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A Study of Social Accounting Disclosures in the Annual Reports of Nigerian Companies

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Abstract: Social accounting is concerned with the development of measurement system to monitor social performance. It is rational assessment of and disclosure on some meaningful domain of companies' activities that have social impact. This study examines the practice of social accounting disclosure in Nigerian companies. Forty companies from eight sectors quoted in the Nigerian Stock Exchange were randomly sampled. Data were collected from the annual reports of the companies' for the period 2005 to 2007 and the level of disclosure is measured using content analysis and descriptive analysis. The paper found that 82.5% of the companies sampled present social accounting information in their annual reports. The results show that Nigerian companies prefer to disclose social accounting information in the Directors Report, Chairman's Statement and Notes to the Accounts in the form of short qualitative information. Human resources, community involvement and environment were identified as the most popular themes. Hence, the paper recommends among others that companies should take social accounting as a moral duty; legislation for all companies to disclose social accounting information in Nigeria; social indicators to be developed at the national level in the area of employment opportunities, environmental control, energy conservation, health care etc and professional accounting bodies in the country should collaborate to expand research in social accounting.

Key words: Annual reports, social accounting, social disclosure, Nigeria

INTRODUCTION

The increasing need for every organization to disclose in their annual reports the various activities that affect the society is becoming a very fundamental issue all over the world mostly in developed economies, but this is not the case in developing countries like Nigeria. This is because organizations are particularly more interested in the profit maximization objective to the detriment of the society. According to Iyoha (2010), in developing countries, the concern is about how efficient organizations are in terms of how much profits are made and how much dividends are paid. No serious thoughts are given to social issues in the annual reports of organizations such as environmental protection, energy savings, fair business practice, and community involvements etc. Asechemie (1996) stress that the absence of financial data relating to actions and arrangements for social concern in Nigeria is not in accord with the trend in the USA, Europe and Canada where companies are required to report on the effect of compliance with laws governing corporate social conduct on capital expenditures, earnings and competitive position.

Environmentalists have drawn public attention to the by-products of industrial activities in Nigeria. This made the federal government to establish the Federal Environmental Protection Agency (FEPA) and the National Environmental Standard and Regulatory Enforcement Agency (NESREA) for the purpose of monitoring industrial activities as they affect the environment and prescribe necessary control measures. Asechemie (1996) notes that it is reasonable for Nigerian governments to go beyond the establishment of these agencies to requiring organizations to report scorecards on environmental and other social issues. When this is done, it will reduce the disruptions in companies' operations, kidnapping, accusation and counter accusations of ill treatment of host communities. According to Davies and Okorite (2007), where the social activities of organizations are fairly reported in the financial statements, duly audited and attested to and published by the organization for all to see, some of the problems would be minimized, if not eliminated.

Mamman (2004) stated that the scope of social accounting has extended beyond the issues of environment to include business decisions on human resources, customers and the general public. These decisions are based on accounting information. In effect, accounting is supposed to be responsive to the needs of society. This is the reason why it usually responds to emerging issues. One of such issues is to disclose the social activities of organizations in the annual report. Iyoha (2010) went further to state that society needs social accounting reports in much the same way that capital markets require financial information supplied by financial accounting system. Users of social accounting information need the data that allow them to assess whether the entity is being socially, financially and environmentally responsible. Ramanathan (1976) says the purpose of social accounting is to help evaluate how well a firm is fulfilling its social contract. It would accomplish this purpose by providing visibility to the impact of a firm's activity upon society.

The objective of this paper is to examine the social accounting disclosures in the annual reports of Nigerian companies. Therefore, the content of annual reports must provide information to users relating to social factors. As Mathews (2002) suggested in his study, documenting and analyzing what is disclosed in the area of social accounting should be one of the feature of corporate social reporting. Hence, this study attempts to answer two main questions: (i) what are the most popular types of social accounting and how is social accounting disclosed in the annual reports of companies in Nigeria and (ii) where is the location of presentation of social accounting in the annual reports of companies in Nigeria. To achieve this objective, the paper is divided into five sections. The next section discusses the theoretical and empirical literatures adopted for the study. Section three examines the methodology of the study; section four examines the findings and discussions while the last section deals with the conclusion and recommendations.

