concentrating on different time periods.

2.4.2 Social Disclosure and Social Performance.

The theoretical foundation pertaining to the social disclosure social performance relationship is relatively weak and indeterminate. It has been argued that in view of the costs associated with social responsibility programs, firms underreport their activities in this area. This is because such activities are undertaken at the expense of programs that obviously further the economic interests of the shareholders. Therefore, managers thought it unwise to report extensively about social performance.

Social responsibility, on the other hand, may be overstated in order to create an impression of sensitivity to important non market influences that may be in the long run of interest to the shareholders (Abott and Monsen, 1979)⁴⁰. Critics argue that many social disclosures are nothing but public relations gestures meant to ward off attacks by social activist (Fry & Hock 1976)⁴¹. Hence, social disclosure may be linked less to performance than other variables such as company size, visibility and external pressure.

⁴⁰. Abbott, W.F., & Monsen. R.J, " On the Measurement of Corporate Social Responsibility; Self reported Disclosure as a method of measuring Corporate Social Involvement", Academy of Management Journal, Vol.22, 1979, pp 501-515.

⁴¹. Fry, F., & Hock, R.J., "Who claims Corporate Responsibility? The biggest and the worst", Business and Society Review/Innovation, Vol.18, 1976, pp.62-65.

Studies focus on the disclosure-performance relationship rely on content analysis as the primary methodology to measure the quantity of social disclosure. Bowman and Haire (1975)⁴² restricted themselves to counting the number of lines of prose devoted to social responsibility issue in annual reports to shareholders and neglected the quality aspects of information. Other studies differentiated among various levels of information quality, disclosure categories, and or industry differences. Abott and Monsen (1979) relied on the content analyses of annual reports published by Ernst and Ernst. Another problem relates to the mandate by the SEC that, as of 1973, pollution information - the primary proxy for social disclosure be incorporated in reports. Analyzing a sample of annual reports including fiscal years before and after 1973 (Ingram and Frazer 1980⁴³) may, therefore, cause inconsistencies.

Whether or not social disclosure is an acceptable substitute for social performance, measuring corporate social performance implies; (a) empirically creating a list of all of an organization's external constituents; (b) measuring constituent satisfaction using different measures (Scott, 1981)⁴⁴ and (c) maybe even developing an overall index that encompasses these different criteria so that organization can be ranked in terms of their overall social performance.

However, many studies investigated companies operating in different industries and the time span of the studies occasionally encompasses several years, during which the composition of an organization's external factors and/or their demands and criteria of satisfaction may have changed.

⁴². Bowman, E.H & Haire, M.A, " Strategic posture toward Corporate Social Responsibility", California Management Review, Vol.18, No.2, 1975, pp 49-58.

⁴³. Ingram, R.W., & Franzier, K.B, "Environmental Performance and Corporate Disclosure", Journal of Accounting Research, Vol.16, 1980, pp 614-622.

⁴⁴. Scott, N.R, "Organizations: Rational, Natural and Open Systems", Englewood Cliffs, Prentice Hall, 1981, p.323.

In summary, although the more elaborate studies tend to converge on the findings that no relationship exists between social disclosure and performance. This conclusion is not well established given the weaknesses inherent in the method used and the periods of survey. One conclusion that can be derived is that studies of the relationship between social performance and economic performance are highly questionable when social disclosure is used as a proxy for social performance.

2.4.3 Social Disclosure and Economic Performance.

Since the idea of social responsibility accounting started gaining acceptance, numerous empirical studies have been carried out. Inconsistent findings have been reported from such studies of the relationships among social disclosure and economic performance. The studies addressing the relationship between economic performance and social accounting or disclosure can be divided into two categories, those showing that relationship is positive and those indicating that the relationship is negative or neutral.

A Positive View

Longstreth and Rosenbloom (1993)⁴⁵ reveals a widespread view within the investment community that a moderate to strong association does exist between the risk/return profile of a corporation's securities and its attention to certain key issues of social concern. From 115 responses of the 196 representative institutional investors surveyed, it is found that 66 institutional investors (57.4%) indicated that in addition to strictly economic factors they also consider social factors in the selection and retention of investment. 32 investors out of the 66 avoid certain types of investments as being socially undesirable. 17 indicated that a portion of their investment portfolio is directed towards socially oriented investment and 39 investors

⁴⁵. Longstreth, B. & Rosenbloom, H.D., "Corporate Social Responsibility and the Institutional Investor"; Praeger Publishers, 1973, pp. 42-70.

suggested that an association exists between socially responsible business enterprises and those that will produce a satisfactory monetary return. Hence, they concluded from the general findings that an association does exist between a corporate social performance and its value as an investment.

Narver also points out:

"Given a society in which there is an ever increasing environmental awareness and expectation of firms, there are many potential legal, & economic risks to which the capital market is becoming increasingly sensitive. Failure of corporate management to respond to these expectations in a "socially responsible" fashion may induce the capital market to perceive lower expected earnings and or input a high risk factor resulting in a lower present value of the firm".⁴⁶

Bourman states that :

".... many institutional investors now argue that the corporation which is not responsive to corporate social responsibility will be a more risk investment".⁴⁷

Bowman and Haire (1975) examined the relationship between the proportions of prose in annual reports devoted to the topic of social responsibility and return on equity (ROE). They based their research on an examination of 82 food processing firms. These firms were classified by the authors into two classes namely; disclosure of social responsibility and non disclosure of social responsibility.

For firms with some discussion of social responsibility, the mean and median return on equity over the preceding five years exceeded that of firms with no discussion on social responsibility. When the firms were further subdivided into low, medium and high mention categories, it was found that the medium mention firms had a significantly higher median return on equity than did the other two groups.

⁴⁶ . Narver, J.C., "Rational Management Response to External Effects", Academy of Management Journal, March 1971.

⁴⁷ . Bowman, E.H., "Corporate Social Responsibility and the Investor", Journal of Contemporary Business, Winter 1973, p.34.

Ingram R. (1978)⁴⁸ provided supportive evidence based on the examination of Big corporations in the U.S.A. The study addressed the relevance of certain social disclosures of firms to investors by empirical assessing their impact on security returns. He found that actual disclosures were a function of industry category the firm is in and suggested that it may be important to evaluate information content by analyzing the impact of the signals on market segments rather than on or general cross section of firms.

A Negative or Neutral View

Folger and Nutt (1975)⁴⁹ conducted a study based on inventor valuations of nine paper companies following the release of substantial publicity concerning their pollution control efforts. Financial data were gathered on each company from March 1971 through March 1972. They found that a company's pollution rating

- (1) was not positively related to its price/earnings ratio;
- (2) bore little relationship to purchases of a company's common stock by mutual funds and
- (3) had no discernible effect on common stock prices.

Abbot and Monsen (1979) evaluated the relationship between social responsibility and economic performance of business by analyzing data reported in annual reports in fortune 500 Social Responsibility Disclosure of 1971 - 1974. They used a quantitative scale developed by Ernst and Ernst based on social involvement (Number of social action disclosures in annual reports) of 450 companies. Firms were classified as either low involvement (involved in less than three areas) or high involvement (more than three areas) and then compared on the total

⁴⁸. Ingram, R.W., "An Investigation of the information contents of Social Responsibility Disclosures", Journal of Accounting Research, Vol.16, 1978, pp 270-285.

⁴⁹. Folger, H.R & Nutt, F, " A Note of Social Responsibility and Stock Valuation", Academy of Management Journal, Vol.18, 1975, pp. 155-160.

return to investors between 1964-1975. They found that social involvement did not appear to have a positive relationship with rate of return nor was it dysfunctional to the investor.

An analysis of the results of these studies does not show conclusively that social responsiveness is positively related to economic performance.

However, these studies illustrate a number of problems in terms of their assessment of the issue. Firstly, each study employed different types of measure of economic performance over different time periods. Secondly, there is a tendency of using measures related to common stock, whether in terms of price, dividends e.t.c This tendency has a limitation because common stock valuation and returns on equity may be dependent upon such other factors, such as the state of economy. Thirdly, the measures of social responsibility raise the question of their validity. Fourthly questions can be raised about the use of disclosures in annual reports as a valid measure of social responsiveness. They may more appropriately reflect public relations or promotional effort rather than responsiveness in the absence of a social audit. Fifthly, almost all studies used measures that are related to the investor. Not all decisions relating to performance should be seen from the investor's point of view. The corporate report (1975) implied that the community at large are the primary users of social responsibility information. Finally, the studies failed to take into account the existence of a time lag between the social disclosures and the reflection of the affects of the social disclosures in the behavior of parties interested in the organization.

2.5. SOCIAL ACCOUNTING DISCLOSURE AND THE GENERAL ACCEPTED ACCOUNTING PRINCIPLES:

An examination of the social accounting disclosure brings up the question of acceptability of the basic accounting concepts and principles of this disclosure whereby some principles are easily applicable to such disclosure as compared to others. Accounting principles refers to the broad rules of accounting, developed from the basic concepts, to be followed when making accounting measurements, accumulating and reporting financial data.

a) **The historical cost principle;**

Historical cost principle holds that costs with appropriate basis for initial accounting, recognition of assets, revenues, expenses should be shown at its historical costs. In the initial stages of Social Responsibility Accounting, such cost would be applicable, because it is the only information that can be easily available and accountable to the company through the Cost-Outlay approach. However, social costs would also be affected by changes in price levels over time and hence this principle can be said to be affected in the same way on economic transactions as well as the social transactions.

(b) **Revenue principle;**

The revenue principle, which specifies how and when revenue should be measured is not easily applicable in the area of social accounting as social benefits are not easily measurable. Such disclosure can be ensured only if social benefits to society can be measured resulted from the corporations social transactions through identifying all positive events, both in terms of revenue transactions to external economies and diseconomies. However the current difficulties arising from social benefits measurement will continue to affect the applicability of the revenue principle in the future among some social activities disclosure like pollution costs and environmental benefits if methods are not developed to measure these benefits.

4) **Objective principle;**

This states that the fullest extent possible for accounting and reporting to be based on data on complete arms-length exchange transaction. In the case of Social Accounting disclosure, social activities are guided by informal measurement. Measurements must be exact to be reported, but the task of developing social performance is likely to have different amounts through estimates, and therefore resulting in the inapplicability of this principle towards social

disclosure among such activities.

5) **Consistency Principle;**

This principle points out that in recording economic events, there must be consistent application of accounting principles and procedures for like terms and from one accounting period to another. However, the changing nature of a defined concept of business social responsibility of what should or should not be included among the supporters of this concept will greatly affect the applicability of this principle if the existing arguments towards social responsibility are not settled.

6) **Principle of full disclosure;**

The whole issue of Social Responsibility Accounting lies on the principle of full disclosure which tries to divert from the strict disclosure of economic transactions to include other transactions which affect the company's value in the future. Corporations are known to use resources in social activities without accounting for the costs, or at least not the true social costs. The principle of full disclosure hence has been evident towards the development support in disclosing social costs and benefits in the corporate financial reports to users of financial statements.

7) **Materiality Principle;**

According to this principle, an item is material if there is a reasonable expectation that knowledge of it would influence the users of financial statements. The interest of corporate social disclosure among companies has shown to be in favour of this principle whereby as indicated earlier, social activities affects the company's resources in one way or another. Hence there is need to consider social disclosure in the corporate financial reports as such companies resources are useful to users of financial statements when making decisions.

8) **Principle of conservation;**

This concept holds that where acceptable alternatives for accounting determination are available, the alternative having the least favourable immediate influences to be selected. Therefore Social accounting disclosure has recognized difficulty in measuring certain social

benefits, however recording any reasonable estimates of all social costs can be disclosed through the Cost-Outlay approach and whereby when the benefit can be accounted for some social activities, the Cost-Benefit approach can be favourable alternative measure for social disclosure as applicable to this principle.

9) **Time period concept;**

This concept is applicable to Social accounting disclosure as it will not be possible to wait for exact report of the completion of a social activity undertaken by a corporation for its disclosure. Accrued, deferred expenses and costs can be used to estimate the values of each social activity at the end of an accounting period like any other economic transactions, and thus this principle will be able to get out a meaningful statements for social disclosure to the users of financial statements.

10) **Continuity concept;**

Applicability of this concept assumes that the entity will continue in business for a period of time sufficient to carry out contemplated operations, contracts and commitments. Since this concept is applied on the economic activities, whereby there is a foreseeable future for the company, this concept can also be applicable in the area of social responsibility disclosure under same circumstances. This is because all companies foreseeing themselves to continue in the business community and all transactions neither economic nor social activities run simultaneously. Therefore continuity in the social reporting structure can be considered to be the same as the representation of economic transactions on the financial reports.

The acceptance of the concept of social responsibility disclosure in the financial reports should be able to meet the concepts and principle agreed upon by accountants so as to bring out an accurate description of the corporation engagement in social responsibility activities disclosure to the benefit of users of financial statements.

2.6 SOCIAL DISCLOSURE AND THE REPORTING STANDARDS:

The American Accounting Association in 1966 Committee on External Reporting suggested that "four basic standards which are recommended as providing criteria to be used in evaluating potential accounting information: verifiability, freedom from bias, relevance and quantifiability and whenever non-monetary measures meet these standards adequately, they should be included in reports in addition to monetary measurements"⁵⁰. In addition, it recommends five guidelines for communicating accounting information:-

1. Appropriateness to expected use
2. Disclosure of significant relationship
3. Inclusion of environmental information
4. Uniformity of practice within and among entities
5. Consistency of practice over time

However, these criteria and guidelines create some conflicts when applied to Social Accounting.

a) **Relevance;**

It is a basic criterion which is considered along with timeliness, materiality, predictive value, feedback and offset against uniformity of practice within and among entities. This concept helps to improve the capacity of any information in order to make a difference in a decision making process for a specific purpose at the past, present and future time. It is noted earlier that one set of social activity may be relevant from one firm to another.

b) **Verifiability;**

The same as objectivity, it is the ability of accountants to form a consensus (agree) that the selected method has been used without errors and bias. It is difficult to attain such in the social responsibility field especially because of non-quantifiable items and non-monetary terms being considered. Social disclosure affects the accounting standards of objectivity and ingenuity, as such social disclosure require other expertise opinions from the economists and engineers in

⁵⁰. A.A.A. Committee, "Report of the Committee on External Measurement and Reporting", The Accounting Review, 1966.

formulating methods to be used at measuring such items.

c) **Freedom from Bias (Reliable);**

This implies completeness, free from errors and bias, which implies faithful representation of what it is intended to represent. It is one major reason as to why corporations are unwilling to report on social responsibility as it is perceived that the general public is skeptic and will reject genuine information, labelling it public relation propaganda. Companies are known presently to engage only into social disclosure of only their most favourable aspects of their social performance in the society. This barrier of reliability can be overcome only if corporations take the initiative to report all social activity (positive and negative) previously considered to be secretly and newsworthy to the users of financial report.

(d) **Quantifiability;**

Quantifiability must become a positive aim, for social disclosure and be required as a reporting standard. Along with the principle of objectivity, it must attempt to quantify activities. However in most cases social information are non-quantifiable and subjective in nature and hence the benefits are difficult to calculate by the accountant.

Finally, the information must be understandable that is, its contents must be understood to make a significant influence to the decision makers. It must be described in terms of conveying the correct meaning to the community at large, not only to the accountants. In this way, the social information produced should present a clear and understanding message to the reader of the accounts so as to make the accounting information useful.

The major reporting problem is what standards of disclosure to apply. The standards of objectivity and verifiability are fine for quantitative measures, but less useful for the non-quantitative ones inherent in Social accounting like pollution costs. Another normal standard of disclosure is comparability. How does a measure of the percentage of women employed in a steel company compare with the same data from an electronics manufacturer. Still another standard says disclosure must be complete, but how many managers or board of directors will devote resources to identifying and reporting areas where they are not socially responsible, in order for their social reports to be complete. Hence, the development of social accounting disclosure have been affected negatively by the developing of the mentioned reporting standards to suit social disclosure.

