A SOCIAL RESPONSIBILITY APPROACH TO CORPORATE FINANCIAL REPORTING

by

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DECLARATION

This dissertation entitled 'A Social responsibility approach to Corporate Financial Reporting' is my original work conducted under the supervision of Mr. A. Silva. To the best of my knowledge and belief, the research work has never been submitted whether in Ahmadu Bello University or any other institution for the award of a Degree.

Although references were made to earlier research works (which were fully acknowledged), I accept full responsibility for any mistakes that may be found.

Zakari Aminu SALIHU

CERTIFICATION

This dissertation entitled 'A Social responsibility Approach to Corporate Financial Reporting' by Zakari Aminu Salihu meets the regulations governing the award of the Degree of Master of Science (Accounting and Finance) of the Ahmadu Bello University, and is approved for its contribution to knowledge and literary presentation.

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DEDICATION

To

Muhammad Aminu Salihu

and

the Family.

ABSTRACT

A contemporary topical issue in accounting is the inter-relationship between business and the society. Hitherto, most management experts believed that the main, if not the sole objective of a business enterprise was to maximise profit. This assertion is, however, no longer a universally accepted view. Rather than seeking to maximise profit for its stockholders, the modern corporation should be one that aims at generating an optimum level of profit while at the same time, discharging its responsibilities to all 'stakeholders'.

The research work was aimed at empirically determining the relevance and desirability of adopting a 'general user' approach to the accounting task of corporate financial reporting. The premise is that published financial reports are at present too constrained in scope and format to adequately reflect on the activities of business corporations.

The research procedure was evaluative and involved the analysis and evaluation of both primary (questionnaire responses) and secondary (published financial reports) sources of data. It was established that the criteria for socially-responsive financial reporting should be relevance to user requirements, neutrality in the face of diverse interests, understandability by

the audience and completeness in content. The findings have revealed that there exists the need and opportunity for expanding the scope of **the** conventional accounting reports to reflect the needs of their diverse audience.

TABLE OF CONTENTS

Chapter		Page
	Title Page	i
	Declaration	ii
	Certification	iii
	Acknowledgement	iv
	Dedication	v
	Abstract	vi
	Table of Contents	viii
	List of Tables	xi
	List of Appendices	xii
	List of Abbreviations	xiii
	Glossary of Terms	xiv
1.0	**THE PROBLEM IN PERSPECTIVE**	1
1.1	Introduction	1
1.2	Background and Significance of the research ..	8
1.3	Research Aims and Objectives	11
1.4	Research Methodology	14
1.5	Research Limitations	18
1.6	Research Plan	19
2.0	**REVIEW OF LITERATURE**	21
2.1	Overview	21

Chapter		Page
2.2	Financial Accounting Information and Disclosure Policies	22
2.3	Conceptual Approaches to Corporate Social Responsibility	32
2.4	Major Areas of Social Performance	38
2.5	The Development of Corporate Social Reporting	45
2.6	Summary	59
3.0	**THE CONCEPT OF SOCIAL RESPONSIBILITY IN CORPORATE FINANCIAL REPORTING**	60
3.1	Overview	60
3.2	A Critical Evaluation	60
3.3	Existing legal provisions	69
3.4	Ethical guidelines and considerations	73
3.5	Summary	78
4.0	**SURVEY AND EVALUATION OF PUBLISHED FINANCIAL STATEMENTS**	79
4.1	Preview	79
4.2	Criteria for Corporate Financial Reporting ..	80
4.3	Evaluation of Sampled Financial Reports	83
4.4	Findings and Implications	87
4.5	Social Responsibility Reporting and the Role of the Professional Accountant	98
4.6	Summary	101
5.0	**SOCIAL RESPONSIBILITY IN CORPORATE FINANCIAL REPORTING: DATA ANALYSIS AND RESULTS**	102
5.1	Preview	102

Chapter		Page
5.2	The Nature of Social Responsibility in Corporate Financial Reporting	103
5.3	Users of Financial Statements and their Information requirements	105
5.4	The Relevance of Financial Statements to User requirements	107
5.5	Suggested Improvements in Financial reporting	109
5.6	Interpretation of the Research Questions.. ..	112
5.7	Summary	115
6.0	**SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**	116
6.1	Research Summary	116
6.2	Conclusions	118
6.3	Recommendations	120
	BIBLIOGRAPHY	125
	APPENDICES	129

LIST OF TABLES

Table		Page
1.1	Companies responsibilities to various interest groups.	6
2.4	Major Social concerns.	41
2.5.2(A)	Social income statement for a public institution.	53
2.5.2(B)	Social income statement for a commercial organisation.	55
2.5.2(C)	Estes' Comprehensive Social reporting model.	57
4.3	Secondary Data outlay.	84
4.4.2(A)	VAS for a manufacturing company.	92
4.4.2(B)	VAS for a Trading company.	93
4.4.2(C)	VAS for a service sector company.	94
4.4.2(D)	Proposed format for VAS.	95
5.2(A)	The fundamental objective of a business corporation.	103
5.2(B)	The Ultimate aim of financial statement.	104
5.3	Users of financial statements.	106
5.4	The defects of the financial reporting system.	108
5.5(A)	A company's responsibility to the users of financial statements.	110
5.5(B)	Suggested changes in financial reporting.	111

LIST OF APPENDICES

Appendix		Page
I	Letter of Introduction to respondent	129
II	Questionnaire	131
III	A Breakdown of the Distribution and Responses to the Questionnaire administered	138
IV	List of Sample Companies: Source of Secondary data.	139

LIST OF ABBREVIATIONS

AAA	American Accounting Associatio·.
AICPA	American Institute of Certified Public Accountants.
APB	Accounting Principles Board.
ASSC	Accounting Standards Steering Committee.
CNAA	Canadian National Association of Accountants.
ICAEW	Institute of Chartered Accountants in England and Wales.
ICAN	Institute of Chartered Accountants of Nigeria.
NASB	Nigerian Accounting Standards Board.
SAS	Statement of Accounting Standard.
SRA	Social Responsibility Accounting.
UK	United Kingdom.
USA	United States of America.
VAS	Value Added Statement.

GLOSSARY OF TERMS

Certain terms which appear frequently are used in a particular context for the purpose of this research. These are listed and explained as follows:

1. Social responsibility accounting or social accounting or corporate social accounting or societal accounting - these are used interchangeably in this write up in the manner defined by Estes (1976) as 'the measurement and reporting (internal or external) of information concerning the impact of an entity and its activities on society.' In a clearer sense it should be conceived to mean the determination and reporting of enterprise activities having greater significance for their social impact, than for their financial effect on the company.

2. Financial Statements - These are the means of communicating to interested parties, information on the resources, obligations and performances of the reporting entity or enterprise. They usually consist of the followings: Balance Sheet, Income Statement or Profit and loss account, Notes on the accounts, Statement of source and application of funds, Value-Added Statement and the Historical financial summaries.

3. Accounting Information or Financial Accounting Information: These are used interchangeably to refer to the data contained in

financial statements.

4. Financial reporting or Corporate financial reporting - These are used interchangeably to mean the accounting function of stewardship i.e. the periodic preparation and presentation of financial statements to shareholders and other interested parties.

5. Value-Added Statement - This is a report of the additional wealth created by an enterprise during the period covered by the financial statements. It also reveals how this wealth is distributed among various interest groups (e.g. employees, government, creditors and shareholders).