THEORETICAL AND EMPIRICAL LITERATURES

Nature and scope of social accounting: Social accounting is concerned with the development of measurement system to monitor social performances. It is rational assessment of and reporting on some meaningful domain of business organizations activities that have social impact. Gray (2000) defined social accounting as the

> "preparation and publication of an account about an organisation's social, environmental, employee, community, customer and other stakeholder interactions and activities and, where, possible the consequences of those interactions and activities".

Alexander and Britton (2000) viewed social accounting 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. In the words of Mathews and Perera (1996), social accounting:

> means an extension of disclosure into non-traditional areas such as providing information for employees, products, community service and the prevention and reduction of pollution. However, the term 'social accounting' is also used to describe a comprehensive form of accounting which takes into account externalities…. Public sector organizations may also be evaluated in this way, although most writers on the subject of social accounting appear to be concerned only with private sector organizations.

Ramanathan (1976) provided three objectives of 'Social Accounting' in exhaustive form, which he indicated as 'measurement objective' and other two objectives as 'reporting objectives'. These objectives include:

- An objective of social accounting is to identify and measure the periodic net social contribution of an individual firm, which includes not only the 'costs' and 'benefits' internalized to the firm, but also those arising for externalities affecting different social segments;
- Another objective of such type of accounting is to help determine whether an individual firm's strategies and practices which directly affect the relative resource and power status of individuals, communities, social segments and generations are consistent with widely shared social priorities on the one hand, and individual legitimate aspirations on the other;
- The third objective of such type of accounting is to make available in an optimal manner to all social constituents, relevant information of a firm goal, policies, programmes, performance and contribution to social goals. He also provided six concepts, which are necessary for social accounting. These concepts are social transactions, social overhead, social incomes, social constituents, social equity and social asset.

According to Underdown and Glautier (2004), the concept of social accounting raises initial problems of defining not only the users of such information, but their objectives in receiving such information. They further argue that the concept of social accounting underlies the debate about social accounting, which assumes that there exists a theory about social role of business firms in modern society.

In order to facilitate social accounting and reporting, Boumment (1973) in Ghosh (2002) identified five possible areas in which social accounting objectives may be found and each area of contribution of social activities may be measured and reported. These areas are: net income contribution; human resource contribution; public contribution; environment contribution; and product or service contribution.

Table 1: Summary of methodology, sample and results

Author	Methodology and Sample	Main Results
Mamman (2004) Nigeria	Content analysis and 30 listed companies in the Nigeria Stock exchange in the 2002	• There is a growing tendency of firms reporting information on social performance in their financial statements. • The dominant area of social accounting disclosure is human resources and the next area is environmental contribution.
Owolabi (2008) Nigeria	Content analysis and 20 companies from 10 sectors from 2002 to 2006	• The results of the study provides that 35% of companies sampled provide some form of social disclosure in their annual reports. • The social information disclosing firms were all multinationals and disclosure in annual reports is still voluntary, this partly explains the low level of disclosure.
Kuasirikun and Sherer (2004), Thailand	Content analysis and 63 companies of 1993 annual reports and 84 companies of 1999 annual reports of large Thai companies listed in the stock exchange.	• The most disclosed subject in Thai corporate annual reports is employee information; environmental information is the second most disclosed issue in the annual reports. • Thailand reporting methods, location and the amount of social disclosure is similar to that of Australia, in that the narrative form of social reporting is predominates.
Jamil *et al*. (2003), Malaysia	Content analysis and 100 companies for the period 1995 to 1999 with a total of 500 annual reports	• Disclosure level in Malaysia is considered low whereby less than 30 percent of companies studied made disclosure. • Companies in Malaysia prefer to disclose social accounting in the Chairman's statement, financial statement and Directors report in the form of narrative information. • Human resources, community involvement and environmental were identified as the most popular disclosure.
Ponnu and Okoth (2009) Kenya	Content analysis and Chi Square of all the 54 listed Companies in Nairobi Stock Exchange	• Corporate social reporting disclosure received only modest attention and the theme most commonly disclosed was community involvement. • There was significant differences among various industry groupings with respect to company background and themes of CSR disclosure.
Kamla (2007)	Content analysis of 68 Companies Annual Reports from Saudi Arabia, Quarter, Bahrain, Oman, Kuwait, Syria, Jordan & Egypt	• Employee disclosure were the most common theme on which to report on in the period studied. • Environmental disclosure appear to be low in the Arab companies. • Higher level of customer related disclosed.
Adams *et al*. (1998) U.K.	Content analysis of 150 annual reports from Netherlands, Sweden, Switzerland, France, Germany and the United Kingdom	• Significant factors influencing social reporting patterns were found to be company size, industry grouping and country of domicile. • Industry membership was instrumental where companies reported social and some employee information, but in respect of ethical disclosure.