2.7 SOCIAL COST-BENEFIT ANALYSIS.

Social cost-benefit analysis is an assessment exercise which considers the pros and cons of proposed projects from the points of view of all losers and all beneficiaries within the nation. It has arisen out of a demonstrated need for project appraisal to be based on other criteria other than just private, money profitability. It therefore uses social cost and benefit concept which are attractive in principle but difficult to measure in practice.

To decide on the worth of a project involving public expenditure, economists have found it necessary to evaluate both private and social advantages and disadvantages. This is because the effects of publicly funded and hence publicly accountable projects, or those private sector projects which require public assistance or approval go beyond its immediate suppliers or beneficiaries to include unconnected (if concerned) third parties. In other words, projects often involves external benefits and sacrifices to people who do not directly control or influence the way the project is run.

To the project appraiser, all these effects direct and indirect are relevant in assessing the net impact of the project within the economy as a whole. But most project involve some time span which makes successive benefits and costs flows non-comparable. This is because a benefit today is more attractive while the cost is more burdensome. This reasoning has led to the adoption of the discounted (cash) flow technique by which the benefits and costs are discounted, by some computed (social) discount rate, to a common base period, and then compared. This procedure is similar to that used in private sector capital budgeting except that the definition of cost and benefits, as well as the discount rate embraces a wider circle of people.

The project is then acceptable if its net social present value is found to be positive.

Other decision criteria include the yield discount rate which equates costs and benefit stream. Yield is then compared with the ruling social costs of capital.

It is often suggested that to value social costs and social benefits by reference to the ruling market prices may distort the allocation of nation's resources. This is because such prices are often complicated and distorted by a number of familiar market imperfections. Accordingly, increasing numbers of economists have called for the use of "shadow" or "accounting prices" which are supposed to reflect better the real benefits and sacrifices (opportunity costs) to the economy as a pointed out by Ralph.

"shadow prices have been used to estimate the value of outdoor recreational facilities, and hence the social costs associated with the damages to such facilities".⁵¹

Such prices in addition to correcting for the imperfections of the ruling markets, can be used in situations where no internal market exists for the goods or services in questions, as in defence, free hospitals, schools, roads, or in the case of external effects.

Mishan (1970)⁵² points out that the costs of "noise pollution" near an airport has been estimated based on the maximum loss that the home-owner in the noisier area is able and willing to bear in order to move out of the area.

The call for shadow price is a recognition that market prices and private profitability can provide a poor (or no) indicators in the process of allocating the resources particularly in the presence of market and other imperfections, or in view of substantive external effects.

In view of the uncertainty as to the meaning and extent of corporate social responsibility that appears to impede agreement on the dimensions of the measurements problem, adoption of the "shadow price" developed by economists would be the beginning stage in search of an appropriate measure of social activities.

⁵¹ . Ralph, W. Estes, Op. Cit., p.290.

⁵² . Mishan, W., "Technology and Growth: The Price to Pay", Praeger Publishers, 1970, p.38.

2.8 IMPLICATION OF SOCIAL ACCOUNTING.

The development points clearly to the trend of assessments on business firms based on some monetary measure of social costs and benefits. Such assessments will involve accountants at several levels, from the estimation of social costs through the ultimate inclusion of such costs and benefit in financial reports.

Presentation of accounting data is subjected to two major parameters: the cost of providing such data and the benefits that is accrued to the firm as a result of providing such data. In providing accounting data relating to social responsiveness, corporations will incur additional costs as a result of such an undertaking.

Costs will manifest themselves in the form of additional personnel employed (competent in social accounting) or the training of existing personnel to equip them with the necessary skills and knowledge or replacement of existing staff with new staff knowledgeable as far as social accounting is concerned. Time used in the preparation of social disclosures, stationery and the cost of a social audit to verify the information as being "true and fair" are among many costs that the corporation will incur.

Increased costs of providing accounting information has a negative effect on the earning ability of the corporations. This will result in the reductions of dividends and the price of common stock. Thus, maximization of shareholders' wealth will cease to be the primary goal rather it would be substituted by the objectives of "satisfying" all parties' needs which may decrease the shareholders payout.

It has been argued that social involvement benefits both the enterprises and the society. Providing information reflecting the degree of social involvement of an organization would provide a base upon which the public can evaluate the corporations social responsiveness. Where in the eyes of the society, a corporation is socially responsible the corporate image of the firm would improve and the society would appreciate the enterprises existence by supporting them. On the other hand, a corporation that is socially irresponsible would see itself gradually sinking

into customers and public disfavour.

Investments decisions will in future be influenced by the social involvement of organizations. As society's value and expectation change, so do the values of investors. Investors that are socially responsible would measure the performance of organization not only in terms of the ability of the organization to maximize shareholders wealth but also in terms of the degree to which the firm is socially responsible. Thus, measures of success will tend largely to be influenced by the extent to which organizations are socially responsible. For example, some investment funds such as Dreyfus Third Century Fund, Calvert Social Investment and Pax World Funds exists in U.S.A to invest only in "socially responsible" corporation. The Council on Economic priorities inquire into social activities of private enterprises and the United Church of Christ uses various criteria for determining the social consciousness of a corporation before investing church funds.

Firms would have to ensure that, in order for the objective of providing social disclosure to be realized, social information will be of value to the readers. Various approaches have been adopted by firms in making social disclosures as mentioned earlier. Critics argue that output measures in monetary terms are contrived and are not meaningful, because the benefits are mainly of a qualitative nature for they are concerned with the quality of life. Thus, firms will have to strike a balance in using the approaches in such a manner that will ensure public understandability of social information.

Adoption of measures, that are used by economists in the measurement of social costs and benefits would be an approach towards the economists measurements of output in calculation of Gross Domestic Product. This would ensure that accounting data is compatible in satisfying the needs of economist in the calculation of Gross Domestic Product. Such calculations would not only be easy but there would always exists a reference (accounting data) that can be used to confirm the figures resulting from the calculations.

In an effort to encourage social involvement, the government through the income tax department may provide special incentives and write offs for expenditure incurred as a result of social activities. Tax minimization through charitable contributions are among the effects that might be considered. Presently, donations made to research institutes are tax allowable in Kenya.

The government, as the custodian of society's resources may also in future forcefully require the disclosure of the efforts that organization will have on the society. The Kenya government has shown concern in those firms that adopt technologies that are not environment friendly. The Minister for Commerce and Industry once said that, the government will monitor very closely those firms that are not environment friendly.

2.9 PROBLEMS OF SOCIAL ACCOUNTING DISCLOSURE.

First and foremost is the difficulty of measurement and the skepticism about the measurement techniques. Not all factors can be meaningfully measured in monetary terms, while others can only be measured using approximations. This is the most complex and controversial link in the assessment process of social accounting when determining the social costs and benefits. Accountants resist involvement in such efforts because of the uncertainty involved. Estes notes that;

"cost determination is more the forte of accountants than the engineers and economists, yet these two profession have shown much greater interest and have undertaken considerably more research into social costs measurements than have the accountants".⁵³

The concept of social responsibility accounting raises initial problems of defining not only the users of such information, but also the objectives in receiving such information. In identifying users of information from those identified in the Corporate Report (1975), poses complex problems as such groups will have different objectives towards social accounting information. The problem is aggravated by the inability to establish patterns of value

⁵³ . Ralph, W. Estes.,Op. Cit, p.288.

judgements about the activities reported upon and the stability in the "opinions" of the individuals forming the group of users, using such social information overtime. If the objective is to maximize some form of public utility based upon sets of value judgements, it may be impossible to achieve the objective.

Robert (1978) points out that;

"the measurement process is the most difficult stage in accounting for SRA of a business. Anything resembling present accounting systems is completeness, standardization and acceptance is beyond reach certainty at present and probably for a long time. It is simply impossible to design new techniques immediately that can satisfy all the dimensions involved in social measurements".⁵⁴

Due to the inability to develop measurements of performance which everyone will accept capturing data in form permissive to social disclosure and analysis will present a problem. Thus, many disclosures are in narrative form and often reflect only personal opinion of the Chief Executive Officer.

In present most social responsibility disclosures are voluntary and unaudited. Although disclosures may be readily available or identifiable in firm's annual reports, management is free to use its own discretion in selecting information to be reported. It is possible for poorer performers to bias their selections in order to appear like better performers. Thus, social information become nebulous and highly subjective.

Another problem in reporting social performance is defining the interests of the various users of the reports. The Social Responsibility reports must report on the particular interest of their expected audiences, not on what they believe they need. Inevitably, well defined business social responsibilities does not exist hence business must adapt to changing business conditions, new legislation and new social requirements which would over time have affected the uniformity of the contents of their social responsibility activities among the companies

⁵⁴ . Robert, H. Anderson, " Social Responsibility Accounting: Measuring and Reporting Performance", CA Magazine, May 1978, p.39.

Finally, any changes and problems pertaining to financial reporting will create auditing problems. It is known that it is much easier to represent social program expenditures than the results, but even in supplying this information, the data of this nature is nowhere else to be found by the accountants and thus making social auditing a difficult task. Costs of this type of behavior may be easily quantified but the more important concern is that the benefit of social responsibility activities are often not easily reduced to monetary terms for auditing purpose.

Since uncertainty as to the meaning and extent of social responsibility appears to hinder agreement on the dimensions of measurement, then the social responsibility areas seems to be a beginning stage in search for an appropriate measure of disclosure.

The population consists of all the companies listed at the Nairobi Stock Exchange (N.S.E) during the period 1990-1994 because,

The publicly quoted companies are preferred to the unlisted companies due to availability of their annual reports. This is because these companies are required by the N.S.E regulators to send their annual reports to the secretariat of the stock exchange. The Companies Act also compels these companies to make annual submission of their published accounts to the registrar of companies.

Secondly, since these companies are considered to be large enough in terms of asset turnover, we would expect them to play a significant role towards social responsibility activities and thus expected to disclose such information in the annual financial reports since they affect the society at large.

Thirdly, the companies at the N.S.E consist of public companies, which are competing for scarce finances. Therefore we would expect them to engage in more voluntarily disclosures in their annual reports to attract more investors.

Private companies were excluded in the survey because they are normally not required to publish their financial reports for public use, and thus make it difficult to obtain their annual accounts and reports. While unquoted companies reports are not readily available,

CHAPTER THREE

RESEARCH METHODOLOGY

This chapter details out the research design, data collection and data analysis methods applied, in order to achieve the objectives of the study set in Chapter One.

3.1 Research Design

This study is exploratory in nature and thus no hypothesis could be tested in the research.

3.2 Population

The population consists of all the companies listed at the Nairobi Stock Exchange (N.S.E) during the period 1990-1994 because,

The publicly quoted companies are preferred to the unlisted companies due to availability of their annual reports. This is because these companies are required by the N.S.E regulations to avail their annual reports to the secretariat of the stock exchange. The Companies Act also compels these companies to make annual submission of their published accounts to the registrar of companies.

Secondly, since these companies are considered to be large enough in terms of asset turnover, we would expect them to play a significant role towards social responsibility activities and thus expected to disclose such information in the annual financial reports since they affect the society at large.

Thirdly, the companies at the N.S.E consist of public companies, which are competing for scarce finances. Therefore we would expect them to engage in more voluntarily disclosures in their annual reports to attract more investors.

Private companies were excluded in the survey because they are normally not required by law to publish their financial reports for public use, and thus make it difficult to obtain their annual accounts and reports. While un-quoted companies reports are not readily available.

A five year period was chosen for the study because these companies are required to keep their annual published accounts for only 5 years. This would therefore ensure availability of data to achieve the objectives set. Thus 1990 to 1994 was chosen for the study. Also during this time span a significant growth in public pressure for environment protection was noticed in the country and hence a possibility of more awareness towards corporate social disclosure.

The population consisted of 56 companies quoted at the N.S.E from different industrial sectors in the country by June 1995. The list is provided in Appendix 1.

3.2 Sample:

The sampling used in this study were as follows.

1. A company must have been quoted continuously from 1990 to 1994. This ensures availability of the annual reports for all companies in the sample in order to find the trend.
2. The companies must be located in the Nairobi Area and attain a representation of all industrial grouping in the sample.

A list of 43 companies were included in the sample which represents 77 percent of the population. See Appendix 2. This sample was considered adequate enough to draw conclusions on the level of social accounting disclosure in the Kenya settings.

3.4 Data collection:

The study relies on two types of data, the primary and the secondary data.

Firstly, the secondary data was obtained from the annual financial reports of the sample companies for a period of 5 years in order to achieve the first and second objective of the study. These corporate reports were obtained either from the Registrar of Companies or the Secretariat of N.S.E.

Each annual report was then reviewed so as to identify the social items disclosed by the Kenyan companies.

Secondly, the primary data was collected through two structured questionnaires to achieve the third objective of the study. These questionnaires were structured to bring out the arguments for and against social accounting disclosure. The first questionnaire dealt with the reasons as to why companies disclosed social information (See Appendix 4). The second questionnaire constituted of two Sections, A and B, while Section A brings out the reasons to why companies do not disclose social information in their financial statements Section B tries to identify other published means used by the companies to disclose their social responsibility activities apart from the annual corporate reports.(See Appendix 5). These questionnaires' statements were developed from the existing literature.

The questionnaires' were administered to their respective companies after the social reporting status of each sampled companies have been determined from the annual financial statements.

The companies were then provided with their respective questionnaire and asked to indicate the importance of each statement concerning social disclosure through a 5 point scale model referred to as "the verbal frequency scale".

This scale contains five phrase which indicated how a factor has influenced their action towards engaging or not engaging in social information disclosure in their financial reports. This scale was used in order to try to uncover the frequency of such actions. The score attached to the scale were as follows.

| <u>Scale:</u> | <u>Score:</u> |
|------------------------------|---------------|
| Totally Agreed | 5 |
| Agreed | 4 |
| Neither Agreed Nor Disagreed | 3 |
| Disagreed | 2 |
| Totally Disagreed | 1 |

The advantage of this scale include" the ease of assessment and response by those being surveyed".⁵⁵

3.5 Respondents:

The respondents in this survey through the questionnaire were mainly the company's Managing Directors, General Managers or an officer in-charge of preparing of financial report in the accounting department for purpose of publication.

Consequently, response to the questionnaire was not necessarily restricted to any of the one individual mentioned above.

3.6 Data Analysis Methods:

3.6.1 Identification of Social Information Items Disclosed.

Through references to a check lists from Beresford (1974), A.A.A (1976), Robert (1978), Parkes (1981), Cowen (1981) Glautier (1988), and a preliminary list consisted of social information items quoted by Kenyan companies in their annual reports, a list of 37 business social responsibility items was generated. (See Appendix 3).

3.6.2 Data Analysis Instruments:

Social information items were treated as a dichotomous variable that is, whether an item is disclosed or not disclosed, the disclosure score of a company is therefore additive.

⁵⁵ . Afreck P.L & Settle R.B, " The Survey Research Handbook", 1985, p.137.

$$D = \sum_{j=1}^{37} a_j$$

where D = number of social responsibility items disclosed by companies.

where a = 1 if social information item j is disclosed.

where a = 0 if social information item j is not disclosed.

Firstly, the number of companies disclosing each social information item was used to determine the popular and rare social items disclosed.

Out of the number of social items disclosed, all companies which did disclose such an item was used to calculate the percentage of disclosure as follows;

$$\frac{\text{Total Number of companies which disclosed the social item}}{\text{Total Number of companies that constituted the sample}} \times 100$$

This showed the level of disclosure of each social item among the companies and hence ranked to find the popular and rare social items disclosed in the annual financial reports through the use of percentages.