Chapter 1

1.0 THE PROBLEM IN PERSPECTIVE

1.1 Introduction

Financial reporting has been traditionally associated with the stewardship function which the accounting process had served from time immemorial. Stewardship reporting is based on the premise that corporate shareholders, being the owners of capital, are the persons to whom information should be disclosed and consequently, financial statements (comprising primarily the annual income statement and the Balance Sheet) are prepared taking their information needs to be paramount. The situation is further reinforced by the fact that companies are deemed to have discharged their legal obligations (as per the Companies Decree) by the mere submission of the conventional Profit and Loss Account and the Balance Sheet to the shareholders annually. over the years, however, there have developed three different view-points of the financial reporting function as follows:

(a) **The Stewardship Concept**

It is based on the traditional stewardship accounting view of financial reporting. Its characteristic features being the safeguarding of assets and their proper management as well as the

accountability of the steward to the shareholders for the management of the resources entrusted to him. Hence, it has laid particular emphasis on feedback or ex-post information.

(b) **The Decision-making concept**

This view extends the stewardship function to include the recognition that shareholders and investors (i.e., potential shareholders) are decision-makers who require accounting information for that purpose. This school is of the view that the predominant interest of sharesholders in companies is the receipt of dividend income and capital appreciation. Since prediction is an integral part of decision making, users of financial reports (shareholders and investors) are concerned with the ability of financial reports to predict future events which may affect their own decisions.

(c) **The General User Concept**

This is a modern view which contends that companies should report to a larger class of general users rather than merely to shareholders and investors. A number of researches conducted in recent times tend to support this concept, which indicates a drastic departure from the traditional stewardship view of financial reporting. For instance, a study conducted by the Accounting Standards Steering Committee (ASSC) (London, 1975) and published in 'The Corporate Report', recognized the following

seven groups as having a reasonable right to information which should be considered in financial statements:

(i) The equity investor group which includes existing and potential shareholders and holders of other kinds of securities.

(ii) The loan creditor group including existing and potential holders of debentures and providers of other short and long term loans.

(iii) The employee group including existing, potential and past employees.

(iv) The analyst-adviser group including financial analysts and journalists as well as other providers of business advisory services.

(v) The business contact group comprising trade creditors, suppliers as well as business competitors.

(vi) The government; including tax authorities, and other supervisory and regulatory agencies.

(vii) The public, including tax payers, consumers as well as other pressure groups.

This modern outlook of financial reports has also been advocated by the Nigerian Accounting Standards Board (NASB) in the Statement of Accounting Standard (SAS) No. 2

entitled 'Information to be disclosed in financial statements' issued by it in 1985. The first two paragraphs of the introductory part of this Standard state thus:

1. Accounting information about a business entity or enterprise is required by a variety of users. This need dictates the fundamental objectives of accounting and the mode of reporting information.

2. Firms, organizations or enterprises carry on business activities in a given economic, social and political environment and there is public interest in their operations.

The standard went on to provide specific instances by stating that:

(i) Individuals, financial institutions or group of investors need accounting information to determine the liquidity, profitability and viability of the enterprise.

(ii) Managers in an enterprise need accounting information to measure performance, plan and control operations.

(iii) Employees and customers of an enterprise need accounting information in order to access the ability of the enterprise to produce goods or to render services on a continuous basis.

(vi) Governments and regulatory bodies need accounting information in order to be able to impose and collect taxes, to regulate certain business activities and to plan, execute and evaluate government projects.

(v) Quasi-government establishments need accounting information in order to meet their statutory obligations.

Thus, the information expected to be provided in financial statements should be both quantitative and qualitative in nature to aid their users in making informed decisions.

To further buttress the point that enterprises have a responsibility to other groups apart from shareholders, Dobbins and Fanning (1981) were of the opinion that even a casual view of the conventional Profit and Loss Account should suggest that enterprises have responsibilities to various interest groups in addition to the providers of funds. This view can be supported by the table on page 6.

The user decision-oriented approach or general user concept of financial reporting is therefore the basis upon which social responsibility in corporate financial reporting can be discussed. And this implies that corporate bodies should provide relevant quantitative and qualitative accounting information to the general public on their pursuit of social policies alongside economic gains. Thus, the traditional view of stewardship accounting which had served accunting so well and since time

Table 1.1: Companies responsibilities to various interest groups

Profit and Loss Account for the year ended 31-12-198X (Conventional)			
		N'000	
Sales (Local)	250		Nigerian consumers
Sales (Export)	90	340	Foreign states
Less: Cost of Sales		60	Suppliers (Local & Foreign)
		280	
Less: Wages	60		Empoyees
Salaries	30		Managers and Directors
Other expenses	80	170	Local community
		110	
Less Interest payments		10	Bank/Debenture holders
Net Profit before taxation		100	
Less taxation @ 40%		40	Nigerian government
Profit after tax		60	
Less Dividends		25	Shareholders
Profit retained		35	Shareholders, mananagement and staff, government

Source: Adapted from 'Handbook of Financial Planning and Control' by Pocock, M. A. and Taylor, A. H. (eds.) - Gower Publishing (1981) Page 325.

immemorial needs to be reappraised and restated. Accordingly, the stewardship accounting concept should be conceived to mean that enterprise managers have a responsibility to the society as stewards of the social assets entrusted to them. This view of social stewardship implies an obligation for disclosure of accounting information which will serve the needs of several groups that require the information since the enterprise is considered as a societal reporting entity.

The research is basically geared towards determining the desirability and feasibility of employing the user decision oriental approach as a basis for financial reporting and enhancing disclosure practices in modern day financial statements. In effect, social responsibility can only be meaningful in the context of corporate financial reporting if the general user concept is adopted. It is then assumed that enterprises have an obligation to provide information that is relevant to other interest groups apart from investors, and that the scope of financial statements as presently constituted is too narrow as to be of the desired relevance to interested audience.

However, it is not the purpose of this research to design or advocate for a full scale social reporting system at this stage for obvious reasons. For instance, the fundamental issues involved such as underlying concepts and measurement techniques are still largely debatable and certainly the Nigerian society is at present not quite prepared for that. Therefore, little more

than a research of this nature is required at this point.

Neverless, the research findings are expected to provide the necessary impetus for further research in this area and most importantly pave the way for remarkable improvements in the information content and disclosure patterns of financial statements of business enterprises in Nigeria.

1.2 Background and Significance of the Research

1.2.1 Research Background

Social responsibility accounting is an entirely new phase in accounting development which owes its birth to the social revolution which has been underway in the western world in the last few years. It has been realised that large business enterprises do pose acute political, social and organisational problems not only to their immediate environments but also to the entire socio-economic set up of the country. Public expression of concern about this issue of business social responsibility began as far back as the 1960's. In western Europe and the United States of America (USA) for instance, such public opinion and pressure have led to the formation of multifarious movements to pressurise governments and corporations to do something about specific problems. Such movements that have sprung up over the past one or two decades include the Consumer protection movement, Ecology movement, Egalitarian movement,

Public interest movement; Nuclear Movement, etc. (Glautier and Underdown, 1976).

The concern of these movements for the quality of life has resulted in an attack on the traditional values held by the industrial societies of the West. In the wake of these pressures, corporate executives have on the other hand been finding it difficult to accept society's growing demands and reconcile them with their traditioanl view of the corporation. They have nevertheless reluctantly responded in certain ways though not without facing another dilemma - that of determining what precisely is expected of a 'socially responsible' corporation. In this regard, several researchers such as Estes (1976), Ramanathan, (1976) and Gambling, (1977) have written eloquently on the concept of social accounting and have made significant contributions on its implementation and problems. Professional associations have also made commendable efforts. For instance, the report of the Study Group on the objectives of financial statements commissioned by the AICPA in 1973 contains the following statement:

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

The demand for social accounting information has continued to be on the increase and the pressure being brought to bear on

corporations in this regard appears to be getting unbearable.