Adapted from various authors

Theories on corporate social accounting disclosure behaviour: Gray *et al*. (1995) in Orij (2007) provided a much cited categorization of social accounting disclosure studies. They talked about three broad classifications of decision usefulness studies, economic theory and social and political theory. The decision usefulness generally relates to the usefulness of accounting information, which is social accounting in this case. These studies are of two types, ranking of information on its perceived decision-usefulness in the financial community and investigations of information on effects on share prices. The economic theory studies are a periphery of agency theory and Positive Accounting Theory (PAT) research. The social and political theory focuses on legitimacy theory (LEGT) and stakeholder theory (STAKT). LEGT and STAKT are theories developed out of political economies. They are overlapping perspectives in a political-economic framework. In theoretical term, Guthrie and Parker (1990) also analyse their empirical evidence in relation to a socio-political economy theory of social disclosure and suggest that:

> a political economy theory of social disclosure is both viable and may contribute toward our understanding of observed developments in national reporting practices. Corporate social disclosures have appeared to reflect public social priorities, respond to government pressures, accommodate environmental

pressures and sectional interests, and protect corporate prerogatives and projected corporate image.

Prior empirical studies: A number of studies have been published on the subject of social accounting disclosure. A number of these rely on content analysis of annual reports. There are several different methods to the analysis of narratives in annual reports. Bettie *et al*. (2004) distinguish two categories: subjective (analyst ratings) and semi-objective (disclosure index studies, content analysis, readability studies and linguistic analysis). Content analysis has been selected for this study because it has been widely used in the accounting research, particularly in social accounting disclosure studies. Since this is the method of analysis in the present study, we limit our review to these studies. Table 1 summary the methodology, sample and main results of these studies.

METHODOLOGY

Sample and sources of data: The unit of analysis was 40 companies from 8 sectors listed in the Nigerian Stock Exchange (NSE) for the years of study 2005-2007. These sectors are Building, Chemical and Paints, Conglomerates, food/Beverges and Tobacco, Petroleum Product Marketing, Health Care, Breweries, Construction. Specifically the study examined the social accounting disclosures within annual reports of the companies using convenience sampling of the population. This study was exclusively based on annual report-which is consistent with past studies. Therefore, a total of 120 annual reports were examined.

Definition of content analysis: Content analysis is defined as a research technique for the objective, systematic and qualitative description of the manifest content of communication (O'Dwyer, 2005). It is clearly defined by Weber (1988) as a method of coding the text or the content of a piece of writing into various groups or categories based on selected criteria (Jamil *et al*., 2003).

Rationale for use of content analysis: This study used content analysis to measure social accounting disclosure. This method was chosen due to its ability to analyse different types of communication tools including those in written code. Content analysis was used to examine written materials contained in the annual reports. This type of analysis was used due to the fact that this study only focuses on one document, which is the annual report. Content analysis has been used in numerous studies on social accounting disclosures (Gray *et al*., 1995; Jamil *et al*., 2003; Kuasirikun and Sheen, 2004).

