THE RELATIONSHIP BETWEEN SOCIAL ACCOUNTING REPORTING AND STOCK RETURNS OF COMPANIES LISTED AT THE NAIROBI SECURITIES EXCHANGE

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DECLARATION

This research project is my original work and has never been presented to any other university or institution for any academic purpose.

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This research project has been submitted for examination with my approval as the university supervisor

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DEDICATION

This project is dedicated to my two families to whom I owe much for their unwavering support.

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LIST OF ABBREVIATIONS

AICPA	American Institute of Certified Public Accountants
EPS	Earnings Per Share
CMA	Capital Markets Authority
CFP	Corporate Financial Performance
CSD	Corporate Social Disclosure
CSP	Corporate Social Performance
CSR	Corporate Social Responsibility
CSRD	Corporate Social Responsibility Disclosure
CSER	Corporate Social and Environmental Reporting
KRA	Kenya Revenue Authority
NEMA	National Environmental Management Authority
NSE	Nairobi Securities Exchange
ROE	Return on Equity
SA	Social Accounting
SER	Social and Environmental Reporting
TBL	Triple Bottom Line

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ABSTRACT

The study sought to establish the relationship between Social Accounting Reporting and Stock Returns of Companies listed at the Nairobi Securities Exchange. The Nairobi Securities Exchange had as at 1st October 2014 64 listed companies divided into 12 homogenous categories. The specific objectives of this study were to establish the relationship between the relationship between Environmental reporting and stock returns, human resource reporting and stock returns, community involvement and stock returns and product reporting and stock returns. This study is important because social accounting as a topic in Kenya is relatively new but is growing in importance. This study was bringing new information on the topic as the relationship between stock returns and social accounting in NSE has not been conducted. The review of literature showed that there has been extensive study on different aspects of Social Accounting and Financial Performance. The results however are not conclusive with some saying that there is a strong relationship while others say there is none. The study obtained secondary data for the period 2009-2013 from the annual reports of the NSE listed companies. It drew consideration from the NSE 20 share index companies. The data for the computation of stock returns was obtained from the NSE website. A content analysis was conducted on the annual reports based on the number of sentences written about each variable of social accounting. The data was analysed using the regression model. The findings revealed the existence of an insignificant relationship between Social Accounting and stock returns. The results also showed the existence of a significant relationship between stock returns and interest rates. The study recommended an investigation into the reasons why the investors in the Kenyan market do not give consideration to Social Accounting when making investment decisions. The study recommended further study on the reasons why the listed companies report on Social Accounting if it does not lead to increased stock returns.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Profit and shareholders wealth maximization have for long dictated accounting and reporting practices. The concern for the social costs and the benefits of the business practices has given rise to the need for environmental and social accounting (Ishmail & Sira, 2012). It is generally assumed that investors are exclusively interested in earning the highest level of future cash-flow for a given amount of risk. This view suggests that investors select a well-diversified portfolio of securities to achieve this goal. Accordingly, it is often assumed that investors are unwilling to pay a premium for corporate behavior which can be described as "socially-responsible" but recently, this view has been under increasing attack (Pava & Krausz, 1996).

The relationship between a corporation and its environment and the role that Corporate Social Responsibility Disclosure (CSRD) plays in influencing this relationship have become important business issues over the last few decades. A number of studies show that it is difficult for firms investing in Corporate Social Responsibility (CSR) activities to maximize their reputation without disclosing information of such activities. Although it seems a little utilitarian and strategic, it is generally accepted that firms engaging in CSR activities usually concern the disclosure of related information because of its contribution to financial performance or market value (Wang et al., 2013). According to Brammer et al. (2006), a growing number of equity investments are managed under guidelines of socially responsible investment (SRI). SRI is related to the concept of CSR,

and the former often involves a fund implementing screens to ensure that it does not invest in firms that have poor records in the latter. Many mutual funds in the UK include ethical criteria in their stock selection process and analysts have to produce a SRI research on stocks.

The study was conducted within the context of the Nairobi Securities Exchange (NSE). The Nairobi Securities Exchange is licensed and regulated by the Capital Markets Authority (CMA). It has the mandate of providing a trading platform for listed securities and overseeing its Member Firms. According to Murray et al. (2006), financial markets are seen as offering the biggest single impediment or the greatest possible opportunity for capitalism to re-invent itself in a new form that is compatible with the demands of sustainability. In the absence of an apparent will to closely regulate financial markets, it must fall to incentive and persuasion to encourage markets to act in a manner compatible with social and environmental aims of sustainability. A potentially major factor in achieving this re-direction must be information and, in particular, information about organisations' social and environmental activities. This is a role currently fulfilled although inadequately, by corporate social and environmental disclosure through, mainly, the corporate annual report. Such disclosure in the annual report, might well be assumed to have shareholders as its primary target audience, they may well be the most important audience for this material, However, in a recent review of the extant literature concerning the relationship(s) between corporate social responsibility, social reporting and the stock market, Richardson et al. (1999) concluded that research in the field is still relatively inconclusive and largely under-specified.

1.1.1 Social Accounting Reporting

Adams (2008) defines SA as an approach to reporting a firm's activities which stresses the need for the identification of socially relevant behaviour, the determination of those to whom the company is accountable for its social performance and the development of appropriate measures and reporting techniques. SA emphasizes the notion of corporate accountability. According to Deegan (2002), Social and environmental reporting is also commonly referred to as corporate social responsibility reporting. The concept of social responsibility of company is recent phenomenon but many observers agree that the globalization has spurred its growth and prominence. CSR is important especially in the areas of gender equality, race-religion-regional equality, non-employment of child labor, human rights, environmental pollution, social-marketing and social activities. The social responsibility includes environmental, social and human rights based impacts (Rouf, 2011).

This concern about the impact of enterprises on society is a global one. The expectations of consumers, employees, investors, business partners and local communities as to the responsibility of businesses in society are increasing. SA (also known as social and environmental accounting, corporate social reporting, corporate social responsibility reporting, non-financial reporting, or sustainability accounting) is the process of communicating the social and environmental effects of organizations' economic actions to particular interest groups within society and to society at large (Gray et al., 1987). The importance of SA Reporting stems from the fact that a firm is not only accountable to the shareholders, but also to its other stakeholders and it has extended beyond providing a financial account to capital providers (Owen et al, 1997).

Social performance information, social audit, social accounting, corporate social responsibility, socio-economic accounting, social responsibility accounting and social and environmental reporting have been used interchangeably in the literature. Social reporting is mainly non-financial in nature (Makori & Jagongo, 2013). Therefore a content analysis method was used in this study following 4 aspects (Appendix 2) of the model of Rouf (2011). The first aspect is environmental information which focused on pollution and emission control, water etc. The second aspect is employees' information such as human resource training, education sponsorship, health and safety, pensions, recreation, accommodation, remuneration package among others. The third aspect is philanthropic or community and others which includes aspects such as donations to the charity, arts, sports, relations with local population. The fourth aspect is on products including information on developments related to the company's products including its packaging (e. g. making containers re-usable), the amount/percentage figures of research and development expenditures and/or its benefits, information on research projects set up by the company to improve its product, provision of information on the safety of the company's product, information on the quality of the company's product as reflected in prizes/awards received.

1.1.2 Stock Returns

Stock Market Returns are the gains or loss that investors generate out of the stock market. This return could be in the form of profit through trading or in the form of dividends given by the company to its shareholders from time-to-time. Stock Market Returns can be made through dividends announced by the companies. Generally, a company making profit offers a part of the gain to the shareholders. This is one of the sources of stock

market returns that an investor could expect. The most common form of generating stock market return is through trading in the secondary market. In the secondary market an investor could earn a return by buying a stock at lower price and selling it at a higher price. Stock Market Returns are not fixed as they are subject to market risks. They may be positive or negative. Stock Market Returns are not homogeneous and may change from investor-to-investor depending on the amount of risk one is prepared to take and the quality of his Stock Market Analysis. In opposition to the fixed returns generated by the bonds, the stock market returns are variable in nature. The idea behind stock return is to buy cheap and sell dear. But risk is part and parcel of this market and an investor can also see negative returns in case of wrong speculations (Economy Watch, 2010).

The stock markets while offering trading, investment, speculation, hedging, and arbitrage opportunities perform a wide range of functions that are economic and also political. In addition they serve as a mechanism for price discovery and information dissemination while providing vehicles for raising finances for companies. Stock markets are used to implement privatization programs, and they often play an important role in the development of emerging economies (Nyamweya et al., 2014).

A positive effect of CSR on performance was found by Siregar & Bachtiar (2010) may be due to positive impact of disclosure on firm's reputation; more social activities probably will increase customers' loyalty and other stakeholders' including investors support, which in turn increase firm's performance. Positive valuation from the market may indicate that investors consider the firm's CSR activities have net positive benefits in the future.

