Social Accounting Dimensions and Firm Value: The GRI Approach

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Abstract

Social accounting is a burning issue in Africa. Organizations are under immense pressure to operate in a socially and ecologically sustainable way. However, do these green activities generate benefits to keep the firm sustainable? This study evaluates the impact of three social accounting dimensions on firm value of quoted commercial banks in Nigeria using the Global Reporting Initiative (GRI) guidelines. The data collected were analyzed using the ordinary least square method. The study found support for the influence of the three social accounting dimensions: Social accounting practice and initiatives focused on, community development through philanthropy, employee management, and environmental protection to be significant predictors of firm value. This suggests that social and people-centric dimension of social accounting practices are relevant for corporate organization in the banking sector in Nigeria. As a result, this study advances our knowledge of the specific social accounting practices that contribute to firm value and their relevance for banks in Nigeria.

Keywords: *Social Accounting: GRI: Firm Value; Tobin Q*

1.0 Introduction

Initially, managers of corporations were accountable to their shareholders but today, because of the rise in adverse effect of organisational activities on aspect of social life and the environment, a diversity of stakeholders now demand accountability about the impact of corporate activities on the life of the society (Musa, Abdullahi& Victor, 2013). In addition, the introduction of legislations and code of conduct to ensure that corporations undertake social activities further strengthened the call for social accountability. These include codes and standards such as the Global Reporting Initiative (GRI), AA1000/AA10005 of 1999, the Global Sullivan Principles (1991), the Social Venture Network Standards, Global Compact (2002) and the ISO26000. These codes were enforced as a result of the pressure mounted by civil society groups and environmental right activists (Musa et al., 2013; Tsoutsoura, 2003).

As a result of the above, the number of European firms reporting publicly on different aspect of their social and environmental performance has increased remarkably in the last decade. This has been supported by developments in social reporting guidelines especially that of the GRI. Although for some, this is just rudimentary and generally qualitative information within the annual report, others have gone much further (David, 2003). Also, in the United State the number and sizes of investment funds concentrating on the stock of firms adjudged to be socially responsible in their policies and activities have grown rapidly. Some mutual funds are adopting social responsibility as criteria for investment. Ethical investing as advocated in the books of Domini and Kinder in 1986 is becoming a popular movement today. Institutional investors favour corporations that are socially responsible in their practices.

Irrespective of these developments, the debates as to whether or not corporations should engage on social responsible projects is still on going in literature. Some scholars have argued that the board of directors' focus should be on profit maximisation (Copeland, Koller & Murrin, 1994; Freedman, 1970). On the contrary, some scholars and right activists have argued that businesses have a duty to society and as such, should put that into consideration when making decisions. They have stressed the need for the board of directors to recognise the needs of other stakeholders rather than maximising shareholders wealth (Clarkson, 1995; Whetten, Rands& Godfrey, 2001). Those who have attempted to establish a cause-effect relationship between social accounting and financial performance have produced mixed results. Some found it to be positive (Odetayo, Adeyemi &Sajuyigbe, 2014; Uadiale&Fagbemi, 2011; Iqbal, Ahmad, Basheer & Nadeem, 2012; Formbrum& Stanley, 1990; Solomon & Hansen, 1995) but negative in others (Uwaloma&Egbide, 2012; Ahmad, Basheer & Nadeem, 2012; Bello, 2012; Aupperle, Carrol & Hatfield, 1985; McGuire, Sundgren&Schneeweis, 1988).

A major issue adjudged to be responsible for the conflicting result has been, firstly, how social accounting has been measured (Irene et al., 1993). The lack of consensus of measurement methodology is a clog to the measurement of social accounting. In most cases, rating agencies had developed some subjective indicators such as the Domini Social Index (DSI), Bovespa Corporate Sustainability Index, Fortune Rankings and Ethical Investment Research Service (Musa et al., 2013). Secondly, prior studies have mostly related social accounting to accounting based returns, which are backward-looking rather than forward-looking market value or stock returns. Finally, small sample size, short period of observation, inadequate treatment of control variables such as firm size, industry effects, risk and leverage have all detracted from the research.