This method of percentages was used because adequate results were achieved by Wole (1992) and Kinya (1993) on the area of financial disclosure in Kenya.

Secondly, the same method of percentage and average growth rate were used to determine the overall trend of social accounting disclosure among the companies and the average growth rate of social information disclosure among the industrial categories over the five years.

The number of firms reporting each social item were used from 1990 to 1994 so as to establish the trend of corporate social accounting disclosure among the companies in Kenya over the past five year period.

In general, this indicated the state (an increase or decrease) in the numbers of companies disclosing social information in their annual reports over the years.

Lastly; the third objective was analyzed through the data collected from the two questionnaires. The data was presented in form of summarized tabulations, response index, means, standard deviation and co-efficient of variation for each statement for adequate analysis of each statement for and against social disclosure.

The ranking of the statements were done on the basis of computed Co-efficient of Variation. This shows the importance of each arguments for and against social accounting disclosure brought among the companies.

(i) **Mean =**

$$X_i = \frac{\sum_{j=1}^{43} S_{ij}}{n}, i=1,2,3..m$$

where X_i = Mean score of statement i

n = number of companies

S_{ij} = score of company j on statement i

m = number of statements.

(ii) **Standard Deviation:**

$$\sigma_j = \sqrt{\frac{\sum (X_i - X_i)^2}{(n-1)}}$$

σ_i = Standard Deviation of statement i

(iii) **Coefficient of Variation:**

$$CV_i = \frac{\sigma_i}{X_i}$$

A Statgraphics Package was used to analyze the data from the two questionnaires.

CHAPTER FOUR

DATA ANALYSIS, FINDINGS AND DISCUSSIONS

4.1 Overview

The data set to achieve the three objectives outlined in Chapter One was collected from the annual financial reports of the sampled corporations that constituted the study and through questionnaires. The data from the financial statements of companies was analyzed over a five year period to achieve the first two objectives, while the data from the questionnaires collected from the companies were analyzed to achieve the third objective. Companies were classified into high and low rated social information disclosure groups. Completed questionnaires received from these companies were summarized and presented in form of tables on the basis of computed percentages, mean, standard deviation and coefficient of variation through the use of a computer (statgraphic) package.

Out of the sampled 43 companies quoted at the N.S.E, 25 companies which formed the high rated social disclosure group, received questionnaire A (See Appendix 3) concerned with the arguments for engaging in social information disclosure in the annual reports. 20 companies completed the questionnaire in good time for data analysis to be carried out. 18 companies which formed the low rated social disclosure group, received questionnaire B (See Appendix 4) concerned with the arguments against social information disclosure in annual reports. Out of the 18 companies, 13 managed to respond for analysis. Overall, these sets of companies provided a response rate of 77 percent for adequate data analysis. The analysis involved;

- (i) Identifying the form of social disclosure adopted by Kenyan companies.
- (ii) Identification of the popular and rare areas of social information disclosed by the companies.
- (iii) Determine the overall trend of social information disclosure among the Kenyan companies.
- (iv) Analysis of the companies responses towards arguments for and against social information disclosure in the annual reports in terms of the importance of the arguments brought forward in the questionnaires.

4.2 Form of Social Accounting Disclosure Adopted

All companies investigated were found to have disclosed their social involvement in one period or another over the five year period but however, the nature of the companies social disclosure varied among them in the annual reports over the years. The social information disclosed generally ranged from one word to a few statements in the chairman's report of most companies annual reports while the total number of social information items disclosed at any one particular period of time ranged from 1 item to 19 items as shown in Table 1 below.

TABLE 1: LOWEST AND HIGHEST NUMBER OF SOCIAL ITEMS DISCLOSED WITHIN THE FIVE YEAR PERIOD.

| YEAR | LOWEST NUMBER OF SOCIAL ITEMS DISCLOSED | HIGHEST NUMBER OF SOCIAL ITEMS DISCLOSED |
|------|---|--|
| 1990 | 1 | 16 |
| 1991 | 1 | 18 |
| 1992 | 1 | 19 |
| 1993 | 1 | 18 |
| 1994 | 1 | 17 |

This is a positive indication that all Kenyan companies quoted at the N.S.E are aware of the need to disclose social information in their annual reports, as companies appear to be willing to disclose some form of their social contribution to the users of financial statements.

Furthermore, the forms of social disclosure adopted by Kenyan companies also varied from one company to other. Only a few number of companies adopted an advance level of social disclosure over time. By 1994, only 6 companies that is 14 percent as indicated in Table 2 next page, adopted the Cost-Outlay approach which are Kenya Breweries Limited, George Williamson Limited, Barclays Bank (K) Limited, Brooke Bond Kenya Limited, Standard Chartered Bank Kenya Limited and Kenya Power and Lighting Limited. They were observed to fall in the category of companies that devote more time and space in their annual financial statements to disclose their social contribution front to the society during the year. They brought clearly out the areas of their social contribution towards the society and, the precise figures and amount spent on each social activity undertaken.

These companies can be said to have a number of things in common;

- (i) The majority of them are subsidiaries of foreign companies thus assumed to be more aware of the need for such social disclosure in their financial statements as may be the case with their mother company.
- (ii) The companies are large in terms of employees, stock turnover and the exchange of their shares at the Nairobi Stock Exchange.

It is therefore expected that such companies will continue to be involved in social activities and hence social disclosure, because of;

- (i) their size; the companies operations will be felt by the society in one way or another,
- (ii) the importation of their mother country philosophy towards social involvement,
- (iii) their ability to set aside resources for their social contribution front,
- (iv) and their belief that such social disclosure will pay-off in the long run through improved corporate public image.

However the majority of the companies adopted the lowest level of social disclosure. As by 1994, 37 companies that is 86 percent, were found to engage in Descriptive Approach of social disclosure. These social disclosures were very simplified and sketchy in nature, as they merely list their social activities clearly and lacks the amounts corresponding against each social activities disclosed. This is an indication of lack of a clear understandability and/or willingness to disclose their social contribution in financial terms towards the society in the reports.

TABLE 2: FORM OF SOCIAL DISCLOSURE ADOPTED BY KENYAN COMPANIES IN 1994.

| FORMS OF DISCLOSURE | NUMBER OF COMPANIES | PERCENTAGE |
|-----------------------|---------------------|------------|
| Descriptive Approach | 37 | 86 |
| Cost-Outlay Approach | 6 | 14 |
| Cost-Benefit Approach | 0 | 0 |

The lack of Cost-Benefit approach adopted by Kenyan companies in the annual financial statements as seen in the table 2 above, indicates that the development towards the Cost-Benefit approach have been hampered by the lack of a proper adequate system of measuring and reporting social benefits in Kenya. Therefore any development towards a more advance level of corporate social reporting in the future (Cost-Benefit Approach) will be affected by lack of adequate measurements systems of social benefits.

It can be concluded that Kenyan companies do engage in various forms of social information disclosure in their annual financial statements. This shows that Kenyan corporations attitude towards social accounting is a positive one and are becoming increasingly aware that users of financial reports would require social information in the annual reports in influencing their investment decisions in the company.

However there is lack of uniformity on the system of social disclosure as majority of the companies adopt the Descriptive approach of social disclosure, while a small number of companies adopt the Cost-Outlay approach. With the lack of adequate system of measuring social benefits worldwide, it is expected for Kenyan companies to continue adopting the two approaches of social disclosure in the annual financial statements in the future until such a time when the accounting bodies will come up with an appropriate system of measuring social benefits in any part of the world.

4.3 Identification of Social Information Items Disclosed

Through a generated list of 37 social information items (See Appendix 3), it was observed that Kenyan companies are collecting and reporting a variety of social responsibility information in the annual financial statements. (See Table 1 in page 71).

The information collected on social responsibility areas from the annual financial statements from the Kenyan companies indicated that the social items disclosed in the financial statements mainly fall under the broad areas of human resource, community involvement, consumerism and environmental control.

TABLE 3: SOCIAL INFORMATION ITEMS DISCLOSED BY COMPANIES FROM 1990 TO 1994:

| SOCIAL INFORMATION ITEM. | NUMBER OF COMPANIES DISCLOSING THE INFORMATION | | | | |
|--------------------------|--|------|------|------|------|
| | 1990 | 1991 | 1992 | 1993 | 1994 |
| 1 | 43 | 43 | 43 | 43 | 43 |
| 2 | 3 | 2 | 2 | 1 | 3 |
| 3 | - | 1 | 1 | 1 | 2 |
| 4 | 6 | 8 | 10 | 7 | 7 |
| 5 | 3 | 2 | 3 | 2 | 1 |
| 6 | 11 | 14 | 11 | 11 | 15 |
| 7 | 3 | 3 | 4 | 2 | 6 |
| 8 | 2 | 2 | 1 | 1 | 1 |
| 9 | 5 | 4 | 5 | 5 | 4 |
| 10 | 2 | 1 | 1 | - | 2 |
| 11 | 9 | 10 | 8 | 10 | 9 |
| 12 | 1 | 1 | 2 | 2 | 4 |
| 13 | 8 | 5 | 5 | 6 | 12 |
| 14 | 2 | 4 | 2 | 2 | 2 |
| 15 | - | - | - | 1 | 2 |
| 16 | - | - | - | - | 1 |
| 17 | 1 | 2 | 6 | 6 | 4 |
| 18 | 4 | 3 | 3 | 3 | 4 |
| 19 | 2 | 4 | 4 | 5 | 6 |
| 20 | 1 | 1 | 2 | 2 | 1 |
| 21 | 4 | 3 | 4 | 2 | 2 |
| 22 | 8 | 8 | 6 | 7 | 9 |
| 23 | 9 | 10 | 10 | 6 | 7 |
| 24 | 1 | 4 | 3 | 2 | 1 |
| 25 | - | 2 | 1 | 3 | 1 |
| 26 | 4 | 6 | 9 | 11 | 16 |
| 27 | 8 | 2 | 6 | 1 | 4 |
| 28 | 5 | 9 | 4 | 7 | 8 |
| 29 | 7 | 1 | 6 | 2 | 5 |
| 30 | 2 | 1 | 1 | - | 1 |
| 31 | 6 | 8 | 13 | 12 | 10 |
| 32 | 18 | 21 | 22 | 22 | 21 |
| 33 | 1 | 2 | 1 | - | 2 |
| 34 | 11 | 10 | 14 | 13 | 14 |
| 35 | 1 | - | 1 | - | 1 |
| 36 | 2 | 3 | 1 | 3 | 6 |
| 37 | 10 | 13 | 17 | 13 | 19 |

As seen in table 3, it is clear that certain common social items like Name and Pictures of Employees and Directors(1), Training(6), Long term awards to employees(11), Consumer Satisfaction(37) and Improving the wider range for customer choice(34) seem to have a high rate of disclosure compared to other social information items like Minimum Wage Level(3), Environment Treatment Facilities(15), Pollution Control Measures(16), Transportation for Employees(25), Perservation of Historical Buildings(30), and Clear Labelling and Packaging(35). Furthermore, it is observed that Pre-retirement Counselling(7), Energy Efficient Products(13), Sponsorship of employees sporting activities(27), Management Bonus Scheme for employees and shareholders(28) and Appointments of Committee for community research(29) were greatly dispersed; a company discloses such a social activity in that particular year and excludes them in the next reflecting inconsistency in the disclosure over time. Though there is inconsistency in the disclosure rate of these items, it is important to note that some of them for example, Sponsorship, Management Bonus Scheme, Perservation of buildings are usually engaged by companies occasionally, and hence, we would expect such inconsistencies on the disclosure rate for these social items to vary with time.

Over the five years, fifty four percent of these social items that is 1, 3, 4, 6, 7, 9, 11, 12, 13, 17, 18, 19, 22, 26, 28, 32, 34, 36, and 37 were found to have been disclosed by a constant or an increasing number of firms. This is shown by the increase in the number of firms disclosing these social information items during the five years. However the remaining social items disclosed did not show any discernable trend of disclosure among the companies over the years.

It can be concluded that though social accounting is a new phenomenon, Kenyan companies do disclose various social information items. However, the data captured from the annual reports shows that companies lack uniformity on the areas disclosed over the years.

TABLE 4: TOTAL DISTRIBUTION OF SOCIAL DISCLOSURE CLASSIFIED WITH RESPECT TO THE INDUSTRIAL CATEGORIES OVER THE FIVE YEARS:

| INDUSTRIAL CATEGORIES | TOTAL NUMBER OF SOCIAL DISCLOSURE | PERCENTAGE |
|------------------------|-----------------------------------|------------|
| AGRICULTURAL SECTOR | 220 | 19.6% |
| COMMERCIAL & SERVICE | 268 | 23.9% |
| FINANCIAL & INVESTMENT | 269 | 24% |
| INDUSTRIAL & ALLIED | 364 | 32.5% |

Some industrial sectors were found to be more involved in social accounting disclosure than others. The Industrial and Allied sector had the largest share of social disclosure of 32.5 percent followed by the Commercial and Service sector with 23.9 percent, the Financial and Investment sector of 24 percent and lastly the Agricultural sector with 19.6 percent.

Various factors might have had an influence towards these scales of social disclosure among the industrial categories. In the past years, the Agricultural sector in Kenya has been greatly affected by the liberalization of the sector, the long drought season of 1992, the lack of investments towards the area prompted by the low world prices of the agricultural produce. Such factors may have affected the amount of resources kept aside towards their social contribution front to the economy and hence the social activities engaged and the social activities disclosed.

In comparison to the above sector, the Industrial and Allied sector, composed of some of the largest companies in Kenya for example B.A.T Kenya Limited, Kenya Breweries Limited, Total Kenya Limited, Kenya Power & Lighting Limited, E.A.Oxygen, which had the highest social disclosure over the other sectors had also been affected by the liberalization of the economy. With this liberalization of the economy, the companies faced stiff competition for the scarce resources and this may have influenced the high growth rate for voluntary social information disclosure in their annual financial statements in order to portray a favourable

corporate public image in competing with the other companies.

With these factors put into consideration, it can be concluded that social information disclosure is expected to increase if the status-quo of the Kenyan environment continues to prevail over time.

4.3.1 Popular and Rare Social Items Disclosed

The number of companies disclosing each social item in 1994 was used to analyze and determine the "popular"⁵⁶ and "rare items"⁵⁷ of social disclosure through the use of percentages.

1994 was found to be the appropriate year in bringing out the popular and rare social items disclosed by the Kenyan companies because it is the most recent year of social reporting and has the highest number social information items disclosed as compared to the past years as seen in Table 6.

| Social Item | Number of Companies Disclosing | Percentage of Disclosure |
|------------------------|--------------------------------|--------------------------|
| 1 | 43 | 100% |
| 2 | 42 | 97% |
| 3 | 41 | 95% |
| 4 | 40 | 93% |
| 5 | 39 | 90% |
| 6 | 38 | 88% |
| 7 | 37 | 86% |
| 8 | 36 | 83% |
| 9 | 35 | 81% |
| 10 | 34 | 79% |
| 11, 22 | 33 | 77% |
| 12 | 32 | 74% |
| 13 | 31 | 72% |
| 14, 23 | 30 | 70% |
| 15 | 29 | 67% |
| 16 | 28 | 65% |
| 17, 19, 36 | 27 | 63% |
| 18 | 26 | 60% |
| 20 | 25 | 58% |
| 21 | 24 | 56% |
| 24, 25, 27, 28, 29 | 23 | 53% |
| 26 | 22 | 51% |
| 2 | 21 | 49% |
| 30, 31, 32, 33, 34, 35 | 20 | 47% |
| 3 | 19 | 44% |
| 4 | 18 | 42% |
| 5 | 17 | 39% |
| 6 | 16 | 37% |
| 7 | 15 | 35% |
| 8 | 14 | 33% |
| 9 | 13 | 30% |
| 10 | 12 | 28% |
| 11 | 11 | 26% |
| 12 | 10 | 23% |
| 13 | 9 | 21% |
| 14 | 8 | 19% |
| 15 | 7 | 16% |
| 16 | 6 | 14% |
| 17 | 5 | 12% |
| 18 | 4 | 9% |
| 19 | 3 | 7% |
| 20 | 2 | 5% |
| 21 | 1 | 2% |

⁵⁶ . Popular social information items disclosed being those items that are reported by most of the companies.