1.1.3 Social Accounting Reporting and Stock Returns

There are a number of studies that indicate that there is no clear consensus on whether investment in socially responsible stocks or funds is favourable or unfavourable to returns. From a theoretical perspective investing in socially responsible and irresponsible firms with the similar risk and firm characteristics should be the same. At the portfolio level using this argument concerning the neutrality of corporate responsibility for returns holds, then that the investor will be made worse off by the screening out process as it will reduce portfolio efficiency. From another angle for investors who hold socially responsible stocks not to be worse off the stocks they hold must on average out perform their unscreened counterparts. A third argument is that enhanced CSR should lead to enhanced returns, to an improvement in the firm's operating performance, which may feed through to its stock price. Hence it is possible to justify a positive, a negative or no relationship between a firm's social performance and its returns (Brammer et al.,2006).

It is argued that investors that are socially responsible will not invest in firms whose practices are environmentally questionable and therefore the demand for the shares of such firms will come only from those without a social conscience. The lack of demand will force up the cost of capital for polluting firms relative to green firms (Angel & Rivoli, 1997).

CSR has increasingly become an integral part of corporations' daily business operation and long-term strategic planning (Porter & Kramer, 2011). Spurred in part by the belief that CSR activities, ranging from community outreach, fair labor practices, to

environmental stewardship and other initiatives, could create business value and ultimately enhance financial performance (Bonini et al., 2009)

Fieldman et al. (1997), argues that superior environmental management should reduce financial risk and firm risk. The study estimated betas for 330 of the firms in the S&P 500 stock index for 1980-1987 and 1988-1994. Its findings were that firms who are able to improve their environmental performance can reduce their Capital Asset Pricing Model (CAPM) and raise their stock prices. Derwall et al. (2004) found that eco-efficiency relates positively to operating performance and market value. The study results suggested that the market's valuation of environmental performance has been time variant, which may indicate that the market incorporates environmental information with an implication. Although environmental leaders initially did not sell at a premium relative to laggards, the valuation differential increased significantly over time.

Investors are reacting to CSR reports in making their investment decisions, Kun et al. (undated) in their study find positive cumulative absolute abnormal returns and positive abnormal trading volume around the releases of CSR reports, suggesting that investors are reacting to CSR reports. Further, a positive association is documented between the abnormal returns to a firm’s CSR report and its CSR performance. This association is less positive for firms in a better information environment, suggesting that CSR information for these firms may have already been incorporated into stock prices through other information channels. The findings show that CSR reporting enhances the value relevance of CSR performance. The findings show a positive causal link from CSR to firm financial performance, as measured by abnormal stock returns to the release of CSR reports. This helps to resolve the controversies surrounding whether CSR creates

financial value or not, and attests to the importance of CSR as a long-term strategic investment.

1.1.4 Nairobi Securities Exchange

The NSE began operating as informal market in the 1920s, in 2011 it became Nairobi Securities Exchange. NSE was founded as a private association in 1954. The first privatization exercise was the sale of 20% government stake in Kenya Commercial Bank in 1988. Another major privatization was of Kenya Airways in 1996. NSE began functioning more formally in 1989 when its regulator, the Capital Markets Authority of Kenya (CMA), was officially established. The Capital Markets Authority is the Government Regulator charged with licensing and regulating the capital markets in Kenya. It also approves public offers and listings of securities traded at the Nairobi Stock Exchange. In 1991 the NSE introduced an open-outcry system of trading and in 1995 relaxed restrictions on foreign ownership of listed companies. In 1994 the NSE 20 Share Index was rated by the International Finance Corporation (IFC) as the best performing market in the world. The NSE set up a computerized delivery and settlement system (DASS). In February 2001, basic reformation of the capital market of Kenya took place and divided the market into four independent market segments: the Main Investments Market Segment (MIMS), the Alternative Investments Market Segment (AIMS), the Fixed Income Securities Market Segment (FISMS) and later Futures and Options Market Segment (FOMS). The East African Securities Exchanges Association came into being in 2004, following the signing of a Memorandum of Understanding between the DaresSalaam Stock Exchange, the Uganda Securities Exchange and the Nairobi Stock Exchange. In 2006 live trading on the automated trading systems of the Nairobi Stock

Exchange was implemented. The KenGen of 2006 (Initial Public Offer) IPO ushered in the use of the Central Depository and Securities Corporation (CDSC). In 2008, the NSE All Share Index (NASI) was introduced as an alternative index to the NSE 20 share index. In November 2009 NSE started automated trading in government bonds through the Automated Trading System (ATS). 2014, The Capital Markets Authority approved the listing of the NSE stock through an IPO and subsequently self-list its shares on the Main Investment Market Segment. (Aduda et al., 2012 & NSE website). The 64 listed firms are divided into 12 categories.

Performance of firms is of vital importance for investors, stakeholders and economy at large. For investors the return on their investments is highly valuable, and a well performing business can bring high and long term returns for their investors (Valentin, 2012). The performance of a stock market of an economy is of interest to various parties including investors, capital markets, the stock exchange and government among others. Stock market performance is influenced by a number of factors key among them being the activities of governments and the general performance of the economy (Menge et al., 2014).

In a study to survey the Corporate Social disclosure by listed companies at NSE, Nabhan (1995), found that 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 resulting in Social Accounting reporting to users of financial statements. The categories of social information reported in the Kenyan annual reports generally falls

into four broad areas of interest mainly human resource, environment, the community and consumer/products.

Listed companies are required by NSE to issue annual reports of the performance of their companies. The most common form of communicating social accounting activities is disclosure in annual report. Adams et al. (1998) found that firms in Germany, France, Switzerland, the UK, and Dutch firms, generally disclose their CSR activities through annual reports. Based on those studies, this study focuses on the annual report also as the source of CSR. Kent & Chan (2003) provided a number of reasons why it is justified to use the annual report: annual report is the principal source of corporate communications to investors and it is widely used by firms to disclose their social activities; the presentation of financial and social information within one document (which is the annual report) is one way of reducing costs of disclosure and annual report is also the type of information most actively sought by pressure groups.

Ponnu & Okoth (2009) found that the CSR disclosure of NSE listed companies was spread across the four themes majority disclosed their community involvement, a limited number of the companies disclosed information concerned with environment. The content-category theme of product and consumers disclosure is in second place, Human Resource disclosure came in last. According to Ponnu & Okoth (2009), it appears that without some form of regulatory intervention, reliance on voluntary disclosure alone is unlikely to result in either a high quality or sufficient levels of disclosure. Consequently, perhaps, the NSE and the Kenya's Capital Market with the support of the Government of Kenya should consider making CSRD mandatory. While companies may perceive that

society demands such disclosure, they may be reluctant to make the disclosure because of the lack of CSR reporting standards.

The annual reports of organizations listed on stock exchanges have often become a source of raw data for SER studies, and therefore have served as an instrument for observing voluntary reporting. Annual reports are used because organizations commonly signal what they perceive as important through the reporting mechanism. Important issues are featured, reported and discussed, whereas less important items are absent or relegated to low profile sections of the report. Furthermore, what organizations choose to include in (and omit from) their annual reports is a conscious decision that communicates a significant message to stakeholders (Makori & Jagongo, 2013). The extent to which social or environmental screening policies contribute to investment returns, however, depends on the financial markets' ability to factor the financial consequences of corporate social responsibility into share prices (Derwall et al., 2004).

1.2 Research Problem

The reconciliation of an organisation’s business success, and its responsibility to society, the environment and its employees, has attracted the interest of researchers (Wang et al., 2011). According to Deegan (2002), there is a growing interest in researching on SA. There is no evidence, that all investors are exclusively interested in a purely financial appraisal of their investments. Indeed, the very significant growth in ethical investment funds probably suggests quite the reverse (D'Antonio et al., 2000). This evidence suggests that investors become less obsessed by that financial return when the social, environmental, ethical implications of the investment are disclosed (Murray et al., 2006).

Engaging in corporate social responsibility (CSR) activities, companies can not only generate favorable stakeholder attitudes and better support behaviors (e.g. purchase, seeking employment, investing in the company), but also, over the long run, build corporate image, strengthen stakeholder–company relationships, and enhance stakeholders' advocacy behaviors (Du et al., 2010).

Enhanced corporate social performance may lead to improved stock returns either directly through cost reductions and productivity improvements, or indirectly through an improvement in the firm's overall standing. This would make analysts more willing to recommend the stock and investors more willing to hold it irrespective of the firm's costs and revenues (Brammer et al., 2006). The literature in this field on corporate social responsibility (CSR) supports the notion that going beyond profit maximization and caring about the interests of society, the environment, consumers, and employees are beneficial to a firm's long-term performance. Since a firm's financial performance is directly affected by investors' buying and selling behaviors, to understand how investors perceive CSR is critical to understanding the relationship between a firm's CSR activities and its financial performance (Wang et al., 2011).

The Kenyan stock market though still at its infancy, has experienced phenomenal growth in the recent past with its market capitalization rising from Kshs 34 billion in 1991 to Kshs 80 billion by the end of 1994. It went to Kshs 240 billion by the end 2003 and rose to over Kshs 1 trillion in June 2008. There has also been an increase in investors from Kenya and diaspora patronizing the stock market (Kemboi et al., 2012). The performance of listed companies is increasing and thus also increases the need to report on the firms' impact of this increased activity on society.