This study will use the Global Reporting Initiative (GRI) to identify proxies for social accounting. The GRI is an independent institution whose mission is to develop and disseminate globally acceptable sustainability reporting guidelines that help organisations to report on the economic, environmental and social dimensions of their activities, product and services. The aim of the GRI guidelines is to assist reporting organisations and their stakeholders in articulating and understanding contributions of the organisation to sustainable development through their reports. It is now the most widely used sustainability-reporting framework. Unlike other studies, this study will utilise a forward-looking firm market value (Tobin Q) approach to relate with social accounting dimensions. The social accounting dimensions used in this study include: Social accounting practices and initiative focused on community development through philanthropy, Social accounting practices and initiatives focused on employee management, and Social accounting practices and initiative focused on environmental protection.

Therefore, the major objective of this paper is to examine the impact social accounting dimensions had on market value of quoted banks in Nigeria. The following hypothesis is formulated for the study:

- H_1 Social accounting practices and initiative focused on community development through philanthropy has no significant impact on firm value
- H_2 Social accounting practices and initiatives focused on employee management has no significant impact on firm value.
- H_3 Social accounting practices and initiative focused on environmental protection does not have any significant impact on firm value.

2.0 LiteratureReview

Social accounting, according to Gray et al. (1987) cited in David (2003:1), is defined as being:
"….the process of communicating the social and environmental effects of organisations' economic actions to particular interest groups within society and to society at large. As such, it involves extending the accountability of organisations (particularly companies) beyond the traditional role of providing a financial account to owners of capital ... Such an extension is predicated upon the assumption that companies do have wider responsibilities than simply to make money for their shareholders".

Conceptual Framework Diagram

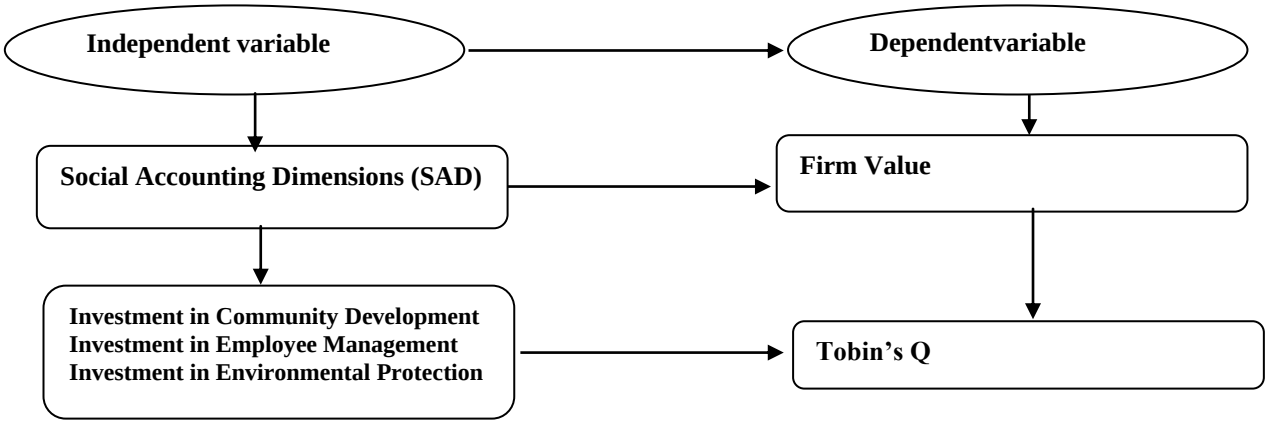

Fig.1 Relationship between Dependent and Independent Variables

3.0 Methodology

A total of 19 commercial banks listed on the floor of the Nigeria Stock Exchange are selected for this study. The banking sector was selected for this study because they are less concerned with environmental and social issues in the society than the non-financial sector. This is because they do not aggressively impact on the environment negatively. The study used financial and accounting data mainly form the bank's annual reports and accounts.