⁵⁷ . Rare social items are those items being disclosed by a relative few companies.

TABLE 5: PERCENTAGES OF THE POPULAR AND RARE SOCIAL INFORMATION ITEMS DISCLOSED IN 1994:

| SOCIAL INFORMATION ITEM | NO OF COMPANIES DISCLOSING THE INFORMATION | PERCENTAGE OF DISCLOSURE |
|------------------------------|--|--------------------------|
| 1 | 43 | 100% |
| 32 | 21 | 49% |
| 37 | 19 | 44% |
| 26 | 16 | 37% |
| 6 | 15 | 35% |
| 34 | 14 | 33% |
| 13 | 12 | 28% |
| 31 | 10 | 23% |
| 11, 22 | 9 | 21% |
| 28 | 8 | 19% |
| 4, 23 | 7 | 16% |
| 7, 19, 36 | 6 | 14% |
| 29 | 5 | 12% |
| 3, 9, 12, 17, 18, 27 | 4 | 9% |
| 2, 10 | 3 | 7% |
| 14, 15, 21, 33 | 2 | 5% |
| 5, 8, 16, 20, 24, 25, 30, 35 | 1 | 2% |

The fact that social information disclosure is a new phenomenon in Kenya and being in its early stages of disclosure, the top 10 ranked social items disclosed were considered to be the popular items while the rest as the rare items disclosed in the Kenyan annual financial statements.

Based on the above measure, the Name and Pictures of the Employees(1), Restructuring and Upgrading Product Performance(32), Customers Satisfaction(37), Foreign Exchange Earnings to meet political goals(26), Employee Training(6), New Product Lines(34), Design of more Energy Saving Products(13), Allocation of Plants to economical disadvantaged areas(31), Improve Employee Job Satisfaction through Long Service Awards(11) and Sponsorship of social activities(22) were considered to be the popular social items as they had the highest disclosure rates by the Kenyan companies in the annual financial statements..

While however the remaining, for example Clear and Informative Labelling Policies(28), Preservation of Historic Buildings(30), Transportation of Employees(25), Employees Participation in social activities(27), Counselling Programs for Employees(7), Conversation Awareness(19), Community Relation Officers(29), were considered to be the rare social items disclosed in the annual financial statements in Kenya.

The above observations are further backed by the percentage scores for the same social item from 1990 to 1993 ,(See Appendix 10), as it indicates that the same category of social items remained as the popular items and rare social items respectively over the years.

Therefore it can be concluded that with time, these popular social items disclosed will continue to gain popularity in the annual financial statements of most Kenyan companies.

4.4 Extent of Social Accounting Disclosure

The extent of social accounting disclosure was analyzed in two phases. Firstly, the overall trend of social information disclosed from 1990 to 1994 and secondly, the general trend of social information disclosed classified according to the industrial categories.

4.4.1 Overall Trend of Social Accounting Disclosure:

The overall trend of social accounting disclosure shows that more and more companies are disclosing increasing number of social responsibilities aspects. As seen in table 4 below, the number of social disclosure increased by an average growth rate of 13.25 percent between 1990 and 1994.

TABLE 6: OVERALL TREND OF SOCIAL ACCOUNTING DISCLOSURE

| YEAR | TOTAL NO OF SOCIAL ITEMS DISCLOSED | OVERALL AVERAGE GROWTH RATE |
|------|------------------------------------|-----------------------------|
| 1990 | 203 | 13.25% |
| 1991 | 213 | |
| 1992 | 232 | |
| 1993 | 214 | |
| 1994 | 259 | |

It was observed that despite an average growth rate of 13.25 percent in the number of social disclosure, there was a decrease in the number of social disclosure from 232 in 1992 to 214 items in 1993. It is appropriate to note that certain factors might have influenced this downfall in social disclosure in the annual financial statements in Kenya. It is in order to state that during this period, Kenyan companies were operating under an unstable political environment which had an effect on both, the economic and social environment in which the companies were operating in. It was at this time when the first multi-party elections were undertaken. As a result of political uncertainty we expect the amount of resources kept aside by the companies towards their social responsibility front to be limited. This may have had an adverse effect on the involvement of companies in social activities and hence a drastical reduction in the volume of social disclosure in the corporate reports.

However the trend picked up again in 1994, with the era of transparency and accountability under way in Kenya, there was an increasing demand for more awareness towards business social responsibility and thus companies were involved more in social disclosures than before in order to capture a favourable public image in the society. In this regard, companies were increasingly improving their social responsibility disclosure in their annual reports. Also, with the reduction in donor assistance to the Kenyan Government, more governmental pressures can be said to have greatly resulted in companies involvement in more social responsibility activities than before, and therefore more accountability for their social contribution front and hence disclosure to the users of financial statements.

It can be concluded that the extent of social accounting disclosure in Kenya has increased over the past five years. This improvement shows an indication of the continuation of an important trend towards more corporate social reporting in Kenya in the future. These findings also shows there is increasing awareness for the need for more social information disclosure in the annual financial statements among the companies over time. Thus it would be expected that companies will continue to expand their efforts towards development of a more adequate system of social disclosure in the annual reports.

Furthermore with an average growth rate of 13.25 percent, we expect companies to continue their involvement in social reporting by participating in more social responsibility activities and therefore social accounting disclosure. Therefore, we believe that with such a positive attitude, social reporting is destined to have a better future in the expansion and quality of the areas of social information disclosure in the Kenyan annual financial statements.

4.4.2 General Trend of Social Accounting Disclosure with respect to the Industrial Categories

The average positive growth rate of 13.25 percent of social disclosure can be said to have been brought about by the high average growth rate in the Industrial and Allied sector over the five years as shown in the Table 7. The Industrial and Allied sector had the highest growth rate of 53.35 percent followed by the Agricultural sector with 2.9 percent.

TABLE 7: GENERAL TREND OF SOCIAL ACCOUNTING DISCLOSURE CLASSIFIED AS PER THE INDUSTRIAL CATEGORIES OVER THE FIVE YEARS.

| INDUSTRIAL CATEGORIES | SOCIAL INFORMATION DISCLOSURE | | | | | AVERAGE GROWTH RATE |
|-------------------------|-------------------------------|------|------|------|------|---------------------|
| | 1990 | 1991 | 1992 | 1993 | 1994 | |
| AGRICULTURAL | 43 | 44 | 42 | 35 | 56 | 2.9% |
| COMMERCIAL & SERVICE | 55 | 53 | 54 | 51 | 55 | -3.175% |
| FINANCIAL & INVESTMENTS | 54 | 45 | 60 | 54 | 56 | -0.475% |
| INDUSTRIAL & ALLIED | 51 | 71 | 76 | 74 | 92 | 53.35% |

Though the Commercial and Service sector and the Financial and Investment sector shows a negative average growth rate of 3.175 percent and 0.475 percent respectively, the trend is expected to improve in the coming years. This negative growth can be said to be short lived firstly because of the growth of 51 to 55 items for Commercial and Service sector and the 54 to 56 items for the Financial and Investment sector in 1994 as shown in the table 7 above, and secondly because of the liberalization of the sectors. It can be concluded that with time, we would expect these two sectors to disclose more social information in their financial statements as shown by the increment in 1994 and also because of increasing public awareness towards business social responsibility. Therefore we expect these two sectors to boost the trend of social information disclosure in the Kenyan annual financial statements in competing for scarce resources towards capturing a favourable public image within the liberalized economy.

4.5 Companies Response towards specific arguments for Social Accounting Disclosure

To bring out the companies response towards the common arguments for social accounting disclosure, a response index was calculated (As shown in the last column of Table 6). The neutral companies response (neither disagreed nor agreed) were excluded in the calculation of the response index because it does not bring out the validity of the argument.

According to the response index shown in table 6, the positive index indicates that the companies found the argument as important to them while a negative response index shows that the argument was unimportant in the areas of social accounting disclosure.

| Argument | AGR | NEUT | DISCA | Response Index |
|--|-----|------|-------|----------------|
| 1. Since businesses have such a substantial share of society's management and financial resources, they should show how they are trying to solve social problems, when other social institutions have failed | 55 | 30 | 15 | 40 |
| 2. Disclosure of business social responsibility is seen as a way to improve long-run profitability by the investors. | 35 | 45 | 20 | 15 |
| 3. Corporate social information disclosure is of interest to Kenyan stockholders and potential investors in making investment decisions. | 30 | 45 | 25 | 5 |
| 4. It is better to start disclosing social information to prevent future problems of any mandatory disclosure through the Companies Act in the annual reports. | 15 | 35 | 50 | -35 |
| 5. Corporate social information disclosure will help perceive the business as a viable institution to the society. | 80 | 10 | 10 | 70 |
| 6. To gain credibility by the society, the disclosure of social information should be used in the financial reports. | 55 | 15 | 30 | 25 |

The index is calculated as the difference between the % of respondents who agreed with the statement (usually disagreed and agreed) and those who "neither agreed (usually agreed and agreed) thus eliminating the uncommitted ones.

TABLE 8: COMPANIES RESPONSE TOWARDS SPECIFIC ARGUMENTS FOR SOCIAL ACCOUNTING DISCLOSURE:

| ARGUMENTS FOR SOCIAL ACCOUNTING DISCLOSURE. | AGR EE | NEUT RAL | DISGA GREE | INDE X ⁵⁸ |
|--|-----------|-------------|---------------|-------------------------|
| 1. It is a long-run self interest of business to get directly involved in social information disclosure to enhance the value of the firm. | 100 | - | - | 100 |
| 2. A business that wishes to capture a favorable public image will have to show it in its annual reports that it is socially responsible. | 75 | 15 | 10 | 65 |
| 3. Since businesses have such a substantial share of society's management and financial resources, they should show how they are trying to solve social problems, when other social institutions have failed | 55 | 30 | 15 | 40 |
| 4. Disclosure of business social responsibility is seen as a way to improve long-run profitability by the investors. | 35 | 45 | 20 | 15 |
| 5. Corporate social information disclosure is of interest to Kenyan stockholders and potential investors in making investment decisions. | 30 | 45 | 25 | 5 |
| 6. It is better to start disclosing social information to prevent future problems of any mandatory disclosure through the Companies Act in the annual reports. | 15 | 35 | 50 | -35 |
| 7. Corporate social information disclosure will help perceive the business as a viable institution to the society. | 80 | 10 | 10 | 70 |
| 8. To gain credibility by the society, the disclosure of social information should be stated in the financial reports. | 55 | 15 | 30 | 25 |

⁵⁸. The index is calculated as the difference between the % of respondents who agreed with the statement (totally disagreed and agreed) and those who agreed (totally agreed and agreed) thus eliminating the uncommitted ones.

| | | | | |
|---|-----|----|----|-----|
| 9. If a company is pursuing social activities, then it is in the company's interest to report to the society its achievements and costs. | 100 | - | - | 100 |
| 10. Financial statements users have certain rights to social information disclosure. | 55 | 20 | 25 | 30 |
| 11. Disclosing social information helps evaluate how well the firm trying to fulfill its social responsibility to the society. | 55 | 25 | 20 | 35 |
| 12. The social report is an universal call for the accounting professional ethics to disclosure more information already provided by other means. | 35 | 35 | 30 | 5 |
| 13. Disclosing social information is relevant for aiding public accountability, evaluation, coordination and monitoring of the corporate contribution towards social goal attainment. | 80 | 10 | 10 | 70 |
| 14. Investors are provided with a more reliable and sufficient information for decision making when disclosing social information. | 75 | 5 | 10 | 75 |
| 15. Social information disclosure illustrates the balance between primary objective of profitability and the company's obligation towards the society. | 70 | 30 | - | 70 |
| 16. Disclosing social information activities is an essential part of the corporate financial reports and accounts. | 45 | 10 | 45 | - |
| 17. Firms disclosed social information because they are pressed to account for and disclose their social operations to fulfil the needs of users of financial statements. | 15 | 55 | 30 | -15 |

The Kenyan companies willingness to disclose social information in the annual financial statements and the increasing growth rate of 13.25 percent can be said to be due to "long- run self interest of business to get involved into social information disclosure to enhance the value of the firm" and "if a company is pursuing social activities, then it is in the companies interest to report to the society its achievement and costs". These two statements had the highest positive response index of 100 percent (see table 8) which implies that all companies totally agreed on them and had an influence on their decision to engage in social information disclosure in the annual reports.

Companies believe that "investors are provided with a more reliable and sufficient information for decision making when disclosing social information" which had a high positive disclosure index of 75 percent. Generally, arguments 2, 7, 13, and 15 which lies particularly on disclosing social achievements and costs in order of capturing a favourable corporate image have been perceived to be of importance by all companies with the high positive response index of above 65 percent.

Two arguments were perceived to be of no importance by a large number of companies towards engagement in social accounting disclosure. The arguments which state that "it is better to start disclosing social information to prevent future problems of any mandatory disclosure through the annual reports" had a negative response index of 35 percent, while statements which reads that "firms disclosed social information because they are pressured to account for and disclose their social operations to fulfil the needs of the users of financial statements" had a negative response rate of 15 percent.

According to the above two statements it indicates that Kenyan companies engage in social information disclosure not because they are pressured to account for and disclose their social information disclosure to the users of financial statements, nor because of the fact that Kenyan shareholders and investors do not utilize such social disclosure in the annual reports in making investment decisions, but because such social disclosure is expected to improve the

corporate public image and enhance the value of the firm. This shows that companies management see themselves to be social responsible to the society and since management disclose such information it indicates that this information has some form of value. Therefore Kenyan investors should try to understand the importance of providing social disclosure and take the necessary action in utilizing and including these social information among the factors considered when making appropriate investment decisions towards a company.

In order to determine the relative importance of the arguments for social accounting disclosure, the mean, standard deviation and coefficient of variation were computed. See Appendix 9.