In certain developed countries such as Japan and France appropriate governmental agencies have gone to the extent of promulgating regulatory legislations on the responsibilities and obligations of corporate bodies vis-a-vis the society. In other countries such as the USA the issue is left to the initiatives of independent institutions and private organisations. Whatever be the case, it is obvious that the problem is one that demands the collective efforts of both the accountants and private business organisations for workable solutions to be found.

1.2.2 Research Significance

The purpose of the research was to test empirically, the relevance and feasibility of adopting a societal approach to the accounting function of financial reporting. Meaningful research in this area is indeed very negligible particularly as it relates to the Nigerian environment.

Accountants the world over are re-examining the scope and objectives of published financial reports in the light of presenting day needs and conditions. This is because there is a growing consensus that traditional financial measures of performance derived from Income Statements and Balance Sheets are too narrow to fully reflect what enterprises are trying to do. The re-examination is aimed at establishing a basis for financial

reporting by identifying user groups for whom financial reports should be prepared and their information needs.

The entire phenomenon is a manifestation of the objectionable pattern of statutory financial statements which inadevertently, overemphasise the information needs of shareholders to the detriment of non-shareholders and the general public. Because of this serious lapse, a good majority of members of the society, particularly those in the so called developing economies are ignorant of their rights and responsibilities vis-a-vis their corporate neighbours. There is also a strong sentiment that corporate bodies in Nigeria have been exploiting the resources and people of the country without showing concern and sympathy for the social problems of the society. This is apparent if one considers for instance the extensive ecological damage caused by the oil producing companies in the country's mineral-rich areas. The research is therefore appropriate and timely if it is considered that the entire accounting process is rapidly undergoing a transition by moving away from its traditional procedural base towards the assumption of a role that emphasises its social significance.

1.3 Research Aims and Objectives

The requirement for and disclosure of accounting information in corporate financial reports has been witnessing some cautious improvements in Nigeria for some time now. The

demand for accounting information has given rise to the quest for enterprises to disclose the extent to which the soeicty has benefited from their presence. It has now been recognised and accepted that enterprises have a social obligation to various individuals and groups and that the respective interests of these groups should be recognised in the preparation of financial statements. This view has been accepted by the NASB and has been echoed in the SAS No. 2 entitled 'Information to be disclosed in financial statements' issued by it. Information disclosure in financial statements has in the practical sense also benefited from this shift of emphasis. For instance, corporate accountants in Nigeria are now willing to publish financial statements other than those statutorily prescribed by the Companies Decree of 1968.

However, it is disturbing to note that due to lack of meaningful research and guidance in this regard, the entire issue and the approach adopted by companies could best be seen as a futile exercise. Enterprises on their own initiative determine the nature and extent of their social responsibility and then employ the procedures or methods they prefer in disclosing whatever information is most convenient for them. Someof the channels employed for the purpose of disseminating information of this nature include the Chairman's annual report, Press bulletins and conferences as well as in-house journals amongst others. There is indeed the need for elaborate studies to bring

about some uniformity and professionalism, as well as establishing the principles that will guide the whole exercise.

In perspective therefore, it is the aim of this research to explain the phenomena behind the following basic research questions:

(i) What is Social responsibility in the context of corporate financial reporting?

(ii) Who are the target audience (i.e., user groups) for financial accounting information and what are their respective information requirements?

(iii) To what extent have current financial statements provided relevant and understandable information that suits the requirements of the users?

(iv) What are the improvements required to make financial statements more meaningful and relevant so as to command the response of a larger audience?

It is then expected that the following major objectives could be attained:

(i) To generate the desire and need for widening the scope of the traditional financial reporting function of incorporating social stewardship into the main frame stewardship accounting function.

(ii) To enable the presentation of financial statements based on a general user concept so as to make them more relevant and meaningful to a larger group of existing and potential audience.

(iii) To make corporate organisations more conscious of the social role which society expects them to play in pursuing their primarily economic aspirations.

1.4 Research Methodology

The purpose of the research was to determine the relevance and feasibility of employing the general user concept as a basis for corporate financial reporting. The premise is that financial statements as presently constituted are too narrow in scope to reflect on what corporate bodies are actually doing. The section explains the research design as well as the population and sample drawn therefrom.

1.4.1 Description of the Research Methodology

In line with the stated research goal, a descriptive approach to the research study was adopted. This is a research technique which specifies the nature of a given phenomenon. It is therefore an evaluative process. Evaluative research is 'a special form of applied research whose primary goal is not the discovery of knowledge but testing the application of knowledge'

(Suchman, 1968). Hence it is a systematic process whose primary goal is that of discovering the facts and characteristics of a given population.

As usual, the investigation of any problem should begin with a 'survey' of its nature before it can move into the more structured and rigorous phases (in this case evaluation). It has therefore been found logical to apply the survey research method in order to determine the status of the problem situation.

The purpose of survey research is to accurately assess the characteristics of a whole population. This is made possible by the selection and study of a representative sample chosen from the population which enables the researcher to discover the relative incidence, distribution and the inter-relations of certain variables. The survey research also enables the identification of problems and the making of comparisons and evaluations.

Strengths: The relative strength of the survey research method include giving an overall picture of an entire population as well as pointing towards possible solutions to the problem. It also provides the basis for assessing situations as a prerequisite to inferences and generalisations.

Weaknesses: The possibility of having a lopsided sample or set of respondents cannot be ruled out. This is because only those that are accessible and willing to cooperate could be

utilised in data gathering. Surveys are also vulnerable to under-rater or over-rater bias, i.e. the tendency for some respondents to give consistently low or high ratings.

Choice of Survey Methods: The two primary methods of survey - mail questionnaire and personal interview, were chosen to facilitate the process of information gathering. Thus the primary instrumentation tool employed for the study was the questionnaire. This was to allow for wider coverage at a minimum expense both in terms of money and effort. The questionnaire was divided into four sections (A, B, C and D) to facilitate gathering the required data. Each section of the questionnaire touched on one of the four research questions outlined in Section three of this chapter.

It is an important ingredient of survey to establish the validity of a questionnaire before its use. There are two stages of validation. At an elementary level, it is necessary for the questionnaire to have face validity - i.e. each question must be related to the problem under investigation and giving an adequate coverage of the subject, among other things. The more crucial validation however, requires checking the responses which the questionnaire elicits against an external criterion. However since this study will involve asking questions of opinions and attitudes, the most effective way to ensure validity of responses received is to follow the questionnaire with an interview of a sample of the respondents to see whether their responses tally

with their views on the subjects discussed. Hence the decision to combine both the questionnaire and interview methods of survey study. Also in order to avoid a situation of high percentage of non-returns of the questionnaire, follow up trips as well as reminder notes were used to ensure that data was obtained from as large a proportion of the sample as possible.

1.4.2 Selection of Subjects

Since the approach to the study was evaluative, it is necessary to establish a basis for comparison or evaluation of the responses received from the sample.

