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Corporate Social Reports of Firms Listed in the Nairobi Securities Exchange, Kenya

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Abstract

This article explores the corporate social reports of companies listed in the Nairobi Securities Exchange, Kenya. This exploratory study aimed at establishing if there is any form of corporate social reporting practiced in Kenya, the extent and mode of reporting, guidelines commonly followed by companies in the preparation and presentation of the corporate social reports and the quality of information disclosed in the corporate social reports. The study revealed that there is some form of corporate social reporting practiced in Kenya. The reports were found, to be of low quality, lacking in completeness, uniformity and reliability. Most of the reporting was done in the annual reports in the corporate governance section. Only two companies prepared separate stand alone reports. The reports primarily focused on issues on education, health and social and philanthropic activities. All the information reported was good news and no bad news was disclosed.

Key words: Corporate Social Reporting, Corporate Annual Reports.

1 Introduction

Published annual reports are used as a medium for communicating both quantitative and qualitative corporate information to present and potential shareholders and other users of accounting information. Although preparation of an annual report is a statutory requirement, companies normally voluntarily disclose information in excess of the mandatory requirements (Barako, Hancock and Izan , 2006). The need to disclose over and above the mandatory information has been as a result of the unprecedented change on the corporate landscape where shareholders are demanding more information, transparency and accountability from companies.

Corporate social (CS) reporting is part of the voluntary information that companies disclose. CS reports communicate how “compassionate” companies have been over the financial period that has just ended and how they intend to continue to be even more so in future periods. This area of CS reporting has generated interest well beyond the confines of accounting academics and professional accountants. Managers, the media, politicians and the public have noted environmental and, therefore, social problems which may be addressed, in part at least, by identifying, measuring and perhaps valuing the interactions between business, society and the environment (Mathews,1997). Corporate social reports have now become part of the annual report in addition to the traditional annual financial reports (Idowu and Towler, 2004).

This has been the trend in Kenya principally in the case of public companies and Multi National Corporations. Despite these developments, CS reporting has remained predominantly a voluntary practice and is subject to senior management intervention. It has also been accompanied by a similar growth in confusion over terminology and, perhaps more pertinently, confusion over what a corporate social report is intended to achieve (Gray, 2000). Social accounting and accountability, corporate citizenship reporting ,social responsibility reporting, social and sustainability performance measurement, and sustainability reporting are all terms used to describe the measurement and reporting of an organization’s social, environmental, and economic impacts, as well as society’s impacts on that organization.

It is with this background that this study tries to explore CS reporting practices in Kenya. The paper is divided into three part made up of the introduction, literature review, results and recommendations.

This study had four objectives namely:

1. To find out if there is any form of CS reporting practiced in Kenya by listed companies.

2. To determine the extent of CS reporting adopted by the listed companies.

3. To establish what guidelines (if any) are commonly followed by companies in the preparation and presentation of the CS reports.

4. To establish the quality of information disclosed in the CS report of listed companies.

2 Corporate Social (CS) reporting

Gray, Owen and Adams (1996) defined CS reporting as the process of communicating the social and environmental effects of an organization's economic actions to particular interest groups within society and to society at large. It involves extending the accountability of organizations, particularly companies, beyond the traditional role of providing a financial account to the owners of capital, in particular, shareholders. Such an extension is predicated upon the assumption that companies do have wider responsibilities than simply to make money for their shareholders.

Perks (1993) defined CS reporting as the disclosure of those costs and benefits that may or may not be quantifiable in money terms arising from economic activities and substantially borne by the community at large or other stakeholders.

Any form of social and /or environmental reporting will be considered in this study as CS reporting.

3 Empirical research

The number of companies reporting their social performance has grown over the years in many countries such as Bangladesh (Belal, 2001): Ireland (Douglas, Doris and Johnson, 2004) and South Africa (CsrWire, 2006). But there is still a long way to go in the quality of existing reports (CsrWire, 2006: Belal 2001: Douglas et al, 2004: Kisenyi and Gray, 1998: Imam, 2000) as there is agreement that quality of the CS reports is wanting. Research has shown that the information contained in the CS reports is only good news (Imam, 2000) and not comprehensive (Han and Zhang, 2008). This study aims to find out if there is any form of CS reporting in Kenya, the quality and completeness of the reports.

Reporting standards as revealed by previous studies were derived from inside the organization (Douglas et al, 2004) and there was no external auditing or verification of social reporting (Belal, 2001: Douglas et al. 2004). Therefore, the credibility of the disclosures made may be open to question. Some firms attempted to follow guidelines such as the Global Reporting Initiatives (GRI) guidelines, AccountAbility 1000, Social Accountability 8000 though partially.