According to Table 7, each argument was ranked from the lowest to the highest coefficient of variation with associated standard deviation which indicated the importance to each argument systematically.

| | | |
|---|-------|-------|
| Disclosing social information illustrates the balance between the business's contribution to the society and the society's contribution to the business. | 0.816 | 0.162 |
| Disclosing social information will help perceive the business as a value institution to the society. | 0.813 | 0.211 |
| Disclosing social information is relevant for aiding public accountability, evaluation, coordination and monitoring of the corporate contribution towards social goal attainment. | 0.852 | 0.219 |
| Investors are provided with a more reliable and sufficient information for decision making when disclosing social information. | 0.887 | 0.219 |
| A business that wishes to capture a favorable public image will have to show it in its annual reports that it is socially responsible. | 0.923 | 0.250 |
| Since businesses have such a substantial share of society's management and financial resources, they should show how they are trying to solve social problems, when other social institutions failed. | 0.943 | 0.266 |

TABLE 9 : RANKED STANDARD DEVIATION AND COEFFICIENT OF VARIATION FOR THE ARGUMENTS FOR SOCIAL ACCOUNTING DISCLOSURE:

| ARGUMENTS FOR SOCIAL ACCOUNTING DISCLOSURE | STD DEVIATION | CO OF VARIATION |
|---|---------------|-----------------|
| It is a long-run self interest of business to get directly involved in social information disclosure to enhance the value of the firm. | 0.503 | 0.114 |
| If a company is pursuing social activities, then it is in the company's interest to report to the society its achievements and costs. | 0.513 | 0.114 |
| Social information disclosure illustrates the balance between primary objective of profitability and the company's obligation towards the society. | 0.616 | 0.162 |
| Corporate social information disclosure will help perceive the business as a viable institution to the society. | 0.813 | 0.211 |
| Disclosing social information is relevant for aiding public accountability, evaluation, coordination and monitoring of the corporate contribution towards social goal attainment. | 0.852 | 0.219 |
| Investors are provided with a more reliable and sufficient information for decision making when disclosing social information. | 0.887 | 0.219 |
| A business that wishes to capture a favorable public image will have to show it in its annual reports that it is socially responsible. | 0.923 | 0.250 |
| Since businesses have such a substantial share of society's management and financial resources, they should show how they are trying to solve social problems, when other social institutions failed. | 0.945 | 0.266 |

| | | |
|--|-------|-------|
| Disclosure of business social responsibility is seen as a way to improve long-run profitability by the investors. | 0.910 | 0.280 |
| Disclosing social information helps evaluate how well the firm is trying to fulfill its social responsibility to the society. | 1 | 0.286 |
| To gain credibility by the society, the disclosure of social information must be stated in the financial reports. | 0.951 | 0.297 |
| It is better to start disclosing social information to prevent future problems of any mandatory disclosure through the companies Act in the annual reports. | 0.801 | 0.297 |
| The social report is an universal call for the accounting professional ethics to disclosure additional information already provided by other means. | 0.918 | 0.306 |
| Firms disclosed social information because they are pressed to account for and disclose their social operations to fulfil the needs for the users of financial statements. | 0.851 | 0.310 |
| Financial statements users have certain rights to social information disclosure. | 1.031 | 0.312 |
| Corporate social information disclosure is of interest to Kenyan stockholders and potential investors in making investment decisions. | 1.005 | 0.314 |
| Disclosing social information activities is an essential part of the corporate financial reports and accounts. | 1.120 | 0.361 |

From above table 7, computed Coefficient of Variation shows that capturing favourable corporate public image through disclosing the company's achievements and costs to the society will enhance the value of the firm as indicated by arguments 1,9,15,7 and 13 which still remained of great importance to the companies decision to engage into social accounting disclosure when using this method.

According to the responses, it can be concluded that Kenyan companies believe that although shareholders and investors do not seem to utilize social information when making their investment decisions towards a company, disclosure of social information may influence the companies interest towards social accounting and its development process in Kenya in the future as the condition prevail to exist. Hence there is need to improve the awareness of the users of financial statements towards the value of social information in the annual financial statements in order to motivate companies and accounting institutions in Kenya towards developing their social accounting system. This is an indication that companies are voluntarily engaging into social accounting at their own will, not because they are pressured to account for or disclose social activities but because of their belief that investors are provided with more sufficient information for making appropriate investment decisions towards the company. Therefore it can be said that such disclosure should have some form of value to the shareholders and potential investors if the companies management see the need for such social disclosure in the financial reports for investors because according to them, social disclosure will enhance the value of the firm. Therefore users of financial statements should try to utilize social information provided by the companies to their uttermost in order to derive the maximum benefit from such disclosure.

This is supported by the fact that it is in their own self interest to disclose social information and according to them, why not disclose such information when they are engaging in such social activities?.

Overall, we can conclude that despite the lack of pressures to account for social activities and the need for social disclosure among the users of financial statements, companies voluntarily disclose social information on their management discretion in order to enhance the value of the firm and capture a favourable public image to the benefit of the companies operations.

4.6 Companies response towards specific arguments against Social Accounting Disclosure.

Table 8 next page, indicates that the range of responses index lies between the highest positive index of 100 percent to the lowest of negative 46.1 percent.

TABLE 10: COMPANIES RESPONSE TOWARDS SPECIFIC ARGUMENTS AGAINST SOCIAL ACCOUNTING DISCLOSURE:

| ARGUMENTS AGAINST SOCIAL ACCOUNTING DISCLOSURE | AG REE | NEU TRAL | DISA GREE | IND EX |
|--|---------------|-----------------|------------------|---------------|
| 1. Methods and principles used in reporting social information does not exist. | 76.9 | 7.7 | 15.4 | 61.5 |
| 2. Social information disclosure does not serve a purpose to the users of financial statements. | 58.8 | 15.4 | 30.8 | 23 |
| 3. It is costly to the company to be involved in social information disclosure in the annual reports | 15.4 | 23.1 | 61.5 | -46.1 |
| 4. There are many conflicts and problems in providing social information among the company's management thus makes the disclosure meaningless and waste of time. | 38.5 | 46.1 | 15.4 | 23.1 |
| 5. Social information is confidential and the company's competitive position may be undermined by disclosing it to the public. | 23.1 | 30.8 | 46.1 | -23 |
| 6. Such involvement of social disclosure removes the company accountants focus from their more usual role of assessing economic activities only. | 38.5 | 30.7 | 30.8 | 7.7 |
| 7. Accountants are trained to collect, process and report economic information in financial terms & <u>not</u> in social terms. | 69.2 | - | 30.8 | 38.4 |
| 8. Social disclosure provided by companies are weak and could be misleading and damaging to the users of financial statements. | 23.1 | 7.7 | 69.2 | -46.1 |
| 9. The firm's social information are not subjected to formal measurement for adequate reporting process. | 100 | - | - | 100 |
| 10. Social information reports serves only a temporary purpose for companies to achieve some goals. | 38.5 | 30.8 | 30.8 | 7.7 |

| | | | | |
|--|------|------|------|------|
| 11. Social reports are unnecessary because investors do not know how to utilize them and hereby has no value to them. | 69.2 | 7.7 | 23.1 | 46.1 |
| 12. Corporations are not held accountable to social disclosure because it is not required by the companies act to disclose such information in their annual reports therefore not mandatory to them. | 84.6 | - | 15.4 | 69.2 |
| 13. Since there is considerable disagreement among the accountants on the form of social disclosure, there is lack of standardized formats for disclosure. | 76.9 | 15.4 | 7.7 | 69.9 |
| 14. Interest in the disclosure of social responsibility activities is a recent phenomenon in Kenya thus not well developed to be captured, reported and demanded by the society. | 100 | - | - | 100 |
| 15. The production of social reports might encourage society to demand even more social information from the companies. | 46.1 | 23.1 | 30.8 | 15.3 |
| 16. Social reports provided by companies are not comprehensive enough to influence decision makers. | 38.5 | 38.5 | 23.1 | 15.4 |
| 17. The need for social disclosure among companies themselves is still debatable if they have to engage or not. | 53.8 | 30.8 | 15.4 | 38.4 |
| 18. Most Social disclosure provided lies on the discretion of the companies management decisions hence its reliability is questioned. | 46.1 | 15.4 | 38.5 | 7.6 |

The computed company's response index indicate that companies agreed "firms social activities are not subjected to formal measurement for adequate reporting process" and "the interest in the disclosure of social information is a recent phenomenon in Kenya, thus not well developed to be captured, reported and demanded by the society". These arguments points out that the poor social information disclosure in the Kenyan annual financial reports is a clear indication that social disclosure adopted by most Kenyan companies are still in their early stages

whereby relatively few number of companies adopted the Cost-Outlay approach while the majority adopt the Descriptive approach of social disclosure as noted in objective one's conclusion. The lack of any form of Cost-Benefit approach of social disclosure in Kenya can be said to have been brought about by the inadequate measurement process and reporting procedures of social accounting disclosure.

Also, since social disclosure is still voluntary to companies and the disagreement among the accountants towards a standardised format of social disclosure have greatly influenced the poor social disclosure rates of some companies in the annual reports and the wide variation of social items disclosed in the Kenyan annual financial statements shown earlier.

According to these arguments mentioned above, it is clear that the problems faced in the developed nations like U.S.A and U.K in the area of social accounting disclosure do exist in Kenya. It seems that Kenyan companies' arguments against social accounting disclosure generally lie in the methods of social disclosure, the disclosure still being voluntarily and not mandatory, considerable disagreement among the accountants on the concept of social accounting, the lack of adequate system of social measurements and reporting disclosure, and the fact that the investors do not seem to utilize such social reports in making investments decisions. With the persistence of these factors, Kenyan companies motivation towards social accounting disclosure will be greatly affected in the future if the accounting professions makes no advancements and development towards solving these problems.

However, three arguments that is 8, 5 and 2 had a negative response index of 46.1, 46.1 and 23 respectively as shown in table 10. In general, this indicates that the companies perceive these arguments as of no importance in their decision from not engaging in social accounting disclosure in their annual reports. This implies that the poor form of social disclosure among some companies is neither related to cost, nor being social information confidential to the company. However it is because of the measuring and reporting status of social disclosure that discourage the poor disclosure of social information to the users of financial statements in Kenya. These arguments have been supported by the computed Coefficient of Variation as shown in table 11.

TABLE 11: RANKED STANDARD DEVIATION AND COEFFICIENT OF VARIATION FOR THE ARGUMENT AGAINST SOCIAL ACCOUNTING DISCLOSURE.

| STATEMENTS AGAINST SOCIAL ACCOUNTING DISCLOSURE | STD DEVIATION | CO OF VARIATION |
|---|---------------|-----------------|
| The firm's social information are not subjected to formal measurement for adequate reporting process. | 0.439 | 0.104 |
| Interest in the disclosure of social responsibility activities is a recent phenomenon in Kenya thus not well developed to be captured, reported and demanded by the society. | 0.506 | 0.115 |
| Since there is considerable disagreement among the accountants on the form of social disclosure, there is lack of standardized formats for disclosure. | 0.801 | 0.208 |
| There are many conflicts and problems in providing social information among the company's management thus makes the disclosure meaningless and waste of time. | 0.725 | 0.244 |
| The need for social disclosure among companies themselves is still debatable if they have to engage of not. | 0.768 | 0.227 |
| Social reports provided by companies are not comprehensive enough to influence decision makers. | 0.801 | 0.254 |
| Methods and principles used in reporting social information does not exist. | 1.167 | 0.270 |
| Social reports are unnecessary because investors do not know how to utilize them and hereby has no value to them. | 1.11 | 0.300 |
| It is costly to the company to be involved in social information disclosure in the annual reports | 0.776 | 0.306 |
| Corporations are not held accountable to social disclosure because it is not required the companies act to disclose such information in their annual reports therefore not mandatory to them. | 1.225 | 0.306 |

| | | |
|---|-------|-------|
| Such involvement of social disclosure removes the company accountants focus from their more usual role of assessing economic activities only. | 0.987 | 0.313 |
| Social information reports serve only a temporary purpose for companies to achieve some goals. | 0.987 | 0.313 |
| The production of social reports might encourage society to demand even more social information from the companies. | 0.987 | 0.313 |
| Accountants are trained to collect, process and report economic information in financial terms & <u>not</u> in social terms. | 1.127 | 0.318 |
| Social information is confidential and the company's competitive position may be undermined by disclosing it to the public. | 0.987 | 0.347 |
| Social information disclosure does not serve a purpose to the users of financial statements. | 1.166 | 0.361 |
| Most Social disclosure provided lies on the discretion of the companies management decisions hence its reliability is questioned. | 1.166 | 0.361 |
| Social disclosure provided by companies are weak and could be misleading and damaging to the users of financial statements. | 1.199 | 0.487 |

As seen in table 8 and 9, it can be concluded that the main reasons for the poor disclosure of social information among Kenyan companies annual reports is brought about by the lack of adequate formal measurement and methods of social disclosure especially social benefits. Since the disclosure of social information is voluntary and the system of capturing such social data is still undeveloped in Kenya, the overall development trend towards the adequate capturing and reported social information in the annual reports has been greatly affected.

Furthermore, it shows that cost incurred is not among the factors on the poor social disclosure or the confidentiality of such information in the company annual reports, but the measurements and reporting problems of social costs and benefits have greatly affected the company's motivation and willingness being directly involved in bringing out an adequate system of social information disclosure in the annual reports.

With the arguments brought above, it can be concluded that Kenyan companies will continue to disclose social information but however they will still continue to adopt the Descriptive approach and Cost-Outlay approach. The problems of adequate methods of reporting and formal measurements of social costs and benefits will prevent advancements towards the Cost Benefit approach of social disclosure in the near future, since the development towards an appropriate means of measuring social benefits is yet to be solved within the accounting profession. Development towards a system of measuring social benefits is still in its earliest stage and without the co-operation of other professionals like the Economists and Engineers, more time will be taken in order to arrive to an adequate method of measuring and accounting social benefits among the accountants.

4.7 Other Approaches of Social Information Disclosure

Though companies do engage in social information disclosure in the annual financial statements, most companies tend also to communicate their social contribution to the society through other systems of disclosure.

- (i) Since the concern of social information disclosure is to reach the public, it is expected that such disclosure will reach a larger number of the society than the company's financial statements.
- (ii) The public lack the necessary knowledge towards proper utilization of the annual financial statements and hence such disclosure will have limited value towards enhancing the corporate public image.

TABLE 12: OTHER MEANS USED TO DISCLOSE SOCIAL INFORMATION

| MEANS OF SOCIAL INFORMATION DISCLOSURE | NUMBER OF COMPANIES | PERCENTAGE (%) |
|---|----------------------------|-----------------------|
| NEWSPAPERS & MAGAZINES | 10 | 77 % |
| TELEVISIONS & RADIOS | 6 | 46 % |
| BROCHURES | 6 | 46 % |
| POSTERS | 4 | 31 % |

The table shows that companies are involved in different forms of social information disclosure when communicating their social contribution to the society as indicated apart from the annual financial statements. However the most popular means used by companies to disclose their social activities was through the local newspaper and magazines at one time or another. It was followed by Televisions, Brochures and Posters respectively as shown in in form of percentages.

Thus it can be concluded that, since the major concern brought out by Kenyan companies towards social disclosure is to capture a favourable corporate public image, it can be said that companies tend to be involved in these means of social disclosure because;

- (i) The majority of the society in which the information is targeted have little access to the companies annual financial statements.
- (ii) Since the concern of social information disclosure is to reach the public, it is expected that such disclosure will reach a larger number of the society than the company's financial statements.
- (iii) The public lack the necessary knowledge towards proper utilization of the annual financial statements and hence such disclosure will have limited value towards enhancing the corporate public image.

CHAPTER FIVE

SUMMARY AND CONCLUSION

5.1 Summary of the Findings

The findings of this survey on Kenyan social accounting disclosure in financial statements have brought out clearly a number of unknown issues.

First, it was observed that all companies one way or another, do engage in one form of social accounting disclosure. However, majority of the companies that is 87 percent adopt the simplest form of Descriptive approach of social accounting disclosure, while only 13 percent adopt an advanced level of Cost-Outlay approach of social disclosure in the financial statements. Since social accounting disclosure is still in its early stages of development and the lack of a centralized system of acquiring and capturing relevant data of social concern in the country, we expect such a situation to continue to affect the future growth towards social disclosure in the annual reports. It was noted that to date, not a single Kenyan company adopted the Cost-Benefit approach. The development towards this advanced level of social disclosure can be said to have been hampered by the lack of adequate system of measuring and reporting social benefits like in any part of the world. Overall, Kenya will continue to advance from the Descriptive approach of social disclosure towards the Cost-Outlay approach with time. Hence there is a need to develop a system of acquiring and capturing social data from affected companies where social programs are undertaken. Such development will motivate companies to devote more time and space in bringing out a more reliable and relevant system of social accounting disclosure in the annual reports to the benefit of all the users of financial statements in the country.