In Kenya SA has become an important subject, the investors are more and more interested in what the companies they are investing in are doing to safeguard societal interests. This is shown by the need the companies have felt in giving a social account the trend has been to include it in the corporate annual report (Ishmail & Sira, 2013). The study however did not cover the effect of the report on the stock market. Another research was carried out to establish the relationship between CSR and CFP of firms listed at the NSE by (Cheruiyot, 2010). It was a cross sectional study of all the 47 listed companies in the NSE's main segment as at 31 December 2009. Using regression analysis he sought to establish the relationship between the CSR index and CFP measured in terms of the Return on assets, return on equity and return on sales. His conclusion was that there was a statistically significant relationship between CSR and CFP. This study did not cover the effect of reporting on the CSR activities which is how the investors mainly get information. A firm's level of SA Reporting may be measured in different dimensions, including philanthropic activities, concern for the environment, care of human resource, and no study has yet examined the impacts of each of these aspects of SA Reporting on stock returns in the NSE. This study therefore sought to investigate the relationship between environmental reporting, human resource reporting, community involvement and product reporting on stock returns in the NSE. It addressed the question what is the relationship between Social Accounting Reporting and Stock returns in companies listed in the NSE?

1.3 Research Objective

The general objective of the study was to establish the relationship between Social Accounting Reporting and Stock Returns of Companies listed at NSE. The specific objectives were;

i. To establish the relationship between environmental reporting and stock returns.

ii. To establish the relationship between human resource reporting and stock returns.

iii. To determine the relationship between community involvement reporting and stock returns.

iv. To establish the relationship between product reporting and stock returns.

1.4 Value of the study

This study will be useful to Corporates as it will give an insight of the usefulness of SA Reporting for influencing the market which is the primary goal of businesses. The study will contribute new knowledge in SA reporting. It will give insights into ways of improving the way companies give these reports in order to attract investors and satisfy their expectations. Consultants and auditors will find this study useful as it will give insight into recent trends in SA and how this affects investors and this knowledge would make their services add value to their clients.

It will also be useful for the Government of Kenya in the review of performance of Corporates in contributing to the development of the Country and more specifically in their contribution to the attainment of Vision 2030. The study will help the Government to see ways of intervention either to foster the positive activity or prevent further

detriments to society. National Environmental Management Authority (NEMA) could use the findings of this study to encourage the corporates to protect the environment.

This study will add to existing academic knowledge on the subject of Social Accounting which is relatively new in Kenya and local research on it is limited. From this study, the Regulators of Companies such as KRA, NSE and CMA will gain valuable ideas that will inform the process of formulation of reporting requirements.

Important to the society at large, this study will provide learning about how to bring the companies to account for the impact of their economic activity. As a result of this, future generations will also benefit.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This section of the study surveys the interaction between SA reporting and Stock Returns theoretically and empirically studied. The scholars in the field of SA have shown interest in SA reporting study pushing for its legalization as it is mostly voluntary. The chapter seeks to outline the development of SA reporting and how it relates to the financial performance of firm. The first section presents the theoretical framework that underpins the study. The second section identifies empirical studies that have been done on the subject of SA. The end of the chapter has a summary of the review of the literature.

2.2 Theories of Social Accounting Reporting

2.2.1 Stakeholder theory

Friedman (1970) says that business managers have a responsibility to shareholders-to maximize firm value. Managers have no mandate to embark on social activities as they do not enhance income. Advocates of the stakeholder theory argue that shareholder wealth maximizing behavior may be in accordance with social optimum in a framework in which well-functioning institutions set proper rules and fiscal incentives to reconcile individual and social optimum. However, that behavior does not hold in an economic environment riddled by conflicts of interest, agency costs and informational asymmetries

in which weak or missing institutions cannot perform their task (Wang et al., 2011). Tirole (2001) points out that the concept of stakeholder value recognizes that corporate activity may create negative externalities which need to be counterbalanced, either by institutional rules or by corporations themselves. In such a scenario, the ultimate value of shareholders' wealth may be linked to maximizing the sum of various stakeholder wealth. Applying this theory to SA reporting implies that a firm will disclose social information as part of a dialogue between itself and its stakeholders. In other words, stakeholder theory views social disclosure as a response to significant pressures from a firm's external environment. Apart from the investment community, such pressures may arise from pressure groups or the general public (Zubairu et al., 2012).

2.2.2 Accountability Theory

Accountability is concerned with the relationships between groups, individuals, organizations and the rights to information that such relationships entail. It is the duty to provide an account of the actions for which one is held responsible. The information flowing through the relationship will be determined by the power of the parties to demand it and the willingness of the organization to provide it. The power comes from the possibility to litigate or from the power to provide funds (Tinker et al., 1991). A company must be accountable. The "middle-of-the-road" approaches to corporate social reporting and their cautions against radicalising the subject is criticized by (Tinker et al.,1991). According to Marovic (2003), it is possible to identify three major sources of dispute which is a result of the demand for an account. First, different sources of power (wealth, status, knowledge, authority). Second, the various forms of power (influence, coercion, control). Third, the various uses of power (individual or collective goals,

political or economic goals). In applying this theory to SA reporting it would mean establishing the sources of power that push companies to give a report. The implication of this theory is that if a company fails to give an account the demand for its stocks will be affected.

2.2.3 Legitimacy and Political Theory

Legitimacy is fundamental for an organization to survive and exist in the society in the long term, which cannot come from either the making of profit or the mere observing of legal requirements, but the continuing mandate of society at large (Wang et al., 2013). However, it is almost impossible to maximize firm value and financial performance if a firm is not socially responsible and shares with the public their CSR information (Pava & Krausz, 1996). Evidence suggests that the mere threat of increased regulatory costs, or the potential for future disaster costs, prompts a change in voluntary disclosure (Heflin & Wallace, 2012). The legitimacy theory as related to social disclosure implies that the reason why companies disclose their environmental activities is because it is required by the community in which they operate, and failure to disclose could have adverse implications for the company (Van der laanSmith et al., 2005).

2.2.4 The Triple Bottom Line (TBL)

The TBL report approach focuses on 3 broad areas affecting society, economic including financial reporting, ecological including the environment and social including social responsibility. It was Elkington (1998) who coined the phrase “triple bottom line” (TBL) to suggest that financial reporting should expand beyond traditional bottom-line income as a measure of success which should also include information about social and

environmental performance. It is emerging as important and a necessary part of an organization's disclosures. TBL is consistent with the broader stakeholder perspectives of CSR which includes shareholders, creditors, employees and community, the environment, Government and society in general. The variability over time of the report however can affect comparability. TBL can help an organization to become more socially and environmentally conscious. TBL is a relatively new concept which emphasizes Key Performance indicators and quantifiable measurement that reflect critical success factors of an organization. In this study financial performance was assessed on how it is affected by the SA. In the study therefore analysis of the annual report and was on how TBL affects the investors and stock returns.

2.3 Determinants of Stock Returns

Social considerations have been reported as a factor in making investment decisions and therefore affecting stock prices. The study of social accounting, CSR and financial performance has argued for a positive association. Improved employee and customer goodwill have been cited as a result of social responsibility. A firm that is perceived as high in social responsibility may face relatively fewer labour problems and customers may be favourably be disposed to its products. Socially responsible activities may also improve a firm's standing with investors and other stakeholders (McGuire et al., 1998). In this study the focus was on environmental reporting, human resource reporting, community involvement reporting and Product reporting as having an effect on stock returns.

2.3.1 Environmental Reporting

As the apparent general awareness and concern in society for such matters as environmental degradation, habitat destruction, global climate change, human rights, and stakeholder involvement, continues to increase it certainly seems likely that the number of potential areas in which social or environmental activity can have relatively direct financial consequences must increase. These consequences can be of a cost-saving nature; cost or liability avoidance; revenue-generating or even simple signals of best-in-class management practices. In such a climate, social and environmental issues continue to rise as areas of potential risk requiring careful management by prudent organisations. The foregoing offers an argument for why social and environmental data may have potential impact on shareholders' decisions as to whether or not to buy, hold or sell shares (Murray et al., 2006).

In a study investigating the market reaction to the Bhopal chemical leak caused by Union Carbide, Blacconiere & Patten (1994) findings were that the event negatively affected the market values of other firms in the chemical industry. They also conclude that firms with superior environmental disclosures suffered less negative stock market reactions, suggesting that investors view environmental disclosures as a positive signal that the firm is managing its exposure to future environmental regulatory costs. A content analysis of environmental disclosure was done by going through the annual report of the sampled NSE listed companies. The content analysis was on any of the following topics; toxic emissions, water discharge, solid waste disposal, environmental policies and concern, installation of effluent treatment plant, anti-litter and conservation campaign, land reclamation and forestation programmes and pollution control of industrial process.

2.3.2 Human Resource Reporting

Human resource accounting and reporting is the process of identifying and measuring data about human resources and communicating this information to interested parties. Leyira et al. (2012) established a positive correlation between Return on Equity (ROE) and Human Resource Accounting Disclosure. The study concludes that there is a growing interest in and demand for human capital information. In addition, human resource accounting information of an organization is an important fact for investment decisions in an era of knowledge based economy. Based on this, the study recommended among others, regulatory intervention in the accounting standard setting process for human capital reporting. Standards should be created for human resource identification and measurement. This will enhance valuation of human capital, ensure a higher degree of utility to stakeholder, uniformity in disclosures and will allow reliable comparison of human capital values.