The population can be classified into two - the corporate organisations on one hand, and the various user groups for financial accounting information on the other. A non-random sample of the first population (about 10 companies) was drawn and their financial statements were used as basis for evaluation. A stratified non-random sample was also drawn from the second population. This is necessary because users of financial accounting information are of differing characteristics each with peculiar information requirements. For the purpose of this study, five user-groups were targetted. These comprise of investors, company employees, accountants in academics and in practice, customers and government agencies. They form the sample drawn from the second population and they are those to whom the questionnaire was administered. Their responses were

analysed on the basis of the financial statements of the companies that form the sample for the first population. No attempt was made to stratify or group the sample companies since the research was merely interested in evaluating their financial statements and these are usually prepared adopting the same accounting concepts and conventions. However, thesample was selected from companies involved in different lines of business activity such as manufacturing, trading and service.

1.5 Research Limitations

Social responsibility accounting still remains a relatively undeveloped phenomenon with much subjectivity in its interpretation. Hence, the tendency for most companies to decide for themselves the nature and extent of their social responsibilities. The concept may, therefore, be broadly or narrowly defined. This research employed the underlying assumptions of the concept of business social responsibility in shaping an approach to the accounting task of corporate financial reporting. Thus, the research cannot be completely devoid of some of the limitations of the concept itself, notably the subjectivity aspects.

The research employed the survey method of acquiring data involving the questionnaire and oral interviews. Practical problems related to these methods of gathering information were encountered. These include among others, failure of some sample

respondents to answer certain questions in the questionnaire and outright refusal to even accept the questionnaire. Also, the possibility that some respondents have refused to give their sincere views or opinions cannot be ruled out. In the case of oral interviews, there exist the added problems of inability to get access to some respondents, the possibility of pre-empting the respondent's views by the manner in which a question was posed, or even the possibility of annoying the respondent thereby affecting his final response or lack of it.

Severalprecautionary measures were, however taken in order to minimise the impact of these factors on the final research data. These include continuous follow up interviews and reminders to respondents that either failed to answer some questions or the entire questionnaire, and reassuring them of the confidential treatment which their responses will receive. The problem of categorizing the sample into groups namely share-holders, employees, customers, government institutions and professional accountants was overcome by making use of the unions or associations to which these people belong such as labour unions, ICAN, the Stock Exchange, etc. Thus, the limiting factors were not so overwhelming as to jeopardize the validity of the research findings.

1.6 Research Plan

To facilitate the conduct of the research as well as

coverage of the areas designed, this write up is classified into six chapters. Each chapter is further divided into sections which deal with specific aspects of the chapter.

The statement of the problem to be investigated together with the aims and objectives of the study and research procedure are contained in this first chapter.

The remainder of the write up consist of the review of relevant literature on the research area, which forms the content of chapter two. Chapter three provides a conceptualisation of the research topic by critically examining the concept of corporate social responsibility in the context of corporate financial reporting. Chapter four evaluates the financial statements of the sample companies based on certain selected criteria. An analysis of the data gathered through the responses received on the questionnaire and personal interviews as well as the findings made therefrom was taken up in chapter five. Finally, a summary of major research findings together with some recommendations form the content of chapter six.

Chapter 2

2.0 REVIEW OF LITERATURE

2.1 Overview

The research was aimed at discovering empirically, the relevance and feasibility of employing a user decision-oriented approach to the acounting task of corporate financial reporting. The approach involves a consideration of the ability of alternative accounting methods to provide useful input to users' decision models.

Being a social responsibility-based approach, the research literature examines the concept and methodology of social accounting in relation to the research problem. The chapter has been accordingly classified into five other sections. Section two reviews the objectives of corporate financial reports as well as the accounting concept of adequate disclosure. Section three examines the conceptual interpretations of business social responsibility while section four analyses strategic areas of social concern. Section five reviews various approaches to and some selected formats for corporate social reporting, and lastly section six summarizes the salient points treated in the chapter.

2.2 Financial Accounting Information and Disclosure Policies

2.2.1 Definition of Financial Accounting

There is no doubt that accounting is undergoing a rapid transition by moving away from its traditional procedural methods (involving record keeping and other related aspects like budgeting and final accounts) towards the assumption of a role which emphasizes its social orientation and relevance.

The changing environment in which accounting now performs has inevitably extended its boundaries to such an extent that there is now a problem of defining its scope. Invariably this has led to a situation whereby the definition of accounting continues to change with time. For instance, Littleton, 1953, wrote that 'the central purpose of accounting is to make possible the periodic matching of costs (efforts) and revenues (accomplishments). This concept is the nucleus of accounting theory and a benchmark that affords a fixed point of reference for accounting discussions.' The Committee on Terminology of the AICPA (1961) inteprets accounting as 'the art of recording, classifying and summarizing in a significant manner and in terms of money, transactions and events which are, in part at least, of a financial character and interpreting the reuslt thereof'. Finally a more recent and liberal interpretation, defined accounting as 'the process of identifying, measuring and communicating economic information to permit informed judgements and

decisions by the users of the information (A.A.A., 1966).

This definition though not comprehensive enough to reflect the present social significance of accounting is however closer to the theme of this write up and to the attainment of the role of accounting as an information science. It is also possible to define the scope and boundaries of accounting from this definition by implying that accounting is concerned with:-

(i) Identifying and selecting the information which intended users will need.

(ii) Evaluating that information in the manner which is most useful to the intended users;

(iii) Communicating the information selected and processed in the form most appropriate to the requirements of its users.

(Glautier and Underdown, 1976).

2.2.2 The Objectives of Financial Accounting

Being an information-based discipline, it is only logical that the provision of information to suit the requirements of users of accounting information should determine the objectives of an accounting information system. Thus the basic criterion for judging the effectiveness of an accounting information system should be the relevance of its information output to users' decision models. This criterion forms the basis upon which the

objectives of financial accounting were established. The most outstanding piece of research conducted in this regard was produced in 1975 by the A.I.C.P.A.'s study group on the Objectives of Financial Statements (Popularly known as the Trueblood Report). In developing the objectives of financial statements, the Study Group was principally required to consider the following posers:

- Who needs financial statements?
- What information do they need?
- How much of the needed information can be provided by the accounting framework?
- What framework is required to provide the needed information?

The Committee reported that 'The basic objective of financial statements is to provide information useful for making economic decisions'. It then went on to list other additional or subsidiary objectives as follows:

(i) To serve primarily those users who have limited authority, ability, or resources to obtain information and who rely on financial statements as their principal source of information about an enterprise's economic activities.

(ii) To provide information useful to investors and creditors for predicting, comparing and evaluating potential cash flows to them in terms of amount, timing and related

uncertainty.

(iii) To provide users with information for predicting, comparing, and evaluating enterprise earning power.

(iv) To supply information useful in judging management's ability to utilise enterprise resources effectively in achieving the primary enterprise goal.

(v) To provide factual and interpretive information about transactions and other events which is useful for predicting, comparing and evaluating enterprise earning power.

(vi) To provide a statement of financial position useful for predicting, comparing and evaluating enterprise earning power.

(vii) To provide a statement of periodic earnings useful for predicting, comparing and evaluating enterprise earning power.

(viii) To provide a statement of financial activities useful for predicting, comparing and evaluating enterprise earning power.

(ix) To provide information useful for the predictive process. Financial forecasts should be provided when they will enhance the reliability of users' predictions.

(x) For governmental and not-for-profit organisations an

objective is to provide information useful for evaluating the effectiveness of the management of resources in achieving the organisation's goals.

(xi) To report on those activities of the enterprise affecting society which can be determined and described or measured and which are important to the role of the enterprise in its social environment.

The committee concluded that the objectives set out in the report could be attainable in stages within a reasonable time period, and are vital for continued improvements in accounting standards and practices.