The survey managed to generate 37 social items which were voluntarily disclosed by the quoted companies in Kenyan financial statements, and they broadly fell on the areas of human resource, community involvement, environment and consumerism. Though the areas disclosed showed consistencies and commonality with those disclosed in the developed nations like U.S and U.K where social disclosure is at an advanced stage, the social items disclosed in Kenya are

still too narrow to reflect the actual activities engaged by companies towards their social obligation and the number and diversity of social items disclosed varied from one company to another and from one year to another. It was also noted that common social areas disclosed focused mainly on the human resource and community involvement, while there was limited disclosure on the environment and consumerism areas. This may be attributed to lack of clear perception of the rightful obligation towards the environment by the Kenyan companies which may have affected the disclosure rate of these areas to the users of financial reports. Therefore there is need to improve the company's awareness on these areas to enhance its disclosure among the companies in the future.

Secondly, the finding indicates that companies are more willing to disclose their social contribution to the society over time. This is reflected by the average positive growth rate of 13.25 percent. The findings indicated that the Industrial and Allied sector had the highest share of the social information disclosed of a positive average growth rate of 53.35 percent as compared to the other sectors in the economy.

With this upward trend in social disclosure, it shows that companies are adopting a positive attitude towards social disclosure and hence acceptability of this new phenomenon. They are thus expected to put more efforts towards social accounting disclosure in the annual reports and destined to have a better future in its development process of more adequate system of corporate social reporting among the companies in the country. In this respect more companies would follow suit over time with more participation and involvement in social activities and hence more social reporting to the users of financial statements. With such a better prospect in social information disclosure in Kenya, the accounting bodies, the government, the shareholders and the public as a whole, should try to utilize such social information by incorporating them among the factors to be considered when evaluating and making appropriate decisions towards a company. Such involvement of all those affected will also boost the awareness among the companies, and hence expected to speed up the development process of social disclosure in the annual financial statements in the country.

Thirdly, in relation to the reasons as to why some companies engage into social accounting disclosure while others do not, it was observed that most Kenyan companies are conversant with the aspects of social accounting disclosure in the annual reports.

The companies response towards the arguments for social accounting disclosure lies impressively on their self interest to disclose their social achievements and costs to the users of financial statements in order to enhance the company's public image, and not because they are pressured to account for and disclose their social activities, but to provide Kenyan investors with sufficient information to influence their investment decisions towards the company. Comparing the responses with the arguments against social disclosure in the annual reports, it is clear that an adequate system of measurement and reporting social activities does not exist in Kenya, like in any other part of the world where the development of social accounting is at an advanced stage.

Also the fact that social disclosure being voluntary and the disagreement among the companies and the accountants on a standardized format of social disclosure, have greatly affected the development of social accounting disclosure and will continue to influence companies decisions towards social disclosure in the financial reports. This shows that Kenyan companies are faced with similar problems to those faced by companies in the developed nations. Therefore, any advancement on social disclosure in other part of the world will have a great impact towards the development process of social accounting disclosure in the country.

Overall, the findings show that Kenyan companies are increasingly recognizing the need for social accounting disclosure, and development towards a more adequate system of measurement and reporting of social activities in Kenya or world-wide will undoubtedly make social information an essential part of our corporate reports and definitely a promising new boundary on our accounting profession in Kenya.

5.2 Recommendations:

With the increased growth rate in social disclosure, improving social accounting awareness is needed among the Kenyan corporations to enable them to continue their devotion towards a more adequate system of social accounting disclosure to the users of financial statements. More awareness would definitely improve corporate's position to appraise their social contributions to the benefit of our societies. Therefore it would be appropriate to undertake some changes in the accounting profession and the companies in order to increase their awareness toward the area of social accounting as follows;

- i) New materials relating to social accounting and social audit should be included in the present courses of accounting. Separate courses and seminars might be instituted at both college and university levels and also to companies in order to increase their awareness.
- ii) Accounting texts especially those published in Kenya, should include relevant materials on social accounting. Currently, most materials on social accounting come primarily from journal and articles.
- iii) Either in the section of advanced financial courses or management accounting course, attention should be given to the emerging importance of social accounting through adequate preparation of accountants in the areas of social accounting programs.
- iv) Encouragement should be given to the writing of thesis and papers on social accounting within the present M.B.A programs and other educational institutions to speed up the development and awareness of social accounting disclosure.
- v) The Institute of Certified Accountants in Kenya should develop standards that will regulate social accounting reporting in respect to the Kenyan environment. Members should be required to disclose common social activities undertaken by most companies. Social goals, progress in achieving these goals, and material effects on financial position, earnings, business activities and community.

- vi) Auditing courses should deal with acquisition and verifications of appropriate evidence supporting these disclosures. Quantifying the social activities will provide adequate evidence data to meet the reporting standards and therefore more social disclosure. Such courses should also add some study of state protection requirements so that the auditor can determine whether his clients is in compliance or not.
- vii) Income tax department should provide special incentives and write offs for investment made relating to social activities. This would motivate more companies towards involvement in social activities and therefore social accounting disclosure to the benefit of all concerned. Tax minimization through charitable contributions are among the effects which should be considered.
- viii) Nairobi Stock Exchange should encourage listed companies to file with them reports relating to their social contribution front against their annual financial reports of the company operations.

5.3. Conclusion

The research results presented in this project, which identify the areas of concern towards social accounting disclosure for our accounting profession, should be regarded as a first step towards the investigation of the needs and scope of corporate social disclosure by the Kenyan companies.

Although all companies now engage in some form of social reporting there are wide difference between them, both as to the manner of presentation and the quality of the contents provided. However, the disclosure of social information through the companies chairmen's reports of all quoted companies show a good guide for a favourable corporate attitude towards further development of social accounting.

Many of the companies see their effort in these areas as being in their own best long-term interests and towards the improvement of their corporate public image.

With such a positive attitude among companies and a high growth rate, enterprises need to be aware that social accounting is here to stay and companies will continue to engage in social disclosure even if the disclosure continues to be voluntary in the future. Companies will need to develop their own guidelines to assist in the setting of appropriate reporting standards of their social performance in conjunction with the accounting bodies so that the companies can appraise their social contribution adequately and hence have a real effect towards capturing a favourable public image. The development towards this disclosure can be boosted more if accountants devote more time in trying to reach a consensus as to what constitutes social responsibility and hence social accounting areas. Also when the measurement problem is settled by accountants, social costs and benefits may easily be quantified sending social accounting into a better future.

The flood of social statistical data in our financial statements will also have to be converted into useful information to all those to whom the information is directed to, if today's institutions are to effectively manage their social dimension and disclose them to the benefit of the society. This social information disclosure will have to be properly assessed in the decision-making process by investors, for companies to devote more time and space towards a future growth and awareness in the area of social accounting disclosure.

This area shows much potential for progress and will undoubtedly become an important part of our annual corporate reports among many Kenyan companies in future. Furthermore, the identification of social items disclosed in our financial statements should be seen as the first stepping stone for our accounting professionals and institutes towards an important stage of the development process of our own social accounting disclosure status. Common uniformity of the system of social disclosure should be enhance so as to improve the relevance and reliability of such disclosure to the users of financial statements in our Kenyan setting in the future. But currently, we may have be satisfied ourselves with the current system of corporate reporting by representing the social information in qualitative terms.

5.4. Limitation of the Study

The project had a number of limitations which should be considered when analyzing the significance of the project results.

1. Although companies are reporting social information, no comparison between the social activities disclosed and the actual social activities undertaken by corporation was made possible and therefore the quality of the social disclosure rate was not emphasized in this research.
2. The information disclosure scores used gave equal weighing to all social information items disclosed in the annual reports. This may not reflect the importance towards each particular social item disclosed to the user of financial statements in making their investment decisions and hence the quality of each social item disclosed may have different values.
3. The companies which did not disclose their social contribution front do not imply that they were not engaging in such social activities.
4. The population under study was 43 companies quoted at the N.S.E which was too small to make appropriate conclusion on the trend of social disclosure of the total companies operating in Kenya. The survey results only be generalized on companies quoted at Nairobi Stock Exchange.
5. The classification of the information was subjective in nature which depended on the judgement of the individual researcher based on the existing literature.

5.5. Suggestion for Further Research

Obviously social accounting is a valid field for research and some suggestions for future research in social performance disclosure in the Kenyan setting are needed;

- a) An analysis of selected user groups ability to interpret social accounting reports like the stockbrokers, Nairobi Stock Exchange in influence their decision to invest in the company.
- b) Study the attitudinal impact of social accounting information of financial analysts, investors, political and community leaders, public interest groups and others in Kenya.
- c) A statistical analysis of Kenyan company reports on social accounting in respect to size, industrial characteristics, extent of reporting etc.
- d) A study on the Kenya Accountants and Accounting Bodies towards their efforts at development and improving the reliability of the social accounting disclosure in the Annual Corporate Reports.

Appendix 1

List of 56 companies quoted at the Nairobi Stock Exchange by June 13, 1995.

Agricultural

1. Brooke Bond Kenya Limited
2. Eaagads Limited
3. George Williamson (K) Limited
4. Kakuzi Limited
5. Kapchorua Tea Company Limited
6. Kenya Planters Co-operative Union Limited
7. Limuru Tea Company Limited
8. Ol Pejeta Ranching Limited
9. Sasini Tea & Coffee Limited
10. Theta Group Limited

Commercial and Services

11. A. Baumann and Company Limited
12. African Tours and Hotels Limited
13. Car and General (K) Limited
14. C.M.C Holdings Limited
15. The Standard Newspaper Group Limited
16. Express Kenya Limited
17. Hutchings Bremer Limited
18. Kenya Hotels Limited
19. Marshalls (E.A) Limited
20. Motor Mart Group Limited
21. Nation Printers & Publishers Limited
22. Pearl Drycleaners and Limited
23. Phillips International Limited
24. Uchumi Supermarkets Limited

Financial & Investment

25. Barclays Bank of (K) Limited
26. Chancery Investments Co Limited
27. City Trust Limited
28. Credit Finance Corporation Ltd
29. Diamond Trust of Kenya Ltd
30. Housing Finance Co of (K) Ltd
31. I.C.D.C Investment Limited
32. Jubilee Insurance Co Limited
33. Kenstock Limited
34. Kenya Commercial Bank Ltd
35. Kenya Finance Corp Ltd
36. National Bank of Kenya Limited
37. National Industrial Credit Limited
38. Pan African Insurance Co Limited
39. Standard Chartered Bank (K) Limited

Commercial and Services

Industrial and Allied

40. Bamburi Portland Cement Limited
41. B.A.T. Kenya Limited
42. Carbacid Investment Limited
43. Crown Berger (K) Limited
44. Dunlop Kenya Limited
45. E.A Cables Limited
46. E.A Oxygen Limited
47. E.A Packaging Industries Ltd
48. E.A. Portland Cement Limited
49. Firestone E.A (1969) Ltd
50. Kenya Breweries Limited
51. Kenya National Mills Limited
52. Kenya Oil Company Limited
53. Kenya Orchards Limited
54. Kenya Power & Lighting Ltd
55. Total Kenya Limited
56. Unga Group Limited

Appendix 2

List of 43 sampled companies quoted at the Nairobi Stock Exchange by June 13, 1995.

Agricultural

1. Brooke Bond Kenya Limited
2. Eaagads Limited
3. George Williamson (K) Limited
4. Kakuzi Limited
5. Kapchorua Tea Company Limited
6. Limuru Tea Company Limited
7. Ol Peject Ranching Limited
8. Sasini Tea Limited
9. Theta Group Limited

Commercial and Services

10. A. Baumann and Company Limited
11. African Hotel and Tours Limited
12. Car and General (K) Limited
13. C.M.C Holdings Limited
14. Express Kenya Limited
15. Hutchings Bremer Limited
16. Marshalls (E.A) Limited
17. Motor Mart Building
18. Nation Printers & Publishers Limited
19. Pearl Dry Cleaners and Limited
20. Phillips International Limited

Financial & Investment

21. Barclays Bank of (K) Limited
22. Credit Finance Corporation Ltd
23. Diamond Trust of Kenya Ltd
24. I.C.D.C Investment Limited
25. Jubilee Insurance Co Limited
26. Kenya Commercial Bank Ltd
27. Kenya Finance Corp Ltd
28. National Industrial Credit Limited
29. Pan African Insurance Co Limited
30. Standard Chartered Bank Limited

Industrial and Allied

31. BAT Kenya Limited
32. Carbacid Investment Limited
33. Dunlop Kenya Limited
34. E.A Cables Limited
35. E.A Oxygen Limited
36. E.A Packaging Industries Ltd
37. E.A. Portland Cement
38. Kenya Breweries Limited
39. Kenya National Mills Limited
40. Kenya Oil Company Limited
41. Kenya Power & Lighting Ltd
42. Total Kenya Limited
43. Unga Group Limited

Appendix 3: List of Social Information Items.

1. Name and pictures of employees well as directors in the annual reports.
2. Provision of medical care facilities for the employees.
3. Increases in minimum wage levels paid.
4. New jobs expansion.
5. Voluntary program to provide expanding job opportunities for employees.
6. Training program for employees
7. Pre-retirement counselling program for the benefits of the employees
8. Effective alcoholism, Stress Control program, Family planning program
9. Improved working condition & environment (shorter working days)
10. Compensation towards employees accidents
11. Schemes to improve employee job satisfaction through long service awards
12. Equal opportunity to all.(breakdown of employment of minorities including women, local residents) or good industrial relations with the trade unions)
13. Design of more appropriate energy-efficient products e.g water, infrastructure, power
14. Preparation of environmental impact assessments studies for example dams.
15. Treatments facilities like pest management project.
16. Pollution control measures against the industrial process.
17. Occupational health, safety for the community.
18. Recycling of waste materials through rehabilitation programs.
19. Conservation awareness through educational campaigns on soil, water
20. Use of alternative energy source such as solar and wind power, cost sharing.
21. Charitable contribution and donations to health, education
22. Sponsored units like labour housing, schools.
23. Support other community projects like inner city parks, shopping facilities, Agricultural Shows, recreational programs .
24. Employees participation as speakers, instructors in the above activities and international conferences.
25. Transportation for employees.
26. Foreign currency earnings, Taxes, Exports to meet a political goal of the government.
27. Sponsorship of employee sporting activities and participation.
28. Profit sharing and management bonus scheme for staff, members of the society.
29. Appointment of community relations manager and broad committee for community research
30. Preservation and restoration of historic building.
31. Building and locating plant and sales offices in economically disadvantaged areas.
32. Upgrading product performance through restructuring, computerization.
33. Providing loans to consumers, handling number of complaints.
34. Extend the range of customer products choice through new product lines.
35. Establishment of product safety committee.
36. Disclosure of clear and informative labelling policies through adequate packaging.
37. Codes of business ethics to improve consumer satisfaction.

APPENDIX 4:

QUESTIONNAIRE A:

LETTER TO THE RESPONDENT:

Dear Sir/Madam,

I am a postgraduate student in the Masters of Business and Administration (MBA) program, University of Nairobi. I am carrying out a survey on the area of social accounting disclosure in the financial statements of companies quoted at the N.S.E.

This questionnaire has been designed to gather information regarding your opinion towards " **why your company engage into social information (accounting) disclosure in your annual financial reports (statements)**".

You have been selected to form part of the study. I kindly request you to assist by filling the attached questionnaire. The information you give is purely for academic purpose and will be treated with strict confidence.

A copy of the research project will be made available to you upon request. Your co-operation will be highly appreciated and Thank you in advance.

Yours faithfully,

NABHAN, M.A

MBA (II) Student

cc. MR LISHENGA.L AND ESMAILJEE. A,

Supervisors,

Lecturers at the Department of Accounting,

University of Nairobi.