Table 2: Number of companies disclosing social accounting by industry in Nigeria from 2005 to 2007

Industry	Total no. of Companies	No. of companies with disclosure	Percentage of disclosure
Breweries	3	2	66.7
Building materials	4	3	75.0
Chemical & Paints	4	4	100.0
Conglomerates	6	4	66.7
Construction	2	2	100.0
Food/Beverages and Tobacco	10	8	80.0
Health Care	6	5	83.3
Petroleum Marketing	5	5	100.0
Total	40	33	82.5

Annual reports and accounts of the selected companies 2005 to 2007

Table 3: Format of social accounting disclosure in annual reports of Nigerian companies

Year	Frequency of SAD disclosure using narrative/pictures (%)	Frequency of SAD disclosure using monetary format (%)
2005	75	25
2006	81	19
2007	84	16

Annual reports and accounts of selected companies 2005 to 2007

Descriptive analysis: By using content analysis, the researcher has codified the written material in the annual reports into six (6) categories namely; human resources, environment, energy, product, community involvement and fair business practice. The data was analysed using descriptive analysis.

RESULTS AND DISCUSSION

The results are based on the level of disclosure, the form of Social Accounting Reporting (SAR) disclosure, the location of SAR, the quantification of amount of SAR disclosure and trend of disclosure by types.

Level of social accounting disclosure: Table 2 shows that 33 companies (82.5%) from various industry groupings made social accounting disclosures at least for one year in their annual reports. Analysis based on industry, showed that chemical and paints, construction and petroleum marketing had 100 percent disclosure of social accounting information. The lowest level of social accounting information was 66.7% contributed by Breweries and conglomerate while companies in the building materials (75%), food/beverages and tobacco (80%), and healthcare (83.3%) level of disclosure from year 2005 to 2007. Therefore, it can be deduced that there is a growing concern for companies reporting social performance in their financial statements.

Form of social accounting disclosure: Table 3 shows that in 2005 75% of the companies disclose social accounting information using narrative/pictures and 25% disclose with monetary formats. The year 2006 81% used narrative and 19% used monetary format while in 2007 84% used narrative and 16% monetary format. However, there were also companies that used both narrative and monetary formats of disclosure. Many companies were also found to have used the monetary format to disclose human resource information and environmental contribution primarily related to retirement benefit, training and development and some community based projects such as adopting school, scholarships and donations.

Location of social accounting disclosure: Table 4 shows that 4(12.12%) of the sampled companies (Appendix) disclose social accounting information in the chairman's statement; 17(51.52%) disclose social accounting information in the directors report; 2(6.06%) in the statement of accounting policy; 10(30.30%) in the notes to the accounts. The paper discovers that Directors report is the most popular location where social accounting information is disclosed by companies in Nigeria and also the "notes to the accounts". This result is also consistent with Mamman (2004) study that Directors report is the most preferred location of social accounting information.

Quantification of amount of social accounting disclosure: This study used only number of disclosure as the approach of capturing data through content analysis. Almost all companies disclosed social accounting information in short qualitative discussion and some have extended qualitative discussion where they have sections to disclose the social accounting information especially on human resources and community based projects.

Trend of social accounting disclosure: Table 5 shows the trend of social accounting disclosures in Nigeria. Twelve (12) companies representing (36.36%) reveals that human resources is the trend of social accounting disclosure in the annual report; two companies representing (6.06%) says the trend is fair business practice; nine (9) companies representing (27.27%) suggests community development; three (3) companies representing (9.09%) reveals that the trend of social accounting is energy; five (5) companies representing (15.16%) in their annual reports disclosed that the trend is on the environment; and two (2) companies representing (6.06%) disclosed in their annual reports that the trends is on the organization's products. The analysis therefore reveals that disclosure of social and environmental activities is specifically on the discretion of the companies.

Human resource: This theme includes social information directed towards the well being of employees. For example, improvement of employment practices, training programs, working conditions, promotion policies and

Table 4: Location of social accounting disclosure in the annual reports Nigerian companies

Location	No. of Companies	%
Chairman's statement	4	12.12
Director's report	17	51.52
Statement of accounting policy	2	6.06
Main financial statement	0	0.00
Notes to the accounts	10	30.30
Total	33	100

Annual reports and accounts of the selected companies 2005 to 2007

Table 5: Trend of social accounting disclosure

Theme	No. of companies	%
Human resources	12	36.36
Fair business practice	2	6.06
Community development	9	27.27
Energy	3	9.09
Environment	5	15.16
Product	2	6.06
Total	33	100

Annual reports and accounts of selected companies 2005-2007

provision of job enrichment schemes and employee benefits and the majority of disclosure came under this theme.