2.2.3 Disclosure Policies in Financial Statements

The concept of disclosure in financial reports has been of primary significance in both accounting theory and practice. Its scope is in fact '...broad enough to encompass almost the entire area of financial reporting...' (Hendriksen, 1970). The significance of the concept is further established by the efforts currently being made by several groups to enhance the scope of accounting disclosure. For example the issuance of SAS No. 1 'Disclosure of Accounting Policies'. and SAS No. 2 entitled 'Information to be disclosed in financial statements' by the NASB in 1985 could be seen in this light. Other similar reports include "The Corporate Report" of the ASSC (U.K. 1975) and t he previously discussed Trueblood Report on the objectives of

financial statements.

It is worth mentioning that this is the aspect of accounting where governments play a key role. In Nigerian for instance, the Companies Decree of 1968 specifies the kinds of financial statements which companies should present to members at annual general meetings, as well as the rights and obligations of the shareholders in relation to the company. These requirements however, suffer from two major defects. First, companies are considered to have fulfilled their legal obligations in respect of accounting information disclosure by the mere submission of an Income Statement and a Balance Sheet together with the appended notes. Second, companies are only legally responsible to provide accounting information that suits the needs of shareholders, notwithstanding the diverse audience for financial accounting information. It is due to these situations that reports of the kind mentioned above were published reflecting this new outlook of accounting disclosure (now more appropriately termed as adequate disclosure).

2.2.3.(i) <u>Definition of Adequate Disclosure</u>

Several interpretations have been given on what consistutes adequate disclosure, but the substance is essentially the same. It has been stated that 'Accounting reports should disclose that which is necessary to make them not misleading' (Moonitz, 1961). Elaborating on this, Moonitz opined that the concept of

disclosure should be conceived in terms of (a) what should be disclosed, (b) to whom, and (c) how disclosure should be made.' Also in discussing the adequacy of informative disclosure, the committee on Auditing procedures of the AICPA (1973) stated thus:

> The fairness of presentation of financial statements in conformity with generally accepted accounting priciples comprehends the adequacy of disclosures involving material matters. These matters relate to the form, arrangement and content of the financial statements with their appended notes; the terminology used; the amount of detail given; the classification of items in the statements; the bases of amounts set forth... This enumeration is not intended to be all inclusive but sim ply indicative of the nature and type of disclosures necessary to make financial statements sufficiently informative.

It is obvious from the foregoing that neither the mere submission of Balance Sheet and Income Statement nor the disclosure of accounting information required by only the shareholders could give any credibility to the accounting concept of adequate disclosure. The trend at present therefore is towards the provision of accounting information that considers other user groups alongside the shareholders. A study that picked on this issue was 'The Corpo te Report' of the Accounting Standards Steering Committee o the ICAEW. The Report recommended the provision of six other supplementary reports apart from the traditional Profit and Loss Account and Balance Sheet. These could be prepared without much difficulty by most firms and consist of (i) A statement of value-added (ii) An employment report (iii) A statement of money exchanges with the government (iv) A statement of transactions in foreign currency (v) A state-

ment of future prospects (v) A statement of corporate objectives.

It is common logic however that certain characteristics should be present on an object for it to be considered as having acquired a special quality or attained a perticular status. Similarly, corporate financial reports should possess certain characteristics in order for them to be sufficiently informative. The Corporate Report cited above states that the reports should be (i) Relevant (ii) Understandable (iii) Reliable (iv) Complete (v) Objective (vi) Timely and (vii) Comparable.

And in a slight variation from this, the APB (1970) indicated that 'financial information that meets the qualitative objectives of financial accounting also meets the reporting standard of adequate disclosure'. The qualitative objectives which must be met according to the Board are:- (i) Relevance (ii) Understandability (iii) Verifiability (iv) Neutrality (v) Timeliness (vi) Comparatibility and (vii) Completeness. These represent a fairly complete list of the desirable attributes of financial accounting information.

Buzby (1974) was of the view that a full understanding of the rationale and implications of the concept of adequate disclosure requires seeking answers to five interrelated questions as follows: For whom is the information to be disclosed? What is the purpose of the information? How much information should be disclosed? How should the information be

disclosed? and When should the information be disclosed?

1. For whom is the information to be disclosed?

It is an established fact that there are a number of potential user groups with a direct or indirect interest in financial accounting information, and the adequacy of information disclosure can only be determined on the basis of the needs of the users it is intended for. It is also important to identify these user classes and their characteristics because different users have different purposes and this will go a long way in determining the specific types of information to be presented as well as the manner of presentation. The adequacy of accounting disclosure is also seen in relation to user competence - the ability of the user to interpret and understand the accounting data presented in the financial report. The Trueblood Committee has recommended that financial reports should serve primarily those users with limited authority, ability, or resources to obtain information and who rely on financial statements as their major source of information about the activities of an enterprise.

2. What is the purpose of the information?

The identification of the purpose for which accounting information is required is necessary in order to satisfy the accounting objective of 'relevance'. The APB has indicated that relevance is the primary qualitative objective of financial

accounting information, and therefore the purpose for which the information is to be used must first be determined before the relevance of particular kinds of information can be determined. Hence information that is relevant for one purpose may not be relevant for another purpose.

3. How much information should be disclosed?

Information presented in accounting reports are as contained in the conventional balance sheet, income statement, value-added statement and sources and applications of funds statements. Moonitz (1961) has also stated that accounting reports should disclose whatever information that is necessary to make them 'not misleading". Because of these, numerous suggestions have been put forward for the extension of accounting disclosures. For example the Trueblood Committee report has recommended several expansions in accounting disclosures covering current value accounting and social accounting amongst others.

4. How should the Information be disclosed?

The accounting concept of adequate disclosure requires that information should be presented in a manner that fosters understandability. If ineffective or misleading methods are employed in disseminating accounting information; then the criterion of understandability will be lacking. Empirical studies have shown that a high level of education was required to comprehend financial statements. Therefore there is the need to place

emphasis on deserving points as well as the logical organizing and grouping of the presented information.

5. **When should the information be disclosed?**

The qualitative objective of timeliness requires that the disclosure of accounting information should be timely for it to be effective. This view is supported by the APB when it stated that 'timely financial accounting information is communicated early enough to be used for the economic decisions which it might influence and to avoid delays in the making of those decisions.'

2.3 Conceptual Approaches to Corporate Social Responsibility

2.3.1 Varying Interpretations of business social responsibility

Inspite of much debate, however, there is no universally accepted concept of business social responsibility. Three conceptual views of corporate social responsibility are however predominant in the literature:

2.3.1(a) Maximisation of profit

The first viewpoint is based on classical economic theory as expressed in the postulate that a firm has only one objective, which is to maximise profit or shareholders' wealth.

It is presumed that by so doing the firm will be maximising its contributions to society. In response to the call for enterprises to forgo part of their profits in order to serve social goals and aspirations, some liberal economists even contend that there are no enough profits to forgo to make much difference. This view which also condemns the contention that enterprises have a responsibility to social groups other than shareholders was strongly advocated in the following terms:

> The view has been gaining widespread acceptance that corporate officials ... have a 'social responsibility' that goes beyond serving the interest of their stockholders... This view shows a fundamental misconception of the character and nature of a free economy. In such an economy, there is one and only one social responsibility of business - to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition, without deception or fraud... Few trends could so thoroughly undermine the very foundations of our free society as the acceptance by corporate officials of a social responsibility other than to make as much money for their stockholders as possible.
>
> (Friedman, 1962)

2.3.1(b) **Equity Concept**

The second approach (also referred to as the equity concept) was developed in the seventies and it recognizes the significance of attaining some social objectives vis-a-vis the primary objective of profit maximization. This view therefore advocates that corporate executives should make decisions which maintain an equitable balance between the demands of

shareholders, employees, customers, suppliers and the general public. Thus the corporation is viewed as representing a pool of diverse interests. Hence it is emphasized that these various interests should be properly considered in order for the corporation to attain its long-term objectives of income maximisation.