Model Specification and Description of Variables

The models are as follows.

TQ= f(CD,EM, EP)……...(i)

This can be written in explicit form as:

$TQ = \beta_0 + \beta_1 CD + \beta_2 EM + \beta_3 EP + \mu$…… (ii)

Where;

Tobin's Q (TQ): Tobin's Q is the ratio of market value of a firm to the replacement cost of its assets. Due to the complex computation for the real Q data, this research work uses Nicholas Kaldor (1966) formula.TQ= MV/ RVA

Market Value (MV): The market value of the study bank, which can be found in their financial statement

Replacement Value of Asset (RVA): This represents the replacement value of the assets of the banks under study.

Social Accounting Practice and Initiative focused on Employee Management (EM): this captures where the company reports on health and safety system, system for employee training and development and equal opportunity policies. Such a bank is assigned '1' where otherwise it is assigned '0'.

Social Accounting Practice and Initiative focused on Community development (CD): this captures where the company report efforts to develop its immediate community via development policies, and involvement in issues such as sport, education, social amenities, infrastructural facilities and community health including donation to charity organization and donation for charitable related activities. Such a bank is assigned '1' where otherwise it is assigned '0'.

Social Accounting Practice and Initiative focused on Environmental Protection (EP): this captures where the bank report any environmental protection activities, which will benefit the environment. Such a bank is assigned "1" and where otherwise it is assigned "0".

Error (μ): this represent element of an error in model.

4.0 Resultsand Discussions

We present the descriptive statistics of the variables used in the study in the table below

Table 1 Descriptive Statistics

	CD	EM	EP	TQ
Mean	0.400000	0.663947	0.444474	0.446121
Median	0.375000	0.500000	0.375000	0.435800
Maximum	0.750000	3.750000	0.875000	0.987300
Minimum	0.125000	0.265000	0.125000	0.077700
Std. Dev.	0.175000	0.757079	0.197779	0.344526
Skewness	-0.235634	3.836817	0.329663	0.441219
Kurtosis	2.573164	16.20255	2.680000	1.640491
Jarque-Bera	0.320056	184.6103	0.425212	2.079680
Probability	0.852120	0.000000	0.808475	0.353511
Sum	7.600000	12.61500	8.445000	8.476300
Sum Sq. Dev.	0.551250	10.31703	0.704095	2.136564
Observations	19	19	19	19

From table 1 we can see that on the average about 40% of the study population reports on health and safety system, system for employee training and development and equal opportunity policies. 66.39% reports on efforts put in place to develop its immediate community via development policies, and involvement in issues such as sport, education, social amenities, infrastructural facilities and community health including donation to charity organization and donation for charitable related activities, and 44.44% reports on environmental protection activities, which will benefit the environment. On the average, the firm value (TQ) of the study population stood at 0.45.

The median of 0.38,0.5 & 0.37 represent the middle number of CD, EM & EP respectively. The maximum and minimum represent the highest and lower of each the variable.
The standard deviation of 0.174, 0.757 & 0.345 represent the deviation of each respective variable from the sample mean. The skewness shows whether the variables are positively skewed or not, and a normal skewness is "0" which means EP is normal since 0.33 is less than 0.5, while CD is negatively skewed and EM is positively skewed.
The kurtosis of CD & EP is Mesokurtic (normal distribution) since the 2.6 & 2.68 of their respective values is approximately 3 and EM is Leptokurtic because 16.2 >3.00. The Jarque-bara values represent the difference between the skewness and kurtosis of the variables with those from a normally distribution.