In this study human resource information was obtained and analysed from the annual reports on the following aspects; Human Resource Development (e.g. Training Programme); Educational Facilities; Health and Safety Arrangements (i.e. safety of the employees); Pensions; Recreation Clubs and public libraries; Reduction or elimination of pollutants, irritants, or hazards in the work environment; Training of the employees through in-house programmes; Establishment of training centres; Discussion on staff accommodation/staff home ownership schemes; Policies for the company's remuneration package/scheme; Number of employees in the company; Providing information on the qualification of employees recruited; Providing information on the company/management relationships with the employees in an effort to improve job satisfaction and employee

motivation; Sponsoring educational conferences, seminars or art exhibitions; Providing information on the stability of the workers' job and company's future.

2.3.3 Community Involvement Reporting

Despite the fact that almost all companies contribute some money to charity, corporate philanthropy remains controversial. Proponents believe that companies have a moral obligation to assist the communities in which they do business. Critics contend that corporate giving programs consume company resources and, more often than not, further the goals of management rather than the goals of shareholders. The opposing camps find common ground when corporate giving improves shareholder value as well as social welfare. Companies with strong social performance also tend to have strong financial performance (Lev et al., 2011).

A movement has emerged toward proactive investment that is investing in firms that are socially responsible rather than divesting of firms that are not (Kinder et al., 1992). This suggests that a rational financial market would positively evaluate socially responsible actions. Hall & Rieck (1998) established that the announcement of corporate donations is found to have a significant positive effect on stock prices; the study examined the impact the impact of voluntary positive corporate social actions on shareholder wealth performing an event analysis. Visible funding of or involvement in community projects may also strengthen brand images, engendering a sense of loyalty among consumers. Companies with good records on CSR issues may be less subject to stringent regulatory oversight, enabling them to focus more time and energy on strategic business issues.

Shareholders and investors may also be attracted to shares from companies which support the community (Brammer et al., 2006).

2.3.4 Product Reporting

Product disclosure reflects the concerns of a company for generating and maintaining customer satisfaction regarding the product (Ebimobowei, 2011). It also involves disclosing its effort in research and development in order to improve the product while at the same time making it ecofriendly. There appears to be a strong demand for information about product safety and quality, based on the results of a 1991 survey on the usefulness of annual reports to corporate shareholders (Epstein & Freedman, 1994).

Mathews & Perera (1996) say social accounting: means an extension of disclosure into non-traditional areas such as providing information on a firm's products. Alexander & Britton (2000) viewed SA as the reporting of those costs and benefits which may or may not be quantifiable in money terms, arising from economic activities and substantially borne or received by the community at large or particular groups not holding a direct relationship with the reporting entity.

Porter & Kramer (2006) highlighted several incidents throughout the mid-1990s showing that the public valued CSR whether the academic literature had decisively proven its utility or not. For example in product reporting pharmaceutical companies discovered that they were expected to respond to the AIDS pandemic in Africa even though it was far removed from their primary product lines and markets. Fast food and packaged food companies are now being held responsible for obesity and poor nutrition.

2.3.5 Interest Rates

The Government through the Central Bank using monetary policy increase or lower interest rates to stabilize or stimulate the economy. If a company borrows money to expand and improve its business, higher interest rates will affect the cost of its debt. This can reduce company profits and the dividends it pays shareholders. As a result, its share price may drop. When interest rates are raised, many investors sell or trade their higher risk stocks for government-backed securities such as bonds to take advantage of the higher interest rates they yield and to ensure that their investments are protected (Fama & French, 1992). Interest rates affect the stock returns and so investors keep a check on them. In this study the interest rate was the control variable in testing the relationship between SA reporting and stock returns.

2.4 Empirical Review

Wang et al. (2011) studied the behavior of investors to corporate social responsibility based on an event that took place in China. Event-study methodology was used proposed by Fama et al. (1969) to investigate how CSR affects investors' behaviors and stock prices before and after the melamine contamination incident in China. Their findings were first that, institutional investors react to the CSR-related scandal more aggressively than individual investors, which rationalizes the development of SRI-oriented funds. This is because SRI-oriented funds can do a better job monitoring firms' CSR performance relative to common individual investors. Second, that there is an optimal CSR performance range and that the financial market can efficiently recognize this range and price stocks based on it. This result provides a rationale for optimizing CSR activities

Brammer et al. (2006) investigated the effect of CSR disclosure on stock returns using evidence from the UK firms. The study observed that firms scoring highly on ethical criteria appeared to represent poor investments. Thus, the research supported the notion that findings of ethical fund underperformance may be the result of bad stocks rather than bad fund managers.

Leyira et al. (2012) undertook a study to examine the relationship between firms' financial performance and human resource accounting disclosure of companies in Nigeria. Five years financial data from 2005-2009 of fifty two companies across all sectors as listed on the Nigeria stock exchange. Descriptive, correlation and regression statistical techniques were used in analyzing the data. The findings show a positive correlation between ROE and Human Resource Accounting Disclosure.

Graves & Waddock (1994) in their study on Institutional ownership and Corporate Social Performance analysis indicates significant positive relationship between social performance and the number of institutions holding shares of a company. They suggest, using content analysis on US data, that poor corporate social performance leads to a reduction in the number of long-term institutional investors holding the firm's stock since such firms are likely to be "screened out".

Deegan et al. (2002) studied firms' disclosure reactions to major social incidents: using Australian Evidence in terms of annual report disclosure, to five major social incidents. These incidents had significant implications for either the environment, or the safety of both employees and community members. The results of this study indicate that, following four of the incidents, sample firms operating in the affected industries provided

more social information in their annual reports than they did prior to the incidents occurrence. These results support a view that organizations utilize their annual report as a means of influencing society's perception of their operations, and as a means of legitimizing their ongoing existence. The strategic nature of voluntary annual report disclosures is emphasized.

Rimmel (2003) set out to describe the practice of voluntary information on human resources in corporate annual reports by the comparison of the findings on justification, disclosure and utilisation. The research studied a subset of three research questions; the amount of voluntary disclosures in corporate annual reports, why human resource disclosures are provided and how users utilise voluntary information on human resource. A disclosure scoreboard was used analysts and two corporations were interviewed and a comparative case study approach was used. The findings indicate that both corporations provide a considerable amount of voluntary disclosure in corporate annual reports. Both corporations provide human resource disclosures, as they regard them as being an important aspect in illustrating their corporations. The users regard human resource disclosures as important information as they contribute to the overall impression of a corporation.

Heflin & Wallace (2012) investigated whether the British Petroleum, PLC oil spill affected the shareholder wealth of oil and gas firms (other than BP). While no evidence was of a share price reaction for the whole industry, findings showed share price declines for firms with offshore drilling operations in United States waters. There was evidence that firms with more expansive environmental disclosures suffered a smaller negative shareholder wealth effect, suggesting that shareholders believe firms with more extensive

environmental disclosures are better prepared to address possible future regulatory costs and possible future similar environmental incidents. Following the BP oil spill there was an increase in environmental disclosure.

Brammer & Millington (2008) did empirical work on the link between Corporate Social Reporting specifically giving donations and financial performance of 500 UK Companies. In contrast to much of the existing literature, the study identified significant difference in the stock market performance of firms that make unexpectedly high or low rates of contributions to charity. The high donors performed well while the low donors stocks were not doing well.

Siregar & Bachtiar (2010) in their study on corporate social reporting empirical evidence from Indonesia Stock Exchange used content analysis method and investigated which disclosed items have significant effect on future performance. Their findings were that for accounting measure Return on Earnings, it is environmental disclosure that had positive impact. While for market measure stock returns, energy disclosure had a more consistent positive affect on stock return.

Nabhan (1995) surveyed the nature and extent of extent of social information disclosure in the annual reports of 43 quoted companies at the Nairobi Stock Exchange (NSE). A descriptive survey approach was used. The findings of the study were that 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.

Ponnu & Okoth (2009) investigated corporate social responsibility (CSR) disclosure practices in Kenya by studying the disclosure practices of companies listed on the NSE. A content analysis approach was used in this study with each annual report being carefully analysed. They found that companies in Kenya do have CSR disclosures in their annual reports and websites and that a firm's financial status e.g. profitability has no significant influence on its CSR disclosure.

Mwangi & Onyenje (2013) studied the relationship between financial performance and CSR practice of firms listed in the Manufacturing, Construction and allied Sector of the NSE. Content analysis based on the number of sentences dedicated to each CSR component was used. Efficiency and capital intensity of the firms were also included as control variables in the model. One major finding of the study is that there is a strong relationship between the independent variables (CSR practice, efficiency and capital intensity) used in the model and the dependent variable (ROA). The results of the study also showed that there was an insignificant positive relationship between corporate social responsibility practice and financial performance.

Mwangi & Mwiti (2015) had the study objective to determine the effects of voluntary disclosures on stock market returns of companies listed at the NSE. The study sampled twenty firms for the period 2009 to 2013. It employed multiple linear regression of market performance of the firms in the five year period against voluntary disclosure,

exchange rate, interest rate and rate of inflation. The results were that each of the factors was positively related to market performance for firms listed at the NSE.