APPENDIX 5:

SECTION A

For each of the following statements tick the box [] that best describes

your opinion towards social accounting disclosure Remember only to tick one box

for each statement. The rating are as follows.

1) TOTALLY DISAGREE 2) DISAGREE 3) NEITHER DISAGREE NOR AGREE

4) AGREE 5) TOTALLY AGREE

1 2 3 4 5

- | | |
|---|---------------------|
| 1. It is a long-run self interest of business to get directly involved in social information disclosure to enhance the value of the firm. | [] [] [] [] [] |
| 2. A business that wishes to capture a favorable public image will have to show it in its annual reports that it is socially responsible. | [] [] [] [] [] |
| 3. Since businesses have such a substantial share of society's management and financial resources, they should show how they are trying to solve social problems, when other social institutions have failed. | [] [] [] [] [] |
| 4. Disclosure of business social responsibility is seen as a way to improve long-run profitability by the investors. | [] [] [] [] [] |
| 5. Corporate social information disclosure is of interest to Kenyan stockholders and potential investors in making investment decisions. | [] [] [] [] [] |
| 6. It is better to start disclosing social information to prevent future problems of any mandatory disclosure through the companies Act of the area in the annual reports. | [] [] [] [] [] |
| 7. Corporate social information disclosure will help perceive the business as a viable institution to the society. | [] [] [] [] [] |

THANK YOU FOR YOUR COOPERATION.

APPENDIX G:

- 8. To gain credibility by the society, the disclosure of social information should be stated in the financial reports. [] [] [] [] []
- 9. If a company is pursuing social activities, then it is in the company's interest to report to the society its achievements and costs. [] [] [] [] []
- 10. Financial statements users have certain rights to social information disclosure. [] [] [] [] []
- 11. Disclosing social information helps evaluate how well the firm trying to fulfill its social responsibility to the society. [] [] [] [] []
- 12. The social report is an universal call for the accounting professional ethics to disclosure more information already provided by other means. [] [] [] [] []
- 13. Disclosing social information is relevant for aiding public accountability, evaluation, coordination and monitoring of the corporate contribution towards social goal attainment. [] [] [] [] []
- 14. Investors are provided with a more reliable and sufficient information for decision making when disclosing social information. [] [] [] [] []
- 15. Social information disclosure illustrates the balance between primary objective of profitability and the company's obligation towards the society. [] [] [] [] []
- 16. Disclosing social information activities is an essential part of the corporate financial reports and accounts. [] [] [] [] []
- 17. Firms disclosed social information because they are pressed to account for and disclose their social operations to fulfil the needs of users of financial statements. [] [] [] [] []

O T H E R R E A S O N S S P E C I F Y .

THANK YOU FOR YOUR COOPERATION.

APPENDIX 6:

QUESTIONNAIRE B:

LETTER TO THE RESPONDENT:

Dear Sir/Madam,

I am a postgraduate student in the Masters of Business and Administration (MBA) program, University of Nairobi. I am carrying out a survey on the area of social accounting disclosure in the financial statements of companies quoted at the N.S.E.

This questionnaire has been designed to gather information regarding your opinion towards " **the reasons behind why your company does not engage into social information (accounting) disclosure in your annual financial reports (statements)**".

You have been selected to form part of the study. I kindly request you to assist by filling the attached questionnaire. The information you give is purely for academic purpose and will be treated with strict confidence.

A copy of the research project will be made available to you upon request. Your co-operation will be highly appreciated and Thank you in advance.

Yours faithfully,

NABHAN, M.A

MBA (II) Student

cc. MR LISHENGA.L AND ESMAILJEE. A

Supervisors,

Lecturers at the Department of Accounting,

University of Nairobi.

APPENDIX 7:

SECTION A:

For each of the following statements tick the box [] that best describes your opinion towards social accounting disclosure Remember only to tick one box for each statement. The rating are as follows.

- 1) **TOTALLY DISAGREE** 2) **DISAGREE** 3) **NEITHER DISAGREE NOR AGREE**
 4) **AGREE** 5) **TOTALLY AGREE**

| | 1 | 2 | 3 | 4 | 5 |
|--|-----|-----|-----|-----|-----|
| 1. Methods and principles used in reporting social information does not exist. | [] | [] | [] | [] | [] |
| 2. Social information disclosure does not serve a purpose to the users of financial statements. | [] | [] | [] | [] | [] |
| 3. It is costly to the company to be involved in social information disclosure in the annual reports. | [] | [] | [] | [] | [] |
| 4. There are many conflicts and problems in providing social information among the company,s management thus makes the disclosure meaningless and waste of time. | [] | [] | [] | [] | [] |
| 5. Social information is confidential and the company's competitive position may be undermined by disclosing it to the public. | [] | [] | [] | [] | [] |
| 6. Such involvement of social disclosure removes the company's accountants focus from their more usual role of assessing economic activities only. | [] | [] | [] | [] | [] |
| 7. Accountants are trained to collect, process and report economic information in financial terms & <u>not</u> in social terms. | [] | [] | [] | [] | [] |

8. Social disclosure provided by companies are weak and could be misleading and damaging to the users of financial statements.
9. The firm's social information are not subjected to formal measurement and hence its reporting process is difficult.
10. Social information reports serves only a temporary purpose for companies to achieve some goals.
11. Social reports are unnecessary because investors do not know how to utilize them and hereby has no value to them.
12. Corporations are not held accountable to social disclosure because it is not required by the companies act to disclose such information in their annual reports therefore not mandatory to them.
13. Since there is considerable disagreement among the accountants on the form of social disclosure, there is lack of standardized formats for disclosure.
14. Interest in the disclosure of social responsibility activities is a recent phenomenon in Kenya thus not well developed to be captured, reported and demanded by the society.
15. The production of social reports might encourage society to demand even more social information from the companies.
16. Social reports provided by companies are not comprehensive enough to influence decision makers.
17. The need for social disclosure among companies themselves is still debatable if they have to engage or not.
18. Most Social disclosure provided lies on the discretion of the companies management decisions hence its reliability is questioned.

OTHER REASONS SPECIFY. _____

SCORES FROM QUESTIONNAIRE A: _____

| | | NUMBER OF RESPONDENTS | | | | | | | | | | | | | | | | | | | |
|-------------------|----|--|---|---|---|---|---|---|---|---|----|----|----|----|----|----|----|----|----|----|----|
| | | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 19 | 20 |
| SECTION B: | | | | | | | | | | | | | | | | | | | | | |
| | 1 | Apart from your annual published financial statements, which other means | | | | | | | | | | | | | | | | | | | |
| | 2 | of social disclosure does your company engage in communicating your social | | | | | | | | | | | | | | | | | | | |
| | 3 | activities to the society? | | | | | | | | | | | | | | | | | | | |
| | 4 | | | | | | | | | | | | | | | | | | | | |
| | 5 | | | | | | | | | | | | | | | | | | | | |
| | 6 | | | | | | | | | | | | | | | | | | | | |
| | 7 | | | | | | | | | | | | | | | | | | | | |
| | 8 | | | | | | | | | | | | | | | | | | | | |
| | 9 | | | | | | | | | | | | | | | | | | | | |
| | 10 | | | | | | | | | | | | | | | | | | | | |
| | 11 | | | | | | | | | | | | | | | | | | | | |
| | 12 | | | | | | | | | | | | | | | | | | | | |
| | 13 | | | | | | | | | | | | | | | | | | | | |
| | 14 | | | | | | | | | | | | | | | | | | | | |
| | 15 | | | | | | | | | | | | | | | | | | | | |
| | 16 | | | | | | | | | | | | | | | | | | | | |
| | 17 | | | | | | | | | | | | | | | | | | | | |

THANK YOU FOR YOUR COOPERATION.

SOURCE: Raw Data from Questionnaire A:

APPENDIX 8:

SCORES FROM QUESTIONNAIRE A:

| | NUMBER OF RESPONDENTS. | | | | | | | | | | | | | | | | | | | |
|------|------------------------|---|---|---|---|---|---|---|---|----|----|----|----|----|----|----|----|----|----|----|
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 19 | 20 |
| 1 | 5 | 5 | 4 | 4 | 5 | 4 | 4 | 4 | 5 | 4 | 5 | 5 | 4 | 4 | 4 | 5 | 4 | 4 | 5 | 4 |
| 2 | 5 | 4 | 4 | 4 | 4 | 3 | 4 | 4 | 4 | 3 | 4 | 4 | 2 | 1 | 5 | 4 | 4 | 3 | 4 | 4 |
| A 3 | 5 | 4 | 5 | 5 | 3 | 4 | 4 | 2 | 4 | 2 | 3 | 3 | 4 | 4 | 3 | 4 | 3 | 3 | 4 | 2 |
| R 4 | 5 | 3 | 3 | 3 | 3 | 2 | 4 | 4 | 5 | 2 | 2 | 4 | 3 | 3 | 4 | 3 | 2 | 4 | 3 | 3 |
| G 5 | 5 | 3 | 3 | 2 | 3 | 4 | 3 | 5 | 5 | 2 | 3 | 3 | 2 | 2 | 4 | 3 | 3 | 3 | 4 | 2 |
| U 6 | 4 | 2 | 2 | 2 | 2 | 3 | 4 | 2 | 3 | 3 | 3 | 2 | 3 | 2 | 3 | 4 | 2 | 2 | 3 | 2 |
| M 7 | 2 | 4 | 3 | 4 | 4 | 3 | 4 | 5 | 4 | 4 | 4 | 4 | 4 | 2 | 4 | 5 | 4 | 4 | 5 | 4 |
| E 8 | 2 | 4 | 2 | 4 | 2 | 2 | 3 | 4 | 4 | 3 | 4 | 4 | 2 | 2 | 5 | 4 | 4 | 3 | 4 | 4 |
| N 9 | 4 | 5 | 4 | 4 | 4 | 4 | 5 | 5 | 5 | 5 | 4 | 5 | 4 | 4 | 5 | 4 | 5 | 5 | 4 | 5 |
| T 10 | 4 | 2 | 4 | 1 | 2 | 4 | 4 | 5 | 3 | 4 | 2 | 3 | 2 | 4 | 4 | 4 | 3 | 4 | 3 | 4 |
| S 11 | 4 | 5 | 2 | 3 | 4 | 4 | 3 | 5 | 5 | 4 | 4 | 4 | 2 | 4 | 4 | 3 | 2 | 2 | 3 | 3 |
| 12 | 4 | 2 | 3 | 2 | 2 | 3 | 4 | 4 | 3 | 3 | 2 | 4 | 4 | 1 | 3 | 4 | 3 | 2 | 4 | 3 |
| 13 | 2 | 4 | 3 | 2 | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 5 | 4 | 4 | 5 | 4 | 5 | 4 | 5 | 3 |
| 14 | 4 | 4 | 2 | 4 | 4 | 4 | 5 | 5 | 5 | 3 | 4 | 5 | 2 | 4 | 4 | 5 | 4 | 4 | 5 | 4 |
| 15 | 4 | 5 | 4 | 4 | 4 | 3 | 4 | 4 | 3 | 4 | 3 | 3 | 4 | 4 | 4 | 3 | 4 | 3 | 5 | 4 |
| 16 | 5 | 5 | 2 | 2 | 2 | 4 | 3 | 4 | 4 | 2 | 4 | 4 | 2 | 2 | 4 | 2 | 3 | 4 | 2 | 2 |
| 17 | 4 | 3 | 3 | 2 | 3 | 3 | 3 | 1 | 3 | 3 | 3 | 2 | 3 | 4 | 1 | 3 | 2 | 3 | 4 | 2 |

SOURCE: Raw Data from Questionnaire A:

SOURCE: Raw Data from Questionnaire B:

APPENDIX 9:

SUMMARY STATISTICS DATA OF THE MEAN, STANDARD DEVIATION AND SCORES FROM QUESTIONNAIRE B. THE ARGUMENTS FOR SOCIAL ACCOUNTING

| | NUMBER OF RESPONDENTS | | | | | | | | | | | | | STD DEVI ATION | CO- VARIA TION |
|------|-----------------------|---|---|---|---|---|---|---|---|----|----|----|----|----------------------|----------------------|
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | | |
| 1 | 5 | 2 | 4 | 5 | 4 | 4 | 5 | 2 | 5 | 4 | 3 | 4 | 5 | | |
| 2 | 4 | 4 | 4 | 1 | 4 | 2 | 2 | 3 | 5 | 4 | 2 | 3 | 4 | | |
| A 3 | 4 | 2 | 2 | 2 | 3 | 3 | 2 | 4 | 2 | 2 | 3 | 2 | 2 | 0.503 | 0.114 |
| R 4 | 4 | 2 | 3 | 3 | 3 | 4 | 4 | 3 | 3 | 4 | 2 | 3 | 4 | | |
| G 5 | 5 | 3 | 4 | 2 | 2 | 3 | 4 | 2 | 2 | 3 | 2 | 2 | 3 | 0.923 | 0.250 |
| U 6 | 3 | 3 | 5 | 3 | 2 | 2 | 4 | 4 | 2 | 4 | 3 | 2 | 4 | | |
| M 7 | 2 | 2 | 4 | 2 | 4 | 4 | 4 | 4 | 5 | 4 | 2 | 4 | 5 | | |
| E 8 | 1 | 1 | 2 | 2 | 4 | 2 | 2 | 2 | 5 | 4 | 2 | 2 | 3 | 0.945 | 0.266 |
| N 9 | 4 | 4 | 4 | 4 | 4 | 4 | 5 | 4 | 5 | 4 | 4 | 4 | 5 | | |
| T 10 | 2 | 4 | 5 | 3 | 2 | 3 | 2 | 3 | 4 | 4 | 2 | 3 | 4 | 0.910 | 0.280 |
| S 11 | 2 | 2 | 4 | 3 | 2 | 5 | 5 | 4 | 4 | 4 | 4 | 4 | 5 | | |
| 12 | 5 | 4 | 4 | 1 | 4 | 5 | 5 | 4 | 4 | 5 | 2 | 4 | 5 | 1.01 | 0.314 |
| 13 | 5 | 2 | 4 | 3 | 4 | 4 | 4 | 4 | 4 | 4 | 3 | 4 | 5 | | |
| 14 | 5 | 4 | 5 | 4 | 4 | 4 | 5 | 4 | 4 | 5 | 4 | 4 | 5 | 0.801 | 0.297 |
| 15 | 5 | 2 | 4 | 4 | 3 | 2 | 2 | 4 | 4 | 3 | 2 | 3 | 4 | | |
| 16 | 4 | 2 | 4 | 4 | 2 | 3 | 3 | 4 | 4 | 3 | 2 | 3 | 3 | | |
| 17 | 4 | 4 | 2 | 3 | 3 | 4 | 3 | 4 | 4 | 4 | 3 | 2 | 4 | 0.813 | 0.211 |
| 18 | 5 | 2 | 4 | 3 | 4 | 2 | 2 | 4 | 5 | 2 | 2 | 3 | 4 | 0.951 | 0.387 |

SOURCE: Raw Data from Questionnaire B:

APPENDIX 10.