2.3.1(c) **Societal Approach**

The third view represents the societal aprpoach and regards income as a means to an end, and not an end in itself. In this view the chief executive of a large corporation has the problem of reconciling the demands of employees for more wages and improved benefit plans, customers for lower prices and greater values, shareholders for higher dividends and greater capital appreciation _ all within a framework that will be constructive and accpetable to society" (Committee for Economic Development, 1971).

Hence organisational decisions should be geared towards the selection of soeically desirable alternatives. Therefore, instead of seeking to maximise income generally, the objective should be a satisfactory level of income which is compatible with the attainment of a range of social goals. In the efforts being made to adopt this approach, researchers are of the opinion that the modern corporation will be faced with a twofold dilemma:

(i) The organizational innovations enabling it to manage

growing product diversity and to adapt to technological, economic and competitive change may inhibit effective responses to societal concerns.

(ii) The need or desire to absorb a growing array of societal demands into its operations - affecting product design and marketing policy, to name just two - may reduce its effectiveness as a producer of goods and services. (Ackerman, 1973).

It has therefore been pointed out that when a company falls victim of either of these delicate situations, the challenge lies in the difficulty of the management tasks involved, rather than moral or ideological intransigence. In the long run however, the more successful corporations will be those that can achieve both social responsiveness and commendable economic performance. The gradual shift to the third conceptual approach of businses social responsibility is interpreted as a move from a concept of business corporation based on the `stockholder' view (as advocated by Friedman and others) to one based on the 'stakeholder' view. The former concept views the business enterprise as having a sole objective of making profits for its stockholders and regards the claims of other groups like customers, employees and the community as constraints on this objective. The latter concept on the other hand acknowledges that a corporation is socially responsible to all those within or outside the organisation who benefit or suffer by the decisions

and activities of the enterprise.

2.3.2 The Social Contract

The stakeholder view of the corporation was evolved to broaden the outlook of corporate objectives, apparently because a general consensus seems to have been reached that: (i) The active and willing involvement of private busienss concerns is required for solutions to be found to most of the current social problems, and (ii) To the extent that current financial reports do not serve their intended purposes adequately, a broader scheme of corporate performance measurement is necessary.

The lack of a broader basis for assessing corporate performance may partly be due to the fact that societal concern over corporate social impact is a recent phenomenon and partly due to the absence of a working definition of the societal role of a corporate entity.

The elements of such a definition is embodied in the notion of a Social contract - a company peforms certain socially desirable functions in anticipation of some rewards from the society. This notion of a social contract has been succintly expressed thus:

> Any social institution - and business is no exception - operates in society via a social contract, expressed or implied, whereby its survival and growth are based on:

(i) the delivery of some socially desirable ends to society in general, and

(ii) the distribution of economic, social, or political benefits to groups from which is derives its powers.

> In a dynamic society, neither the sources of institutional power nor the needs for its services are permanent. Therefore, an institution must constantly meet the twin tests of legitimacy and relevance by demonstrating that society requires its services and that the groups benefiting from its rewards have society's approval.
>
> (Shocker and Sethi, 1974).

This idea of a social contract is crucial for a clearer understanding of the interaction of a corporate entity with the society based on the stakeholder approach. Under this view a firm has both a productive role and a distributive role, and its mandate covers the entire society and not just restricted to its stockholders. Ramanathan, (1976) opined that the development of a set of social performance criteria is essential for bringing the social contract notion from the level of ideas to the realm of operationality and to provide explanations to typical questions such as:

(i) What are the performance dimensions implied by the social contract?

(ii) What is socially responsible performance?

(iii) How is it to be measured and evaluated in the aggregate social context?

Thus, the conception of business social role has gradually developed in stages up to the present stakeholder view and the incorporation of the notion of social contract which povides a broader scope for corporate performance assessment. Prior to the attainment of this status, advocates of business social responsibility were on weaker ground as critics refer to the entire concept as 'a fundamentally subversive doctrine' pointing out that `If business do have social responsibility other than making maximum profits for stockholders, how are they to know what it is' Can self-selected private individuals decide what the social interest is?' (Friedman, 1962).

With increasing awareness about corporate social role and intensified research associated therewith problems of institutionalizing corporate policy on social objectives as well as determining the nature of those objectives are being effectively tackled.

2.4 Major Areas of Social Performance

2.4.1 Categories of Social Concerns

Social Performance of Corporations has been of increasing concern to management, investors and the general public, but this performance is not being measured and reported in a systematic manner. A vital prerequisite for the orderly measuring and reporting of social performance is the proper identification of

areas of social activity. This will undoubtedly assist management in:

(i) Establishing goals, objectives and priorities,

(ii) Planning the use of monetary, physical and human resources, and

(iii) Measuring progress.

A very useful categorization of the variables present in social accounting measurement has been advanced by the Canadian National Association of Accountants (CNAA). Social concerns are divided into the following four major components:

(i) Community Involvement: This includes those socially oriented activities which tend primarily to benefit (or disadvantage in some cases) the general public.

(ii) Human resources stewardship: It involves activities directed to the well being of employees.

(iii) Physical resources and environmental stewardship: This comprises corporate activities directed towards the conservation of resources and the protection of the environment.

(iv) Product or Service contribution: It deals with the impact of a company's products and services on society and its relations with consumers.

The classification of items under each of these four major headings identifies typical examples of social activity. See Table 2.4.

Within these areas, a corporate entity should identify standards and objectives, whether from governmental legislation and regulation or from societal pressures and demands or from internally perceived norms of social responsibility.

In an identical research work conducted to facilitate an analysis of business accountability, Brummet (1973) has identified five possible areas in which coarporate social objectives may be found, and they are as follows:

(i) Net income contribution.

(ii) Human resources contribution.

(iii) Public contribution.

(iv) Environmental contribution.

(v) Product or service contribution.

The term 'contribution' is used in this context to include both benefits and costs associated with an organisation's activities. An elaboration of each of these five areas of social significance are presented thus:

2.4(i) **Net Income Contribution**

A business organisation cannot survive without an adequate

Table 2.4 Major Social Concerns

(i) Community Involvement	(ii) Human resources stewardship
1. General philanthropy	1. Employment practices
2. Transportation	2. Training programmes
3. Health Services	3. Promotion policies
4. Aid in personal and business problems.	4. Employment security
5. Housing	5. Remuneration and retirement benefits
6. Community Planning and involvement	6. Working conditions
7. Volunteer community activities	7. Health and safety
8. Specialised food and welfare programmes	8. Job satisfaction
9. Education	9. Communications and participation.

(ii) Physical resources and environmental stewardship	(iv) Product or service contributions
1. Air	1. Labelling and packaging
2. Water	2. Marketing representations and product claims
3. Sound	3. Guarantee and warranty provisions
4. Waste creation and disposal	4. Consumer satisfaction and complaints procedure
5. Scarse resources usage and conservation	5. Consumer education
6. Aesthetic considerations of design and presence	6. Product quality and suitability
	7. Product safety
	8. Constructive research and development
	9. Advertising and promotion.

financial surplus and as such the growing attention being given to other social objectives does not in any way diminish the significance of the income objective. On the contrary, it adds meaning to the significance of corporate net income by drawing attention to the circumstances under which it was produced. Thus there is a clear correlation between income and other social objectives. For instance, the failure to identify a social problem may in due course adversely affect workers' ability to maintain the level of profitable output. Inadequate attention to product quantity and consumer's unfavourable reaction could ultimately affect sales and hence income.