2.5 Summary of Literature Review

The effective management of the variety of stakeholder relationships can be compatible with profit maximization if the firm is instrumental in determining the scope and extent of its liabilities (Brammer & Millington, 2008). Research on the relationship between SA and CFP has produced conflicting results. The conflicting findings are attributed to both theoretical and methodological issues. The reasons include: first a lack of a theoretical foundation; second a lack of comprehensive systematic measures of CSP; third a lack of methodological rigor; fourth a sample size and composition limitations and fifth a mismatch between social and financial variables (Ulmann, 1985).

The summary of the empirical review showed that there is a positive relationship between SA reporting and financial performance. Brammer & Millington (2008) identified significant difference in the stock market performance of firms that make unexpectedly high or low rates of contributions to charity. Nabhan (1995) indicated that social information has some form of value to the users of financial statements. Mwangi & Onyenje (2013) concluded that there was an insignificant but positive relationship between CSR and financial performance. Mirie & Mwiti (2015) concluded that voluntary disclosure was positively related to market performance of firms in NSE. This study sought to fill a gap in the empirical study on the relationship between social accounting reporting and stock returns in companies listed in the NSE.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This Chapter describes the research design, population and sample of the study. It also includes the data collection methods, data validation (reliability and validation tests), the selected variables and data analysis methods.

3.2 Research Design

The study used a descriptive research design. This design is appropriate for the study as enables a higher level of analysis such as correlation and regression. This analysis makes it possible to establish the nature and strength of the associations between variables. Since this study explores the relationship between SA reporting and stock returns, the dependent variable is the stock returns and the independent variable is SA reporting.

3.3 Target Population

The target population in this study was the 62 companies listed in the NSE as at 1st October 2014 as shown in appendix 1. The analysis of these companies was selected because they are required to meet NSE standards of reporting and so make their annual reports objective which made the aims of this study achievable. The annual reports of the sampled companies were the source of data for the research.

3.4 Sample

The sample was made up of the NSE 20 share index companies as at 1st October 2014. This sample was selected from the entire population of NSE listed companied. The companies are arranged in homogenous categories. The sample of 20 Share index companies was selected because it is representative of the NSE population.

3.5 Data Collection

The study used secondary data obtained from annual reports of the period 2008 to 2013. These reports were obtained from the CMA website. The SA score was obtained from content analysis of the annual reports for the period 2008 to 2012. It was based on the number of sentences dedicated to each variable of SA was done by (Ponnu & Okoth, 2009). The data was then standardised for analysis. For the computation of stock returns, data on annual dividends and share prices of the sampled firms for the period 2009-2013 was be obtained from NSE. The study is on the effect of SA reporting on stock returns of period t+1.

3.6 Data Analysis

In order to investigate the research objectives, all the collected data was processed and analysed. This involved preparation of the collected data coding, editing and cleaning of data in readiness for processing using SPSS. It is a systematic software that covers a wide range of the most common statistical data analysis. Regression analysis was then used to study how the dependent variable y (Stock returns of period t+1) is related to the independent variables of SA Reporting.

3.6.1 Analytical Model

The analytical model that used was:

$Y_{t+1}= \alpha+\beta_{1t} X_{1t} + \beta_{2t} X_{2t} + \beta_{3t} X_{3t} + \beta_{4t} X_{4t} + \beta_{5t} X_{5t} + \varepsilon$

Where;

α = Constant Term, part of the stock returns explained by other variables

Y_{t+1}=Stock Returns of the listed companies for period t+1 (Computed as $\frac{d1}{Po} + \frac{P1-Po}{Po}$)

β_{1t}, β_{2t}, β_{3t}, β_{4t} are regression coefficients or the change induced in Y by each of the independent variables

X_{1t} = Environmental Reporting Score for period t obtained from content analysis

X_{2t} = Human Resource Reporting Score for period t obtained from content analysis

X_{3t} = Community Involvement Reporting Score for period t obtained from content analysis

X_{4t} = Product Reporting Score for period t obtained from content analysis

X_{5t} = Interest Rate for period t is the control variable obtained from the average lending rate by commercial banks

ε = Error Term

3.6.2 Test of Significance

The regression analysis was tested using correlation coefficient (r) to establish the strength and direction of the relationship between the independent and dependent variable. Coefficient of determination (R^2) tested the percentage variation in the dependent variable as explained by the changes in the independent variables and P-value was used to check the overall significance of the model. To test the significance of the analytical model, the study used the Analysis of Variance (ANOVA). It consists of calculations that provide information about levels of variability within a regression model and forms a basis for tests of significance. It provides a statistic for testing the hypothesis that (there is a significant relationship between the response and predictor variables), against the null hypothesis that (there is no significant relationship between the response and predictor variables). ANOVA was used to compare the variance of means among groups relative to the variance within the groups (Mwangi & Onyenje, 2013).

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION OF FINDINGS

4.1 Introduction

The study sought to establish the relationship between Social Accounting and Stock Returns of companies listed in the NSE. This chapter presents the analysis, results discussions and findings with regard to the objective of the study. The data was collected for the period 2009 to 2013 from the NSE 20 share index companies which were the sample for the study.

4.1.1 Distribution of the Sample

The NSE 20 share index companies which were the sample are distributed in different sectors as shown in table 4.1.

Table 4.1: Distribution of the NSE 20 Share index Companies

Sectors	Frequency	Percentage (%)
Agricultural	1	5
Commercial & Services	4	20
Banking	6	30
Manufacturing & Allied	4	20
Energy & Petroleum	3	15
Insurance	1	5
Telecommunication	1	5
Total	**20**	**100**

The distribution shows that most of the sampled companies belonged to the Banking Sector followed by the Commercial & Services sectors. This represents the distribution of all the listed companies. The study was done on effect on Stock Returns (Y_{t+1}) caused by reporting on the Environment (X_1), Human Resource (X_2), Community Involvement (X_3), Product Reporting (X_4) and Interest Rates (X_5) using data from the sampled companies.

4.2Descriptive Statistics

The data was cleaned to ensure that all the errors are identified and dealt with before the analysis was done. The data on SA was collected using content analysis, sentences on each SA variable were counted and tabulated as shown in appendix 2. The SA data was then standardized by converting the counted sentences of each variable as a percentage of the total number of sentences on SA reporting.. The variables used in this report are Stock returns for perion t+1 of the listed companies (Y_{t+1}), Environment (X_1), Human Resource (X_2), Community Involvement (X_3) and Product Reporting (X_4) and Interest Rates (X_5).

Table 4.2: Descriptive analysis of the continuous variables

	N	Minimum	Maximum	Mean	Std. Deviation	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
Y	98	-.92	2.09	.1933	.54169	.767	.244	.814	.483
X1	98	.00	1.00	.1453	.15593	2.293	.244	8.596	.483
X2	98	.00	.61	.1813	.14239	.771	.244	.064	.483
X3	98	.00	1.00	.3759	.23934	.489	.244	-.225	.483
X4	98	.00	.94	.2668	.20570	1.139	.244	1.562	.483
X5	98	.14	.20	.1560	.02092	1.383	.244	.088	.483
Valid N	98								

From the 98 Annual reports that were reviewed in this study, Community Involvement (X_3) had the highest mean percentage frequency it was reported on. (0.3759) it was followed by Product Reporting (X_4) with a mean of 0.2668 and Environmental reporting had the least mean of 0.1453. All the variables were skewed to the right. The Kurtosis analysis shows that Environment (X_1), had the highest value 8.596 which shows that the

peak is high.. Community Involvement (X_3) has a negative peak that is close to zero with a score of -0.225.

4.3 Correlation Analysis

The correlation between the variables is shown in table 4.3. The results indicate a low correlation of 0.247 but a high significance at 95% between the depedent variable Stock Returns (Y_{t+1}) and the independent variable of Interest Rates (X_5). The correlation between Stock Returns and Interest rates is the strongest among the independent variables. The dependent variable has a much lower correlation with the other independent variables i.e. Environment (X_1), Human Resource (X_2), Community Involvement (X_3) and Product Reporting (X_4) with coefficients between -0.044 and 0.066. This shows that stock returns of listed companies are not heavily influenced by SA reporting. This is because there is a very low correlation between SA variables and Stock returns of period t+1.

The correlation between the independent variables X1 and X2 is -0.134, X1 and X3 is -0.172, X1 and X4 is -0.323 low but significantat 99% and X1 and X5 is -0.055. The correlation between X2 and X3 is -0.398 it is low but significant at 99%, X2 and X4 is 0.065 and X2 and X5 is 0.065. the correlation between X3 and X4 is -0.522 low but significant at 99%. X3 and X5 have a correlation of 0.022. the correlation between X4 and X5 is 0.035. The correlation between the independent variables is low none of the reading is above 0.8 therefore all the predictor variables can be included in the regression model.