Studies have revealed that the mode of disclosure was for the most part descriptive or qualitative statements (Belal, 2001: Imam, 2000: Liu and Kong, 2006, Han and Zhang, 2008) though quantification was possible (Imam, 2000). On content of the CS reports the information disclosed was on employees (Gray, 1998: Ratanajongkol, S. 2006: Kisenyi and Gray, 1998), community involvement (Ratanajongkol et al, 2006: Kisenyi and Gray, 1998), health and environment (Ratanajongkol et al, 2006). This study will explore the mode of CS reporting and content of the reports in Kenya.

The CS report was found to be located in different parts of the annual report (Belal, 2001). The information was found in the directors' report or in the chairman's statement (Belal, 2001: Chiong et al., 1993). Few companies prepared separate stand alone reports (Imam, 2000: Han and Zhang, 2008). The information was reported in an ad hoc manner.

Previous studies give evidence that CS reporting in most countries is done in an ad hoc manner in terms of the contents of the reports, the mode of presentation and the location of the report. This paper hoped to explore the CS reporting practices adopted by companies listed in the Nairobi Securities Exchange (NSE) in Kenya.

4 Research design

The study was a census and was exploratory in nature. It engaged the use of both primary and secondary data. Descriptive statistics were used to analyze the data. This approach was appropriate since the study was exploratory in nature.

The population studied comprised of all the companies listed in the NSE from the first day of January 2006 to the last day 2006, which represented the study period. The number of companies that were listed on the NSE from the first day of January 2006 to the last day of the year was forty two (42). The choice of listed companies was preferred because, these companies are believed to make improved disclosures because of their investor orientation, the reports are availed to the public and these companies are expected to make non-financial disclosures because of the stakeholders' expectations.

The study period was selected since the vast majority of the companies started this informational practice in the first half of the 2000. Secondly, this period is close to when the corporate governance best practice advocates were vocal and came up with guidelines on corporate governance that incorporated issues on financial and non-financial disclosures.

Although there are a number of other ways like the internet, press reports and interim reports, through which CS reporting may be made, this study considered disclosures made in the corporate annual reports only. Annual reports are regarded as important documents in CSR due to the high degree of credibility (Tilt, 1994), their use by a large number of stakeholders (Deegan and Rankin, 1997) and their widespread distribution. It is believed, therefore, that by focusing on the annual reports, it is possible to understand the CS reporting in Kenya. The exclusive focus on annual reports, however may lead to an incomplete picture of CS reporting practices (Unerman, 2000).

Secondary data was collected from the listed companies' annual reports. For this purpose, all sections of the annual report were carefully examined to note the presence of any corporate social disclosures. The content and format were thoroughly analyzed using content analysis method. Primary data was collected through the administration of a five page questionnaire to the executives or representatives of the listed companies.

5 Findings

Primary data was to be collected from 42 listed firms. Out of the 42 targeted firms, 12 declined to receive the questionnaires for various reasons like confidentiality of the information, authorization would be required from management to complete the questionnaire, the information would be leaked out to competitors and their workload was too much to spare time for a questionnaire. 30 questionnaires were administered out of which 21 companies responded and 9 were unable to return them on grounds that they were lost or whoever was to answer them was away or on leave.

5.1 Availability of CS reports

Most companies engaged this practice of CS reporting practice though fairly recently with 38.1% of them reporting for the first time in 2004. This is despite the fact that they started engaging in social responsibility activities way beyond the year 2002. 9.5% started reporting before 2002, 9.5% in 2002 and 28.6% in the year 2003.14.3% of the companies that responded had not yet started reporting on their corporate social activities.

5.2 Location of the report

81% of the companies included in their annual reports information about corporate social responsibility. This was done in the chairman's statement, director's statement (14.3%) or in the corporate governance section (38.1%). The corporate governance section was the most popular section for disclosing corporate social reports. Only two companies prepared separate annual stand alone social reports.

5.3 Reporting guidelines

All the firms that reported about their corporate social activities in the annual financial reports did not follow any specific international guidelines. The corporate governance guidelines were the ones that were adhered to .These guidelines state that the board's policies and performance in connection with environmental and social responsibility are to be included under non financial disclosures. The companies with stand alone reports attempted to use the GRI guidelines and AccountAbility 1000 but did not fully comply.