Fair business practice: Fair business practices disclosure refers to the employment of minorities, employment of women, support minority and employment of other special interest groups. This study found that only very few companies disclose fair business practice in the area of the employment of some level of individuals.

Community involvement: Community involvement disclosure covers information like education, sponsoring sports, cultural activities, helping the poor, health and safety, and also charity. This theme was a popular disclosure among the companies. This might be because the companies wanted to show to the users of the annual reports that they were accountable to the public.

Energy: The level of disclosure for energy among the sample of companies studied was very low. Almost all companies surveyed disclosed no information on this theme except for petroleum marketing.

Environment: The overall level of environmental disclosure for selected companies in this study was considered low.

Product: Product reflects the concerns of a company for generating and maintaining customer satisfaction regarding the product. The overall level of disclosure for product was not satisfactory. Analysis done showed that breweries, food/beverages and tobacco and petroleum marketing had an improved trend in reporting information of their products in the annual reports.

CONCLUSION AND RECOMMENDATION

The study examined social accounting disclosure for a three-year period from 2005 to 2007. The type of social accounting disclosure, form and location were identified in the annual reports of 40 companies. This covers eight sectors of the Nigerian Stock Exchange. The study found that 82.5% of Nigerian Companies disclose one type or the other of social accounting information in their annual reports. These disclosures were voluntary in nature and largely qualitative; contrary to the developed and some developing countries. The most favoured places of disclosure are in the Directors Report, Chairman's Statement and Notes to the account. The most popular theme that most companies disclose is human resources followed by community involvement and environment. Analysis done by industry found that the petroleum marketing, food/beverages and tobacco, chemicals and paints sectors provides a higher percentage of social accounting disclosure in Nigeria. Therefore, on the basis of the conclusion above, the following suggestions are provided by the researcher to improve the social accounting practice in Nigeria:

- Companies should take social accounting disclosure as their moral duty; mere legislation would not solve the problem.
- The government should provide some incentives like differentials in tax treatment, subsidies, rebates etc. so that companies can take social programmes.
- Researchers should provide the basis and means of social accounting quantification as far as possible.
- The government should put in place suitable legislation for all companies to compel them to make adequate disclosure of their activities to the society.
- Professional institutes in the country like the Institute of Chartered Accountants of Nigeria and the Association of National Accountants of Nigeria should work together for developing social accounting and reporting techniques.
- Social indicators should be developed at the national level in the areas of employment opportunities, environmental control, energy conservation, health education etc.

Appendix:
sampled companies:

- **Breweries**
  Guinness Nig. Plc
  International Breweries Plc
  Nigeria Breweries Plc
- **Building materials**
  Ashaka Cement Plc
  Benue Cement Company Plc
  Cement Company of Northern Nigeria
  Lafarge Wapco Plc
- **Chemical and paints**
  Berger Paints Plc
  CAP Plc
  DN Meyer Plc
  IPWA Plc
- **Conglomerates**
  A.G. Leventis Nig Plc
  John Holt Plc
  P.Z. Cussons Nig. Plc
  Transnational Corporation Plc
  UACN Plc
  Unilever Nig Plc
- **Construction**
  Constain W.A. Plc
  Julius Berger Nig Plc
- **Food/beverages and tobacco**
  7UP Bottling Company Plc
  Cadbury Plc
  Dangote Flour Mills Plc
  Flour Mills of Nig Plc
  Honeywell Flour Mill Plc
  Nig Flour Mills Plc
  National Salt Co. Nig Plc
  Nestle Nig. Plc
  Nig. Bottling Co. Plc
  UTC Nig Plc
- **Healthcare**
  Evans Medical Plc
  Fidson Healthcare Plc
  Glaxo Smithline Consumer
  May and Baker Nig. Plc
  Neimeth International Pharmacy
  Union Diagnostic and Clinical
- **Petroleum marketing**
  African Petroleum Plc
  Conoil Plc
  Mobil Oil Nig. Plc
  Oando Plc
  Total Nig. Plc

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