4.3 Coefficient Correlation

		Y_{t+1}	X_1	X_2	X_3	X_4	X_5
Y	Pearson Correlation	1	-.044	.066	-.063	.003	.247*
	Sig. (2-tailed)		.668	.523	.538	.974	.015
	N	97	97	97	97	97	97
X1	Pearson Correlation	-.044	1	-.134	-.172	-.323**	-.055
	Sig. (2-tailed)	.668		.192	.093	.001	.593
	N	97	97	97	97	97	97
X2	Pearson Correlation	.066	-.134	1	-.398**	.065	.065
	Sig. (2-tailed)	.523	.192		.000	.525	.526
	N	97	97	97	97	97	97
X3	Pearson Correlation	-.063	-.172	-.398**	1	-.522**	.022
	Sig. (2-tailed)	.538	.093	.000		.000	.834
	N	97	97	97	97	97	97
X4	Pearson Correlation	.003	-.323**	.065	-.522**	1	.035
	Sig. (2-tailed)	.974	.001	.525	.000		.735
	N	97	97	97	97	97	97
X5	Pearson Correlation	.247*	-.055	.065	.022	.035	1
	Sig. (2-tailed)	.015	.593	.526	.834	.735	
	N	97	97	97	97	97	97

*. Correlation is significant at the 0.05 level (2-tailed).

**. Correlation is significant at the 0.01 level (2-tailed).

4.4 Regression Analysis

The regression analysis was performed to establish the effect of SA reporting on Stock Returns of listed companies with interest rates as the control variable. The independent variable was Stock returns (Y_{t+1}), while the and the independent variables were Environment (X_1), Human Resource (X_2), Community Involvement (X_3), Product Reporting (X_4) and Interest Rates (X_5).

4.4.1 Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.276[a]	.076	.026	.53455

a. Predictors: (Constant), Environment (X_1), Human Resource (X_2), Community Involvement (X_3), Product Reporting (X_4) and Interest Rates (X_5)
b. Dependent Variable: Stock returns (Y_{t+1})

The model shows the extent to which the independent variables affect the dependent variable. The above results shown in the table above show that the combination of the Environment (X_1), Human Resource (X_2), Community Involvement (X_3), Product Reporting (X_4) and Interest Rates (X_5) have an R Square of 0.076. That means that 7.6% of the variance in Stock Returns of period (Y_{t+1}) can be explained the independent variables. The remaining percentage could be explained by other factors that were not included in this study.

4.4.2 Analysis of Variance (ANOVA)

The analysis of variance provides the F-test which is a statistical test of significance of the model. When the significance level of a model has a P value <0.05 then it is statistically significant. In this model the P value is 0.191 which shows that it is not statistically significant. These results are shown in the table below

Table 4.4 ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.175	5	.435	1.522	.191[b]
	Residual	26.288	92	.286		
	Total	28.463	97			

a. Dependent Variable: Stock Returns (Y_{t+1})
b. Predictors: (Constant), Environment (X_1), Human Resource (X_2), Community Involvement (X_3), Product Reporting (X_4) and Interest Rates (X_5)

4.4.3 Coefficients of the Model

The regression coefficients estimates are shown in the table 4.5 below. The coefficients of Environment (X_1), Human Resource (X_2), Community Involvement (X_3), and Product Reporting (X_4) are insignificant with P values ranging between 0.260 and 0.907. Interest Rates (X_5) coefficient is significant with a P value of 0.014 which is less than 0.05. The constant is also insignificant with a P value of 0.260.

Table 4.5 Coefficients of the Model

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.559	.493		-1.133	.260
	X1	-.347	.436	-.100	-.796	.428
	X2	-.053	.456	-.014	-.117	.907
	X3	-.340	.347	-.150	-.981	.329
	X4	-.305	.378	-.116	-.806	.423
	X5	6.549	2.612	.253	2.508	.014

a. Dependent Variable: Stock Returns (Y_{t+1})

The regression equation can be fitted as follows based on the values of B:

$Y_{t+1} = -0.559 - 0.347(X_1) -0.053(X_2) - 0.34(X_3) -0.305(X_4) +6.549$

A unit increase in the stock returns of period t+1 is collectively as a result of 0.559 decrease of the constant, 0.347 decrease of Environmental Reporting, 0.053 decrease of Human Resource Reporting, 0.34 decrease of Community involvement Reporting, 0.305 decrease of Product reporting and increase of 6.549 of Interest rates.

4.5Discussion of Findings

The model was found to be statistically insignificant in explaining the change in stock returns with a P value of <0.191. The model could also only explain 7.6% of the change

in stock returns. The findings show that there was an insignificant relationship between SA reporting and stock returns of the analysed companies listed in the NSE.

Environmental Reporting also has minimal effect on stock returns. In the analysis of the annual reports this area was given special importance by some companies. Most companies who reported on this topic focused on tree planting especially at the Mau forest. Others engaged in clean-up programmes and a few talked about prevention of pollution through reduction of carbon emission. The study found that there is a weak relationship between Environmental reporting and stock returns evidenced by the p value of 0.428. Murray et al. (2006) studied whether financial markets care about environmental disclosure. They concluded that environmental data may have potential impact on shareholders' decisions as to whether or not to buy, hold or sell shares. This is in contrast to findings of this study which show that the environmental reporting does not have a significant effect on stock returns.

Reporting on Human Resource was given special importance by some of the sampled companies. All the reports included Board changes in the year however not all reported staff issues e.g. training, healthcare, working facilities, or procedure for grievance redress. Contrary to what was expected in this study the findings reveal that investors don’t seem to consider staff reports in their investment decisions. The relationship between Human Resource reporting and stock returns with a P value of 0.907 was found to be the most insignificant. Kenyan investors from these findings seem not to consider what is reported on human resource in their decisions. These findings are in contrast with the study of Leyira et al. (2012). That study established a positive correlation between ROE and Human Resource reporting. Leyira et al. (2012) concluded that there is a

growing interest in and demand for human capital information. In addition, human resource information of an organization is an important fact for investment decisions in an era of knowledge based economy.

The review of the annual reports revealed that all the sampled companies were involved in Community work. The most popular areas they were involved in were financial support of health, education and sports. However, the Community Involvement reporting coefficient had a P value of -0.329 which means it was statistically insignificant. This means that it has minimal effect on stock prices. This weak relationship could be can be explained by the study of Lev et al. (2011). In that study they say that critics of community involvement contend that corporate giving programs consume company resources. In addition, more often than not, further the goals of management rather than the goals of shareholders. In the Kenyan set up community involvement is growing but from the findings it shows that investors are not considering this factor in their decisions.

The companies gave reports on their products and services some gave more extensive and detailed reports. The more detailed reports were for products that were new in the market. The findings demonstrate that the management of most companies feel the need to give a report on their innovations. The product reports also showed an increase in the development of the products and an improvement in efficiency of production. Product reporting had a p value of 0.423 which is insignificant. The relationship between Product reporting and stock returns is therefore not strong. Epstein & Freedman, 1994 say that there appears to be a strong demand for information about product safety and quality, based on the results of a 1991 survey on the usefulness of annual reports to corporate shareholder. However, the findings of the current are not in agreement with this study

that the market values product reporting which is shown in stock returns. These findings could reflect that the Kenyan investor used a criteria other than product reports in their investment decisions.

The control variable of interest rates had a significant value of 0.014. Therefore there is a strong effect on stock returns based on interest rates. The findings of this study are in agreement with another by Fama & French (1992). In their study they established that when interest rates are raised, many investors sell or trade their higher risk stocks for government-backed securities such as bonds. They do this to take advantage of the higher interest rates they yield and to ensure that their investments are protected (Fama and French, 1992).

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

The objective of this study was to establish the effect of SA Reporting on Stock Returns for companies listed in the NSE for the period 2009 to 2013. Based on the literature review the study identified four variables that affect stock returns these then formed the specific objectives. These variables were Environmental Reporting, Human Resource Reporting, Community Involvement Reporting and Product Reporting The specific objectives were the effect of these variables on Stock Returns.

The literature review showed that this is a subject that has been extensively studied but there was no clear conclusion. The review of literature showed that some studies supported a positive relationship between SA and financial performance. While there were still other studies that had the opposite view. The findings of this study revealed that there was no significant relationship between SA and stock returns.

The SA data was collected using content analysis of the annual reports of a sample of listed companies. This consisted of counting the sentences reporting on each SA variable. It was then standardized by making the number sentences of each variable a percentage of the total number of sentences on SA in the annual report. This data was then evaluated statistically using SPSS. The study used regression analysis to establish the relationship between stock returns and SA reporting and interest rate was included as a control variable.

The analysis of the individual independent variables shows that the strongest positive relationship is between interest rates and stock returns. It can therefore be inferred that investors in making their investment decisions consider the prevailing interest rates. Stock prices and the returns therefore are affected by the rate of interest. The SA variables were found to be statistically insignificant and therefore have little influence in the changes in stock returns.

5.2 Conclusions

SA is a topic of growing importance as evidenced by the fact that most of the annual reports reviewed had a separate section allocated to this topic. In addition majority of the Chairman's and Chief Executive Reviews also included social accounting as part of their report. In the area of the Environment the Government of Kenya has established a body called NEMA to follow up company activities in this field in the country. As was highlighted in the literature review SA in the developed markets is given a lot of importance by the investors when making investment decisions. A firm could become a loser if it is not perceived to be conscious of SA.