SUMMARY STATISTICS DATA OF THE MEAN, STANDARD DEVIATION AND COEFFICIENT OF VARIATION FOR THE ARGUMENTS FOR SOCIAL ACCOUNTING DISCLOSURE:

| ARGUMENTS FOR SOCIAL ACCOUNTING DISCLOSURE | MEAN | STD DEVIATION | CO-VARIATION |
|--|-------------|----------------------|---------------------|
| 1. It is a long-run self interest of business to get directly involved in social information disclosure to enhance the value of the firm. | 4.4 | 0.503 | 0.114 |
| 2. A business that wishes to capture a favorable public image will have to show it in its annual reports that it is socially responsible. | 3.7 | 0.923 | 0.250 |
| 3. Since businesses have such a substantial share of society's management and financial resources, they should show how they are trying to solve social problems, when other social institutions have failed | 3.55 | 0.945 | 0.266 |
| 4. Disclosure of business social responsibility is seen as a way to improve long-run profitability by the investors. | 3.25 | 0.910 | 0.280 |
| 5. Corporate social information disclosure is of interest to Kenyan stockholders and potential investors in making investment decisions. | 3.2 | 1.01 | 0.314 |
| 6. It is better to start disclosing social information to prevent future problems of any mandatory disclosure through companies Act in the annual reports the area. | 2.7 | 0.801 | 0.297 |
| 7. Corporate social information disclosure will help perceive the business as a viable institution to the society. | 3.85 | 0.813 | 0.211 |
| 8. To gain credibility by the society, the disclosure of social information should be stated in the financial reports. | 3.2 | 0.951 | 0.297 |
| 9. If a company is pursuing social activities, then it is in the company's interest to report to the society its achievements and costs. | 4.5 | 0.513 | 0.114 |

MEAN, STANDARD DEVIATION AND COEFFICIENT OF VARIATION FOR THE ARGUMENTS FOR SOCIAL ACCOUNTING DISCLOSURE:

| ARGUMENTS FOR SOCIAL ACCOUNTING DISCLOSURE | MEAN | STD DEVIATION | CO OF VARIANCE |
|---|------|---------------|----------------|
| 10. Financial statements users have certain rights to social information disclosure. | 3.3 | 1.031 | 0.312 |
| 11. Disclosing social information helps evaluate how well the firm is trying to fulfill its social responsibility to the society. | 3.5 | 1 | 0.286 |
| 12. The social report is an universal call for the accounting professional ethics to disclosure additional information already provided by other means. | 3 | 0.918 | 0.306 |
| 13. Disclosing social information is relevant for aiding public accountability, evaluation, coordination and monitoring of the corporate contribution towards social goal attainment. | 3.9 | 0.852 | 0.219 |
| 14. Investors are provided with a more reliable and sufficient information for decision making when disclosing social information. | 4.05 | 0.887 | 0.219 |
| 15. Social information disclosure illustrates the balance between primary objective of profitability and the company's obligation towards the society. | 3.8 | 0.616 | 0.162 |
| 16. Disclosing social information activities is an essential part of the corporate financial reports and accounts. | 3.1 | 1.12 | 0.361 |
| 17. Firms disclosed social information because they are pressed to account for and disclose their social operations to fulfil the needs of financial users. | 2.75 | 0.851 | 0.310 |

APPENDIX 11:

SUMMARY STATISTICS DATA OF THE MEAN, STANDARD DEVIATION AND COEFFICIENT OF VARIATION FOR THE ARGUMENTS AGAINST SOCIAL ACCOUNTING DISCLOSURE:

| ARGUMENTS AGAINST SOCIAL ACCOUNTING DISCLOSURE | MEAN | STD DEV | CO OF VARIA TION |
|--|------|---------|------------------|
| 1. Methods and principles used in reporting social information does not exist. | 4 | 1.167 | 0.270 |
| 2. Social information disclosure does not serve a purpose to the users of financial statements. | 3.23 | 0.987 | 0.313 |
| 3. It is costly to the company to be involved in social information disclosure in the annual reports | 2.54 | 0.776 | 0.306 |
| 4. There are many conflicts and problems in providing social information among the company's management thus makes the disclosure meaningless and waste of time. | 3.23 | 0.725 | 0.244 |
| 5. Social information is confidential and the company's competitive position may be undermined by disclosing it to the public. | 2.85 | 0.987 | 0.347 |
| 6. Such involvement of social disclosure removes the company accountants focus from their more usual role of assessing economic activities only. | 3.15 | 0.987 | 0.314 |
| 7. Accountants are trained to collect, process and report economic information in financial terms & <u>not</u> in social terms. | 3.54 | 1.127 | 0.318 |
| 8. Social disclosure provided by companies are weak and could be misleading and damaging to the users of financial statements. | 2.46 | 1.199 | 0.487 |
| 9. The firm's social information are not subjected to formal measurement for adequate reporting process. | 4.23 | 0.439 | 0.104 |

MEAN, STANDARD DEVIATION AND COEFFICIENT OF VARIATION FOR THE ARGUMENTS AGAINST SOCIAL ACCOUNTING DISCLOSURE:

| AGRUMENTS AGAINST SOCIAL ACCOUNTING DISCLOSURE | MEAN | STD DEVIATION | CO OF VARIATION |
|---|-------------|----------------------|------------------------|
| 10. Social information reports should serve only a temporary purpose for companies to achieve some goals. | 3.15 | 0.987 | 0.313 |
| 11. Social reports are unnecessary because investors do not know how to utilize them and hereby has no value to them. | 3.69 | 1.11 | 0.300 |
| 12. Corporations are not held accountable to social disclosure because it is not required the Companies Act to disclose such information in their annual reports therefore not mandatory to them. | 4 | 1.225 | 0.306 |
| 13. Since there is considerable disagreement among the accountants on the form of social disclosure, there is lack of standardized formats for disclosure. | 3.85 | 0.801 | 0.208 |
| 14. Interest in the disclosure of social responsibility activities is a recent phenomenon in Kenya thus not well developed to be captured, reported and demanded by the society. | 4.38 | 0.506 | 0.115 |
| 15. The production of social reports might encourage society to demand even more social information from companies. | 3.23 | 0.987 | 0.313 |
| 16. Social reports provided by many companies are not comprehensive enough to influence decision makers. | 3.15 | 0.801 | 0.254 |
| 17. The need for social disclosure among companies themselves is still debatable if they have to engage or not. | 3.38 | 0.768 | 0.227 |
| 18. Most Social disclosure provided lies on the discretion of the companies management decisions hence its reliability is questioned. | 3.23 | 1.166 | 1.359 |

APPENDIX 12:

PERCENTAGES OF SOCIAL INFORMATION DISCLOSED BY COMPANIES OVER THE 5 YEARS:

| SOCIAL INFORMATION ITEM. | % OF COMPANIES DISCLOSING THE INFORMATION | | | | |
|--------------------------|---|------|------|------|------|
| | 1990 | 1991 | 1992 | 1993 | 1994 |
| 1 | 100 | 100 | 100 | 100 | 100 |
| 2 | 7 | 5 | 5 | 2 | 7 |
| 3 | - | 2 | 2 | 2 | 9 |
| 4 | 14 | 19 | 23 | 16 | 16 |
| 5 | 7 | 5 | 7 | 5 | 2 |
| 6 | 26 | 33 | 26 | 26 | 35 |
| 7 | 7 | 7 | 9 | 5 | 14 |
| 8 | 5 | 5 | 2 | 2 | 2 |
| 9 | 12 | 9 | 12 | 12 | 9 |
| 10 | 5 | 2 | 2 | - | 7 |
| 11 | 21 | 23 | 19 | 23 | 21 |
| 12 | 2 | 2 | 5 | 5 | 9 |
| 13 | 19 | 12 | 12 | 14 | 28 |
| 14 | 5 | 9 | 5 | 5 | 5 |
| 15 | - | - | - | 2 | 5 |
| 16 | - | - | - | - | 2 |
| 17 | 2 | 5 | 14 | 14 | 9 |
| 18 | 9 | 7 | 7 | 7 | 9 |
| 19 | 5 | 9 | 9 | 12 | 14 |
| 20 | 2 | 2 | 5 | 5 | 2 |
| 21 | 9 | 7 | 9 | 5 | 5 |
| 22 | 19 | 19 | 14 | 16 | 21 |
| 23 | 21 | 23 | 23 | 14 | 16 |
| 24 | 2 | 9 | 7 | 5 | 2 |
| 25 | - | 5 | 2 | 7 | 2 |
| 26 | 9 | 14 | 21 | 26 | 37 |
| 27 | 19 | 5 | 14 | 2 | 9 |
| 28 | 12 | 21 | 9 | 16 | 19 |
| 29 | 16 | 2 | 14 | 5 | 12 |
| 30 | 5 | 2 | 2 | - | 2 |
| 31 | 14 | 19 | 30 | 28 | 23 |
| 32 | 42 | 49 | 51 | 51 | 49 |
| 33 | 2 | 5 | 2 | - | 5 |
| 34 | 26 | 23 | 33 | 30 | 33 |
| 35 | 2 | - | 2 | - | 2 |
| 36 | 5 | 7 | 2 | 7 | 14 |
| 37 | 23 | 30 | 40 | 30 | 44 |

BIBLIOGRAPHY:

- Ackerman, R.W., "How Companies respond to Social Demands", Harvard Business Review, Vol.51, No.4, 1973, pp. 88-98.
- Alister, K. Mason, " Social Costs- A New Challenge for Accountants", Canadian Chartered Accountant, Vol.93, No.6, June 1971, pp 390-395.
- American Accounting Association, "Report of the Committee on Accounting for Social Performance", The Accounting Review Supplement to Vol XLXI, 1976.
- " Report of the Committee on External Measurement and Reporting", The Accounting Review, Vol.XLVII, 1973, pp.38- 69.
- , " Report of the Committee on social costs", The Accounting Review, Supplement to Vol.XLX, 1975, pp.243-252.
- Anderson, J.C & Frannkle, A.W., "Voluntary Social Reporting : An Iso Beta Portfolio Analysis", Accounting Review, Vol.55, 1980, pp 468-479.
- Angeline, A. Kinya, "Adherence to Mandatory Financial Disclosure Requirements By Public Companies in Kenya," An Unpublished M.B.A Project, University of Nairobi, 1993.
- Arich A. Ullmann., "Data in Search of A Theory: A Critical Examination of the Relationship among Social Performance, Social Disclosure, and Economic Performance of U.S Firms", Academy of Management Review, Vol.10, No.3, 1985, pp 540-557.
- Arthur Anderson et al, " Objectives of financial statements for Business Enterprise", Chicago, 1972.
- Barry, H. Spier, " Investors, Corporate Social Performance and Information Disclosure: An Empirical Study", The Accounting Review, Vol.LII, No.1, January 1978, pp.94-111.
- Bauman, E. H & Haire, M.A, "Strategic Posture towards Corporate Social Responsibility", California Management Review, 1975, Vol.18, No.2, pp 49- 50.
- David Keith, "Can Business Afford to Ignore Social Responsibility?" California Management Review, Spring 1960, pp.70-76.
- David, F. Linowes, " The Accounting Profession and the Social Progress", The Journal of Accountancy, July 1973, pp 32-40.
- , " Social Responsibility of the Professions", The Journal of Accountancy, January 1971, pp 66-69.

- Desmond McComb, "Some Guidelines on Social Accounting in the US", Accountancy, Vol.89, No.1016, April 1978, pp 50-51.
- Esmailjee, A.E.K, " Social Accounting, The State of Art", Unpublished Independent Paper, University of Nairobi, 1993.
- Eric James Burton, "Toward A Theory of Corporate Social Accounting. A Comment", The Accounting Review, Vol LVI, No.4, October 1977, pp 971-976.
- Gerald, H.B Ross, " Social Accounting: measuring the unmeasurable", Canadian Chartered Accountant, Vol.99, No.1, July 1971, pp 46-54.
- Glautier, M.W & Underdown. B " Accounting Theory and Practice" Pitman Publishing Limited, London, 1982, pp.673-734.
- Hein Schreuder, " Employee and the Corporate Social Report", The Accounting Review, Vol. LVI, No. 2. April 1981, pp 294-308.
- Holmes. S.L., "Adapting Corporate Structure for Social Responsiveness", California Management Review, Vol.21, No.1, 1978, pp 47-54.
- Hugh Parkes, "Future Prospects in Accounting for Social Responsibility by Australian", The Australian Accountant, May 1981, pp 246-248.
- Joel Siegel & Martin Lehman, "Own up to Social Responsibility", Financial Executive, March 1976, pp 44-48.
- Kavasseri, V. Ramanathan, "Toward A Theory of Corporate Social Accounting", The Accounting Review, Vol. LI, No.3, July 1976, pp.516-527.
- Manuel, A. Tipgos, "Toward A Theory of Corporate Social Accounting. A Comment", The Accounting Review, Vol. LII, No.4, October 1977, pp 977-983.
- Martin Kweyu, "Managerial Attitude Towards Business Social Responsibility. The Case of Bank Managers in Nairobi," Unpublished MBA Project, University of Nairobi, 1993.
- Micheal, O. Alexander, " Social Accounting, if you please!", Canadian Chartered Accountant, Vol.102, No.1, January 1973, pp 23-33.
- Morton Backer, "Modern Accounting Theory", Social Accounting by Mary E., Murphy, Prentice Hall, Inc Englewood Cliffs, New Jersey, 1966, P. 485-510.
- Norton M. Bedford "Extensions in Accounting Disclosure", Prentice Hall, Inc, Englewood Cliff, New Jersey, 1973.

- Paula Lippon, "When Business and the Community Co-operate", Administration Management, Vol XLII, No.2, Feb 1981, p.34.
- Peter Arlow & Martin J. Gannon, "Social Responsiveness, Corporate Structure & Economic Performance", Academy of Management Review, 1982, Vol. 7, No. 2, pp. 235-241.
- Ralph. W. Estes, "Socio-Economic Accounting and External Diseconomies", The Accounting Review, April 1972, pp 284-290.
- Richard van den Bergh, "Time to speed Corporate Social Accounting", Accountancy, Vol.87, No.992, 1976, pp 50-52.
- Rob Gray & Bob Perks, " How Desirable is Social Accounting", Journal of Accountancy, April 1982, pp 101-102.
- Robert H. Anderson, "Social Responsibility Accounting, How to get started," CA Magazine, September 1978, PP. 46-50.
- , "Social Responsibility Accounting, Evaluating its objectives, concepts and principles", CA Magazine Oct 1977, pp. 32-35.
- "Social Responsibility Accounting: Measuring and Reporting Performance" CA Magazine, May 1978, pp. 39-48.
- Robert W.I, "An Investigation of the Information Contest of (Certain) Social Responsible Disclosure, Journal of Accounting Research, Vol 13, No.2. Autumn 1978.
- Sethi, S.P, " Dimensions of Corporate Social Performance: An Analytical Framework:", California Management Review, Vol.27, No.3, 1975, pp 58-64.
- Scott, S Cowen & Mitchell, G. Segel, "Corporate Responsibility: Part 1 in the Public Eye, Reporting Social Performance", Financial Executive, January, 1981, pp 11-16.
- Speir. B.H., "Investors, Corporate Social Information Disclosure: An Emprical Study", Accounting Review, Vol.53, 1978, pp 94-111.
- Steven C. Dilley, "What is Social Responsibility: Some Definations for doing Corporate Social Audit" CA magazine, Vol.105, No.5, Nov 1974, pp 24-28.
- Sybil C. Mobley, "The challenges of Socio-economic Accounting", The Accounting Review, Oct 1970, PP. 762-768.

- Tinker, A.M & Lowe, E.A., " A Rationale for Corporate Social Reporting: Theory and Evidence from Organizational Research", Journal of Business Finance & Accounting, Spring 1980, Vol.7, No.1, pp 1-17.
- W. Howard Chase, "Adjusting to a Different Business/Social Climate", Administration Management, Vol.XL, No.1, Jan 1979, p.29.
- William, G. VonBerg, "Accounting for Responsibility", The Journal of Accountancy, November 1972, pp 71-74.
- Wole, W.J. "The Extent of Voluntary Financial Disclosure by Quoted Companies in Kenya," An Unpublished MBA Project, University of Nairobi, 1992.