5.4 Level of completeness

Level of completeness was low with 61.9% of social activities not reported in the annual reports but in other media like company bulletins and magazines, press releases and newspapers. None of the activities though went completely unreported. Only 38.1% was reported in the annual reports. All activities reported were positive and there was no mention of negative activities.

5.5 Themes of the Corporate Social Reports

The 34 companies that had social reports had themes which fell under the various categories. Education (64.7%) was the most predominant theme followed by Health (58.8%) and social activities and charity (47.1%). Health focused mainly on Acquired Immune Deficiency Syndrome (AIDS) and malaria cure and prevention. Environment and actions taken to safeguard and improve the environment had a score of 35.3% and Water and sanitation, 17.6%. Staff welfare, training and development (11.8%) were the least featured.

5.6 Mode of presentation

Most companies (50%) presented the information in qualitative form, some (38%) in both qualitative and pictorial while 32 % used qualitative, pictorial and quantitative form. None presented the information solely in quantitative form.

5.7 Quality of the reports

Evaluation against the quality of information was carried out by assessing the four principal qualitative characteristics of accounting information. These principals are understandability, relevance, reliability and comparability, as provided for by the Framework for preparation and presentation of financial statements. In terms of understandability the reports were understandable with simple and clear narratives. Pictures where possible were availed. The information captured was relevant but not reliable. This unreliability was as a result of lack of proper guidelines on what was to be disclosed, media to be used and lack of an audit by specialized accountants.

Relevance of the information was tolerable. This was because the information they contained was capable of influencing the economic decision of the users by enabling them to evaluate the firms past, present and future social performance. Comparability of the reports was not possible due to lack of uniformity in presentation of the reports. The reports were in conclusion of low quality.

5.8 Ways of enhancing Corporate Social Reporting

The respondents were given four different approaches to enhance corporate social disclosure and were asked to indicate the degree of the effectiveness of each of them. The respondents supported the more liberal approach to introducing corporate social reporting in Kenya. The strongest support was given to the proposal that corporate social responsibility disclosure should be encouraged, rather than enforced by law. The respondents also showed a high degree of agreement with the view that the social responsibility report should be verified by external auditor after being certified by the director and chief executive officer. All the firms agreed with enactment of relevant laws as a most effective way of enforcing compliance. Certification by the CEO and the Finance Director of the accuracy of the social report contained in the annual report was rated as effective.

6 Conclusion

The most noticeable feature of the annual reports was their lack of full disclosure regarding the companies' social impacts. The reports omitted details of all the companies' activities and reported only what reflected positively to the companies' image. This degree of incompleteness would not be tolerated in financial reporting. There was no coverage of negative impacts, insufficient evidence that the companies accept their social responsibilities, and a lack of completeness. The reports provided insufficient information on the reporting process and governance structures in place with respect to social reporting. The guidelines on social reporting were voluntary and no authorities could enforce compliance. This discordance between theory and practice should be eliminated through active and participative collaboration between higher education stakeholders and the industry practitioners.

An external audit is no guarantee that reports are complete and of good quality. For external audits to add value from a stakeholder perspective, they must be conducted by appropriately qualified people who both understand the audit process and accept the social responsibilities of companies. They must also be carried out using generally accepted auditing guidelines and, crucially, the criteria for qualification of the audit report must be clear. At present there are no guidelines that adequately cover the social audit process. This explained why the stand alone reports though externally audited and attested were still incomplete and low in quality.

It is only by streamlining the development of CS reporting in relation to what theory prescribes and what industry practices that its full potential as an instrument of social communication and development can be realized.

6.1 Recommendations

This paper recommends that for corporate social reporting to achieve its objective of communicating corporate social information effectively the following measures should be instituted; Companies should come up with a uniform way of reporting. This will be possible if educationists, regulatory and professional bodies engage in an open forum with the companies and the stakeholders on what, where, how and when to report. Independent auditing and attestation of the corporate social reports carried out by trained auditors will go along way in enhancing quality of CS reports.

To date, little research has been undertaken on the corporate social reporting aspects of accounting in Kenya, and in this respect the main aim of this paper was to depict and evaluate Kenya's corporate social reporting practices. To explore this area exhaustively further research is necessary to examine the various dimensions of social reporting, especially on the factors determining ways in which corporations disclose their corporate social information, other documents used for disclosure besides the annual financial reports should also be studied.

A longitudinal study would also add value to this area so as to establish the trend of corporate social reporting in Kenya.

Such further understanding of corporate social accounting will contribute to the development of accounting in fulfilling its role as a more meaningful communication process and representation of corporate accountability, not only to the financial interest parties, but also to the wider community.

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