2.4.(ii) **Human Resources contribution**

This is a measure of the impact of organisational activities on the people who constitute the human assets of the company. Employee recruitment, hiring, training and promotion, job enrichment, transfers, retrenchment, union duties and self actualisation are all covered by human resource contribution and management.

2.4(iii) **Public Contribution**

This is reflected in the external effects of enterprise decisions and activities. It involves such things like philanthropic contributions to science, education, health, cultural development and charities; training and employment of the handicapped and payment of the required amount of taxes.

2.4(iv) **Environmental Contribution**

Social objectives in this regard are to be found in the abatement of the negative external effects of industrial production such as pollution of air and water, noise, despoilation and loss of irreplaceable resources.

2.4(v) **Product or Service contribution**

Social responsibility in this context goes beyong what is advantageous from the marketing angle. It covers product utility, life durability, safety and serviceability.

The foregoing analysis would hopefully, help an enterprise to determine the extent of its commitment to social objectives and consider plans for their attainment. The folllwing subsection examines a procedure that could be adopted in implementing a social action programme.

2.4.2 **Planning the attainment of Social objectives**

The interdependence of social and economic goals is best appreciated by an integration of both social and economic objectives in the planning process. Bauer and Fenn (1972) have recommended a four stage aporoach which accountants can adopt in planning social programmes for business enterprises:

2.4.2(a) **The Social Audit**

This involves making an inventory of all corporate

activities having a social impact. The impact of a company's activities can be analysed into three major categories: (i) impact on the public (ii) impact on consumers of the company's products and (iii) impact on the company's employees.

The impact of corporate activities could be determined by the company's policies on such matters as employment of the handicapped and women, charitable donations, honest adverstisement, product safety, employee wages and perquisites, job enrichment and safety.

2.4.2.(b) **Analysis of the Social Audit**

The objective of this exercise is to shed further light on the nature of the social problems towards which corporate social policy should be directed.

2.4.2(c) **Evaluating and selecting social programmes**

The organisation's current social performance and policies associated with that performance will influence the selection of future social programmes. One approach to tackling this problem is to carry out 'attitude surveys' which will allow the firm to monitor and possibly forecast changes in attitudes among employees, customers, shareholders, government officials and public institutions about the company's current social programmes.

2.4.2(d) Integrating social and business programmes

The final stage in evolving a long-range social policy is to translate plans into social action programmes. The programmes provide a means of allocating corporate resources to the attainment of particular social goals. Control procedures should be designed to ensure that such goals are achieved efficiently. Budgetary control techniques would enable social and business programmes to be jointly implemented.

Although it has been proposed by Bauer and Fenn that social programmes should be designed so as to match corporate objectives with those of society at large, it is evident that such a suggestion is bound to pose very complex problems and therefore it is merely seen as providing a theoretical blue print for future research in developing analytical tools in this field. This is because at best, 'corporate managers will be able to place their own interpretation on the objectives of society at large. These objectives are not all known and often appear as part of a shift in public opinion, they are multiple, they often conflict and frequently overlap'. (Glautier and Underdown, 1976).

2.5 The Development of Corporate Social Reporting

2.5.1 Trends in Social responsibility disclosure

Corporate social accounting as being undertaken today takes

various forms ranging from the simple and inexpensive to the complex and costly. The range may for instance take the pattern of any of the folowing approaches depending on the degree of commitment of the firm:

(i) Informal reviews of social responsibility activities at periodic meetings of management groups or committees

(ii) An inventory (or audit) of social performances

(iii) Cost-benefit analysis of social programmes

(iv) An impact analysis of social costs and benefits brought about by enterprise activities.

(v) A comprehensive evaluation of the social impact of the company.

(vi) Public disclosure of any of the foregoing results.

However, even though public concern about the social role of business corporations has for long been a topical issue, the accounting implications of this role in modern society have only recently been the subject of debate. An impetus towards corporate social reporting was given when in reporting on the objectives of financial statements, a committee of the AICPA stated that 'an objective of financial statements is to report on those activities of the enterprise affecting society which can be determined and described or measured and which are important to

the role of the enterprise in its social environment' (The Trueblood Report, 1973).

Since the publication of this report, researches have been conducted to determine the extent to which corporations have gone in implementing the recommendations contained therein. For instance Beresford, (1974) has carried out surveys in the USA and has found that social disclosures have increased significantly over the years. These surveys pointed out that the most commonly applied methods of presenting social data were as follows:

(i) Separate sections in annual reports usually referred to as 'social reports'.

(ii) Separate sections in the President's letter to shareholders, very often addressed to shareholders and employees.

(iii) Coverage of social matters as part of major topics of interest in special reports.

It has however been noted that 'A comprehensive analysis of the social impact of private enterprises suffers, at the present time from the general absence of reliable data on aggregate social costs and benefits of business and how these are shared among various societal groups.' (Ramanathan, 1976). Nevertheless significant progress has been made in recent times in the gathering and reporting of data on corporate social performance, both as a result of the internal initiatives of progressive companies and in response to external influences. Thus, in

analysing the reporting of social impact by the Fortune 500 industrial companies, Beresford (1974), found out that 298 of them disclosed some form of social performance data in their 1973 annual reports. The majority of these disclosures were in the environmental control category. Other disclosures came under the broad categories of minority employment, responsibility to employees, community activities and product improvement. Disclosure practices varied considerably as regards scope, format, use of quantitative and financial measures and significance of items disclosed. The trend now appears to be towards greater disclosure. Apparently this is as a result of the increasing concern shown by firms about their social responibility as well as their attempts to institute some form of social audit. It has become evident that 'many companies are presently involved in social accounting frameworks of different varieties, and it appears that these companies have progressed substantially further than the literature.' (AAA, Committee on Social Costs, 1975).

The social accounting frameworks commonly adopted by companies are of two categories - Internal social accounting and External social reporting. The former is not publicly reported and is carried out on experimental basis prior to the time when the corporation can publicly report its social performance. Its main objective therefore seems to be simply to find out what the company is actually doing, indicating that corporate information

systems do not presently provide relevant information on costs and effects of corporate social activities. External social reporting on the other hand, appears primarily in the annual report, but a significant number of companies use a separate special report. Nevertheless 'both approaches are usually characterised by an optimistic tone, little or no mention of detriments to society, inadequate quantification and no bases for comparison and evaluation in the form of norms, averages, standards or ratios." (Bates, 1976). Typical examples of such efforts in external social reporting include those of the Quaker Oats Co., IBM Corporations, the Chase Manhattan Corporation, Scovill Manufacturing Company, Abt. Associates Inc., among others.

However, even when an organisation has developed a presentation format for its social accounting report, there are two significant dimensions that are likely to affect the final published report: specificity of disclosure and focus of disclosure.