The study revealed that reporting on the variables selected from the literature review is insignificant in determining stock returns. This could be explained by a number of factors. One of them could be that the NSE is relatively in comparison to the Stock Exchanges in the developed countries. Therefore it is in the process of development and of continuing to establish the reporting requirements of listed companies and this are of SA being also new in Kenya is yet to be fully defined. Another that the investors are not well informed about what SA is all about.

From the findings it can be concluded that the market needs to appreciate the value of SA reporting. This scenario could be explained by the fact that most of the investors in the NSE are locals. This was seen in the shareholder listing in the annual reports. The level of income in the country is generally low and so most investors would be more interested in dividends and profitability of the company than in what it is doing as far as SA is concerned.

It would not be right to conclude that listed firms should stop giving a SA report since this turned out to be statistically insignificant. These reports are a means of informing both the investors and the authorities about what the company is doing. This will help avert suspicion from the authorities, who may raise questions about certain production processes that might have an environmental or health impact. The annual report would be a way of reassuring and explaining and averting the suspicions.

The annual report can also be a way of creating a market for new products through provision of information about them. The market can discover through these reports that the product can satisfy a certain need. In cases of structural changes affecting human resource the annual reports are a good way giving explanations. These explanations would help reduce resistance and facilitate adoption by staff which can spill over to investor. Stock performance could be affected in a positive way.

5.3 Recommendations to Policy and Practice

Listed companies should give importance to SA Reporting though the findings show that this only contributes 7.6% to the change in stock returns. The Kenyan market is catching up fast with other more developed market. The Kenyan listed companies would be at a an

advantage to be ready for when SA will be a stock market demand. Doing this would also ensure that that they are not left behind by competitors from other markets who are giving more detailed reports on social accounting.

The listed companies should present their social accounting reports in a professional way that is attractive to the reader of the report. This report could be divided into sections based on the different variables listed in this study that is product reporting, human resource reporting, community involvement and environmental reporting. From the review of the annual reports many but not all companies are doing that. They should also avoid making the reports too lengthy. The brief report and the division would make the study of the report easier for the market.

Education of the public on sustainability is needed this is shown by the findings of this study. This is based on the results of the study that showed SA was statistically insignificant in explaining change in stock returns. This education could highlight on how eventually financial income is affected by lack of SA consciousness. The education of the public could be undertaken by the Government and particularly NEMA. The firms could also participate in this endeavor it would be an opportunity to justify their financial investment in SA.

The NSE could consider the standardization of reporting on SA and to develop requirements for it. This could go a long way in improving the importance given to this subject by both the investors and the boards and managements of companies. This would be in synchrony with world markets. Finally, it would be a mark of development of the NSE and a contribution to the Kenyan economy.

During the study there were companies that had no websites and others that did not have annual reports uploaded or some were missing. The world including Kenya is in the digital age, it is therefore recommendable that listed companies should ensure that they have active websites. These websites should have a page dedicated to investor relations with the annual reports uploaded. The annual report should be uploaded in a format that facilitates rapid download.

5.4 Limitations of the Study

The study used annual reports from the 20 share index companies. SA is a discretionary disclosure i.e. it is not mandatory. Therefore there are no stated required specifications, which means that the companies issued the SA reports according to their own criteria. The result of this was a wide variation in reports between the listed companies. The comparison and analysis of data from the reports as a consequence was difficult, as each report from the different companies had its own style.

The SA section of the annual report for the companies would also change from one year to the next. This especially happened when there were changes in the top management. This situation also affected the objectivity of the analysis of the reports. It called upon the researcher to adjust to the new format of each report.

The annual reports were obtained from the internet the difficulty encountered was that sometimes there were power outages which made internet access impossible. At other times the internet facility was slow. This made it difficult to get the annual reports for analysis. This was both frustrating and it also slowed down the progress of the research work.

Some of the companies studied posted scanned copies of the annual reports in their websites. In these few cases the reports were not very legible therefore it required a strenuous effort on the researcher's part to read them. Some inaccuracy in what was read may have resulted due to the lack of clarity. Digitally formatted annual reports would have helped the study.

Some companies engage in SA activities but do not include this information in the annual report. These companies are seen on the television engaging in SA activities but these are not always captured. The omission of this information could be as a result of lack of proper SA knowledge on the part of the companies. The lack of provision of this information could have led to the results only giving a partial picture of the actual situation.

There are no rating agencies for the practice of SA by companies like in other more developed countries. This limitation required the research to come up with its own score based on what has been done in other similar studies. The study used content analysis which entailed counting the number of sentences written on a variable. A standardized measure would lead to a more objective comparison and analysis of the reports.

5.5 Suggestions for Further Studies

During the review of the annual reports it was noted that companies dedicate a big section to SA. Nevertheless the findings of this study revealed that SA reporting has no statistical significance in the change in stock returns. Therefore a suggestion for further study could be to find out the reason why companies undertake SA reporting. This would be useful to investors as they would get explanations for companies' expenditure in SA.

A study could be undertaken on the regulation of social accounting and its effect on companies' financial performance. It would be enlightening to see how regulation of social accounting would affect financial performance. This would boost the growth of SA which is advantageous to the Government and to the economy at large. This study was not able to cover the area of regulation of social accounting.

Another area for further study could be how corporate governance affects social accounting. It would be a qualitative study analyzing the structure, make up, gender ratio, academic qualifications of governance and the resulting SA report. This type of study would be beneficial in improving SA practices and reporting.

For further study, a comparative study between social accounting practices for companies listed in the NSE and those listed in Indian Securities Exchange. The results and findings of this type of study would be useful to listed companies in Kenya because India has been in this practice for a longer period. It would also help the NSE in formulation of SA requirements. The public would also be more enlightened on the subject matter from the study.

A study could be conducted on the influence of ethics on social accounting in public and private institutions. This study would contribute to the improvement of ethical practices in institutions. As a result of social projects would be undertaken and completed because funds would be used for the intended purpose.

A comparative study between social accounting practices in public institutions in London and in Kenya could also be undertaken in the future. This study would be beneficial to Kenya as London institutions are more developed in this area.

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APPENDICES

Appendix 1: Companies Listed at the NSE as at 1st October 2014

	Company
	Agricultural
1	Eaagads Ltd
2	Kapchora Tea Co. Ltd
3	Kakuzi Ltd
4	Limuru Tea Co. Ltd
5	Rea Vipingo Plantations Ltd
6	Sasini Ltd
7	Williamson Tea K Ltd
	Automobiles and Accessories
8	Car & General K Ltd
9	CMC Holdings Ltd
10	Sameer Africa Ltd
11	Marshalls EA Ltd
	Banking
12	Barclays Bank Ltd
13	CFC Stanbic Holdings Ltd
14	I&M Holdings Ltd
15	Diamond Trust Bank K Ltd
16	Housing Finance Co. Ltd
17	Kenya Commercial Bank Ltd
18	National Bank of Kenya Ltd
19	NIC Bank Ltd
20	Standard Chartered Bank ltd
21	Equity Bank Ltd
22	The Cooperative Bank of Kenya Ltd
	Commercial Services
23	Express Ltd
24	Kenya Airways Ltd
25	Nation Media Group Ltd
26	Standard Group Ltd
27	TPS Eastern Africa(Serena)Ltd
28	Scangroup Ltd
29	Uchumi Supermarket Ltd
30	Hutchings Biemer Ltd
31	Longhorn Kenya Ltd
	Construction and Allied
32	Athi River Mining Ltd
33	Bamburi Cement Ltd
34	Crown Berger Ltd
35	E.A. Cables Ltd

36	E. A. Portland Cement Ltd
	Energy and Petroleum
37	KenolKobil Ltd
38	Total Kenya Ltd
39	KenGen Ltd
40	Kenya Power & lighting Co. Ltd
41	Umeme Ltd
	Insurance
42	Jubilee Holdings Ltd
43	Pan Africa Insurance Holdings Ltd
44	Kenya Re-Insurance Corporation Ltd
45	Liberty Kenya Holdings Ltd
46	British-American Investments Co. K Ltd
47	CIC Insurance Group Ltd
	Investment
48	Olympia Capital Holdings Ltd
49	Centum Investment Ltd
50	Trans-Century Ltd
	Investment Services
51	Nairobi Securities Exchange Ltd
	Manufacturing and Allied
52	B.O.C K Ltd
53	British American Tobacco K Ltd
54	Carbacid Investments Ltd
55	East African Breweries Ltd
56	Mumias Sugar Co. Ltd
57	Unga Group Ltd
58	Eveready EA Ltd
59	Kenya Orchards Ltd
60	A. Baumann Co Ltd
	Telecommunication and Technology
61	Safaricom Ltd
	Growth Enterprise Market Segment
62	Home Afrika Ltd

Appendix 2 Statistical Data: Stock Returns and Number of Sentences on Social Accounting Variables (Rouf, 2011).