Regression Results

Dependent Variable: TQ
Method: Least Squares
Date: 10/14/19 Time: 11:00
Sample (adjusted): 1 19
Included observations: 19 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.345313	0.143037	-2.414149	0.0300
CD	0.050811	0.323459	0.157087	0.8774
EM	0.141572	0.071213	1.988020	0.0667
EP	0.634145	0.321130	1.974733	0.0684

R-squared	0.740126	Mean dependent var	0.446121
Adjusted R-squared	0.665877	S.D. dependent var	0.344526
S.E. of regression	0.199148	Akaike info criterion	-0.168607
Sum squared resid	0.555237	Schwarz criterion	0.079929
Log likelihood	6.601769	Hannan-Quinn criter.	-0.126545
F-statistic	9.968088	Durbin-Watson stat	1.433259
Prob(F-statistic)	0.000495		

Coefficient: the coefficient represents the sign of direction of the relationship between the dependent variable and the independent variable, therefore from result above there is a positive relationship since the value of CD, EM & EP are 0.051, 0.142, &0.634 respectively. However, while EM & EP have a strong relationship with TQ, the relationship with CD is not strong.
Standard Deviation Error: the standard deviation error represents the error that has occurred while predicting the slope coefficient correctly. Therefore, standard deviation error are; 0.32, 0.7 & 0.32 for CD, EM & EP respectively.
T-Statistic: the t-Statistic measures the number of standard error that the coefficient is from "0", it represents how much the coefficient have deviated from being "0". Dividing the coefficient by the standard error gets the t-statistic. Therefore, the t-statistic for CD, EM & EP is 0.16, 1.99, and 1.98 respectively.
Probability Value: this represents the evidence needed to reject the null hypothesis. For the model to be statistically significant the P-value should be between "0% to 5%, so if the P-value is < or = 5% the null hypothesis can be rejected. This therefore means that while EM & EP with P-value of 0.035 & 0.068 respectively are significant; CD with P-value of 0.88 is insignificant.
R- Squared: this represent how much of the variation can be explained by the independent variables. Therefore, 0.74 (74%) of TQ variation can be explained CD, EM &EP.
F-Statistic: this represent how jointly significant the independent variables are in explaining the dependent variable. Therefore, the F-statistic of 9.97 is a significant one.
Prob(F-Statistic): this represent the statistical significance of the F-Statistic. The lower the Prob(F-Statistic) the better the model. Therefore, with a Prob(F-Statistic) of 0.000495 it means the model is statistically significant.
Durbin-Watson statistic: Durbin-Watson Stat test for first order serial correlation in the error term and the rule is that if Durbin-Watson Stat is <2 it is evidence of positive serial correlation in the model. Therefore, there is a positive serial correlation in the model since the Durbin-Watson stat of 1.433 < 2.

From the analysis carried out it is found that listed commercial banks whose firm value increases are more likely to disclose EM & EP information since there is a positive and significant relationship to TQ, while on the other hand CD information would be less likely disclosed since there is a positive but insignificant relationship.
Also, the null hypothesis that Social accounting practices and initiative focused on community development through philanthropy has no significant impact on firm value (H_1) should be accepted. While the null hypothesis that Social accounting practices and initiatives focused on employee management has no significant impact on firm value and Social accounting practices and initiative focused on environmental protection does not have any significant impact on firm value (H_2& H_3) should be rejected because there is a positive and significant relationship between them and firm value.

5.0 Conclusions

From the result gotten from this research, the implication is that the more commercial banks engage in Social Accounting related activities the more the value of the firm increase. That means the more Social Accounting related activities the more patronage the firm gets which will lead to increase in sale resulting to increase in profit. This aligns with the stakeholder's theory which believes that the consideration of all those that are either directly or indirect affected by the operation of the firm will lead to increase in the value of the firm, and also the perception of the instrumental theory of Social and Environmental accounting which perceive an economic entity as a means of wealth creation and that social functions are meant to accomplish economic result. Thus, firms with increasing value use Social Accounting as springboard to achieve wealth creation.

Conclusively, the research work demonstrated that Social accounting practices and initiatives of commercial banks in Nigeria have a significant relationship with the value of the banks. This further collaborates with the bottom line theory, which says that the Social responsibility of company will benefit the firm as well as the society in which they operate.