	Company	p	d	$Y_{(t+1)}$	X_1	X_2	X_3	X_4	X_5
		Share price	Dividends	$(\frac{d1}{Po}+\frac{P1-Po}{Po})$	Environmental Reporting	Human Resource Reporting	Community Involvement Reporting	Product Reporting	Interest Rate
	Agricultural Sector								
1	**Sasini Ltd**								
	2008	7.75	0		3	1	3	3	14.02%
	2009	6.05	0.4	-0.16774194	0	0	0	0	14.80%
	2010	13.3	0.5	1.280991736	0	0	0	0	14.36%
	2011	12.05	0.8	-0.03383459	0	0	0	0	15.05%
	2012	10.95	0.75	-0.02904564	8	6	18	0	19.65%
	2013	13.3	0.25	0.237442922					17.31%
	Commercial & Services Sector								
2	**Kenya Airways Ltd**								
	2008	52	1.75		3	38	11	33	14.02%
	2009	19.75	1	-0.60096154	4	88	25	61	14.80%
	2010	60	1	2.088607595	23	82	32	57	14.36%
	2011	32.25	1.5	-0.4375	3	126	33	45	15.05%

	2012	13.95	0.81	-0.54232558	19	68	12	58	19.65%
	2013	12.5	0	-0.10394265					17.31%
3	**Nation Media Group Ltd**								
	2008	144	5.5		3	48	14	56	14.02%
	2009	167.48	8	0.218611111	27	45	30	21	14.80%
	2010	139.95	8	-0.11661094	7	34	53	20	14.36%
	2011	221.98	10	0.657591997	5	38	53	18	15.05%
	2012	309.94	10	0.441301018	4	27	62	18	19.65%
	2013	288.66	10	-0.03639414					17.31%
4	**Scangroup Ltd**								
	2008	26	0.75		0	15	10	3	14.02%
	2009	25.5	0.5	0	0	9	14	6	14.80%
	2010	61.45	0.7	1.437254902	5	9	7	3	14.36%
	2011	41.56	0.7	-0.31228641	0	6	11	2	15.05%
	2012	68.62	0.6	0.665543792	3	13	6	3	19.65%
	2013	48.28	0.4	-0.29058584					17.31%
5	**Centum Investment Ltd**								
	2008	25	0.45		0	7	11	17	14.02%
	2009	36.5	0	0.46	0	11	15	44	14.80%
	2010	19.9	0	-0.45479452	3	10	7	242	14.36%
	2011	13.05	0	-0.34422111	0	7	12	280	15.05%
	2012	21.6	0	0.655172414	38	18	18	961	19.65%
	2013	15.52	0	-0.28148148					17.31%

	Banking Sector								
6	**KCB**								
	2008	23.5	1		18	3	33	16	14.02%
	2009	20.5	1	-0.08510638	14	10	43	18	14.80%
	2010	21.5	1.25	0.109756098	17	6	33	16	14.36%
	2011	16.18	1.85	-0.16139535	6	6	60	25	15.05%
	2012	29.76	1.9	0.956736712	9	5	80	11	19.65%
	2013	47.24	2	0.654569892					17.31%
7	**Cooperative Bank**								
	2008	10.65	0.1		15	51	32	67	14.02%
	2009	7.48	0.2	-0.27887324	18	48	31	56	14.80%
	2010	15.85	0.4	1.172459893	17	50	34	62	14.36%
	2011	9.72	0.4	-0.3615142	18	44	31	58	15.05%
	2012	13.06	0.5	0.395061728	13	46	20	35	19.65%
	2013	17.79	0.5	0.400459418					17.31%
8	**Standard Chartered Bank**								
	2008	160	10		66	28	75	49	14.02%
	2009	161	12	0.08125	43	50	116	17	14.80%
	2010	258	13.5	0.686335404	36	27	72	35	14.36%
	2011	160	11	-0.3372093	42	60	80	34	15.05%
	2012	235	12.5	0.546875	24	29	91	33	19.65%
	2013	304	14.5	0.355319149					17.31%

9	**Barclays Bank Ltd**								
	2008	16.09	0.5		6	0	61	19	14.02%
	2009	11.52	0.63	-0.2450206	17	6	47	14	14.80%
	2010	14.93	1.36	0.41417556	29	8	21	9	14.36%
	2011	14.70	1.5	0.085416344	20	22	21	8	15.05%
	2012	13.70	1	-0.00052624	5	10	26	26	19.65%
	2013	17.26	0.7	0.311086277					17.31%
10	**Equity Bank Ltd**								
	2008	176	3		5	10	40	28	14.02%
	2009	14.35	0.4	-0.91619318	10	10	100	43	14.80%
	2010	26.75	0.8	0.919860627	12	13	98	57	14.36%
	2011	16.4	1	-0.34953271	18	2	134	33	15.05%
	2012	23.73	1.25	0.523170732	13	9	202	41	19.65%
	2013	32.99	1.5	0.453434471					17.31%
11	**CFC Stanbic Holdings Ltd**								
	2008	60	0.5		0	4	32	3	14.02%
	2009	45	0	-0.25	5	3	21	0	14.80%
	2010	75.49	1.06	0.701111111	6	9	34	6	14.36%
	2011	39.98	0	-0.47039343	15	7	48	54	15.05%
	2012	41.98	0.73	0.068284142	0	5	54	40	19.65%
	2013	87.02	2.15	1.124106717					17.31%

	Manufacturing & Allied Sector								
12	**East African Breweries Ltd**								
	2008	165.41	5.65		36	31	64	36	14.02%
	2009	133.69	8.05	-0.14306739	21	28	41	41	14.80%
	2010	179.62	8.75	0.408963208	13	37	28	57	14.36%
	2011	183.42	8.75	0.069847871	5	17	35	96	15.05%
	2012	217.14	8.75	0.231583047	6	26	17	77	19.65%
	2013	318.38	5.5	0.491536597					17.31%
13	**BAT K Ltd**								
	2008	131	17		47	33	24	25	14.02%
	2009	178	14.75	0.471374046	32	43	4	75	14.80%
	2010	270	17.5	0.615168539	26	38	6	67	14.36%
	2011	246	30.5	0.024074074	16	30	8	38	15.05%
	2012	493	32.5	1.136178862	41	69	3	41	19.65%
	2013	600	37	0.292089249					17.31%
14	**Athi River Mining Ltd**								
	2008	90.5	1.25		18	0	0	0	14.02%
	2009	111	1.5	0.243093923	12	0	16	0	14.80%
	2010	183	1.75	0.664414414	2	3	12	18	14.36%
	2011	158	2	-0.12568306	13	4	33	2	15.05%
	2012	44.5	0.5	-0.71518987	5	7	19	4	19.65%
	2013	90	0.6	1.035955056					17.31%

15	**Bamburi Cement Ltd**								
	2008	165	6		20	22	71	3	14.02%
	2009	156	11	0.012121212	35	11	24	16	14.80%
	2010	187	8.5	0.253205128	29	0	25	19	14.36%
	2011	125	10	-0.27807487	27	3	24	10	15.05%
	2012	185	10.5	0.564	38	6	17	6	19.65%
	2013	210	2	0.145945946					17.31%
	Energy and Petroleum								
16	**KenolKobil Ltd**								
	2008	66	3.5		0	0	23	1	14.02%
	2009	50	0.33	-0.23742424	0	2	18	1	14.80%
	2010	10	0.52	-0.7896	0	0	13	2	14.36%
	2011	9.92	1	0.092	0	0	16	1	15.05%
	2012	13.54	0	0.364919355	0	0	22	0	19.65%
	2013	10.12	0.1	-0.24519941					17.31%
17	**Kenya Power & lighting Co. Ltd**								
	2008	19.04	0.41		8	13	57	25	14.02%
	2009	12.93	0.81	-0.2784954	18	11	78	27	14.80%
	2010	19.77	0.81	0.592255241	12	8	33	32	14.36%
	2011	17.91	0.40	-0.07376152	7	9	6	28	15.05%
	2012	15.76	0.50	-0.09231315	7	17	31	22	19.65%
	2013	16.07	0.00	0.01939632					17.31%

18	**KenGen Ltd**								
	2008	24.5	0.9		4	7	26	6	14.02%
	2009	14.55	0.5	-0.38571429	39	30	63	5	14.80%
	2010	17.11	0.5	0.210309278	39	8	24	7	14.36%
	2011	13.55	0.5	-0.17884278	63	24	55	26	15.05%
	2012	8.6	0.6	-0.32103321	156	71	139	39	19.65%
	2013	15.15	0.6	0.831395349					17.31%
	Insurance								
19	**British-American Investments**								
	2008	0	0						14.02%
	2009	0	0						14.80%
	2010	0	0		9	18	25	15	14.36%
	2011	5.2	0.15	0	8	18	35	32	15.05%
	2012	6	0.25	0.201923077	0	19	22	23	19.65%
	2013	15.15	0.25	1.566666667					17.31%
	Telecommunication and Technology								
20	**Safaricom Ltd**								
	2008	3.6	0.05		6	12	25	65	14.02%
	2009	3	0.1	-0.13888889	4	26	17	41	14.80%
	2010	5.55	0.2	0.916666667	10	26	26	68	14.36%
	2011	3.8	0.2	-0.27927928	30	22	61	100	15.05%
	2012	3.2	0.22	-0.1	18	31	35	154	19.65%
	2013	6	0.31	0.971875					17.31%