2.5.1(i) <u>Specificity of disclosure</u>

At least three different degrees of specificity are currently in the literature. First is the qualitative format which provides purely descriptive commentary on the firm's social activities. It is the most commonly used and is often supplemented by illustrations and sporadic quantitative data. Second is the quantitative format which depends on the use of

specific data to summarise performance. Lastly is the monetary format which requires the conversion of activities to monetary amounts and accounting statements reflecting the social costs and benefits of a company's activities. It is a rare and still experimental approach. The overriding problem in all the three approaches is that of quantification. Elaborating on this constraint, Shanks (1978) stated thus:

> Objectives of a social nature can be set, and some... can be quantified, particularly those that deal with employees. But they do not have the beauty, the precision and the clarity of the traditional numerate objectives of financial marketing, and production targeting, and it is very hard to see that this will ever change. It seems that this area of social responsibility will always be a much fuzzier area than that of financial, marketing or production accounting.

The problem of quantifying social objectives is indeed overbearing, but accountants and financial managers do possess the necessary skills for the task, notwithstanding the little interest they display in the matter.

2.5.1(ii) **Focus of Social Performance**

The focus of disclosure could be either input-oriented, in which case the report will concentrate on the firm's efforts and expenditures in specific areas, or performance-oriented, in which case it will attempt to measure the output of social activities and their impact on society. Comparison with explicit defined company objectives is logically easier than comparison with

general societal goals and most social accounting statements issued so far have generally taken the easier course.

2.5.2 Proposed Models for Corporate Social Reporting

Developments in the field of social accounting have brought about the designing of new reporting formats suitable for discharging the social reporting function. This is because there now appears to be a general consensus that conventional financial statements appear too constrained by format and tradition to accommodate the kinds of social information required. The social reporting formats proposed range from the relatively simple to the highly complex. Estes (1976) summarized the major proposals for social reporting as follows:

(i) Narrative disclosure, in footnotes to financial statements, of information concerning environmental problems and efforts. (AAA Committee on environmental effects of organisational behaviour).

(ii) Extension of t aditional financial statements to include certain accounts related to environmental matters (Beams; AAA).

(iii) Non-monetary information on pollusion control facilities and emissions (Martin).

(iv) Several schedules covering pollution, occupatinal health and safety and equal employment opportunity information,

non-monetary except for a schedule of outlays in these areas (Dilley and Weygandt).

(iv) A report of inputs and outputs, both human and physical, as well as amounts of taxes paid and contributions (Corcoran and Leininger).

(vi) Information on voluntary expenditure made for the welfare of employees and the public, offset by the avoided cost of socially desirable actions not taken (Linowes).

(iv) A complex 'social audit' with sections dealing with the company and stockholders, employees, clients and the general public, and the community; all amounts monetized, (Abt.).

(vii) A comprehensive report of all benefits and costs to society resulting from an entity's activities, with money measures recommended, (Seidler).

For the purpose of illustration the formats proposed by Seidler for a public institution and a private corporation as well as the comprehensive social reporting model proposed by Estes were found to be adequate and are therefore detailed out as follows:

1. Seidler's Social reporting formats:

(a) Social income statement for a University (Illustrating a public institution). (See Table 2.5.2(A).

Table 2.5.2.A Social Income Statement for a Public Institution

Conventional Income Statement		Social Income Statement	
Income:	₦	Benefits:	₦
Tuition fees	xxx	Increased value	
Research grants	xxx	of students	xxx
Government aid	xxx	Value of research	xxx
	₦xxx		₦xxx
Expenditure:		Costs:	
Teaching costs	(xxx)	Tuition fees	(xxx)
Research costs	(xxx)	Research grants	(xxx)
Student costs	(xxx)	Governmental aid	(xxx)
Administration Costs	(xxx)	Other	(xxx)
(Deficit)/Surplus	₦(xxx)	Social profit/(loss)	₦xxx

It has been observed that from a practical viewpoint, 'the construction of a social accounting statement for an institution such as a University would have wider uses than the simple gratification of those responsible for the increased social value'. (Dobbins and Fanning, 1981). For one, the statement would place the institution in a better footing when seeking financial assistance from the government or raising funds from philanthropic or research-supporting bodies.

Undoubtedly, the case of a public institution like the one above is less complex than that of a commercial organization. Seidler designed a social income statement for a commercial concern using the conventional value-added as a starting base as shown in Table 2.5.2(B).

Table 2.5.2.(B) Social Income Statement for a commercial organization

	£	£
Value-added by production of an enterprise		xxx
Add: Socially desirable outputs not sold:		
Job training	xxx	
Health improvement of workers	xxx	
Employment of disadvantaged minorities	xxx	
Other	xxx	xxx
		xxx
Less: Socially undesirable effects not paid for:		
Air pollution	xxx	
Water pollution	xxx	
Health problems caused by products	xxx	
Other	xxx	(xxx)
Net Social profit (or loss)		(xxx)

It is believed that the social profit or loss resulting from the above kind of income statement is likely to be a more realistic measure of a corporation's role and impact in the society than the conventional financial accounting measures of value-added.

2. Estes' Comprehensive Social reporting model

Based on the conventional income statement, Estes (1976) proposed a social accounting statement that is designed to take into account all the social benefits and costs arising from the impact of an entity and its activities on society. The format for this social reporting model is as shown in table 2.5.2(c).

The constituents of the model were defined and explained as follows:

Social benefits:

(i) Products and services provided (the present value of the entity's output, together with the value of facilities or services provided to other elements of society).

(ii) Payments to other elements of society

(iii) additional employee benefits - the value of fringe benefits, training programmes, recreational or social benefits. This should be the value to the employee, and not the cost to the company, which is shown separately.

(iv) donations to the community - both in money and in kind

(v) environmental improvements - construction of access roads, recreational facilities or provision of company bus service for instance.

Table 2.5.2.(C) Social Reporting Model

XYZ Ltd - Social account

Social benefits	₦		₦
Products and services provided			xxx
Payments to other elements of society:			
Wages and salaries	xxx		
Payments to suppliers	xxx		
Taxes and rates, etc.	xxx		
Dividends and interest	xxx		xxx
	---		---
Additional employee benefits			xxx
Donations to the community			xxx
Environmental improvements			xxx
Ancillary benefits			xxx

Total social benefits			xxx
Social costs			
Goods and materials acquired	xxx		
Fixed asset purchases	xxx		
Labour and services used	xxx		
Public services and facilities used	xxx		
Payments to other elements of society:			
Customers	xxx		
Investors	xxx		
Lenders	xxx	xxx	
	---	---	
Work-related injuries or illnesses		xxx	
Discrimination and disadvantage		xxx	
Environmental damage		xxx	
Other costs		xxx	(xxx)
		---	---
Social profit (or loss)			xxx

(vi) ancillary benefits - e.g. public education and enlightment.

Social costs:

(i) goods and materials acquired

(ii) fixed asset purchases

(iii) labour and services used

(iv) public services and facilities used - the company's share of the costs of public facilities provided such as police and fire services or road networks.

(v) Payments from other elements of society

(vi) work-related injuries and illnesses - the present value of lost income

(vii) discrimination and disadvantage - the present value of lost income in the case of discrimination, and the extra cost caused by disadvantageous treatment

(viii) environmental damage

(ix) other costs - for example product defects

Furthermore, it is apparent that much of the data needed for the compilation of a social account of this nature will already be available to the company's management in conventional financial accounts. The rest of the information can be acquired with minor modifications to the company's data processing systems. Some data may be difficult to obtain and even harder to quantify or express in monetary values. This may also prove expensive for the organization at the initial stage. However the assence is that the information network will only need to be

established once. Subsequent replication of the process regularly will considerably reduce the unit costs.

Finally, it is important to note that 'with any social account there is obviously room for, and a need for, descriptive analysis of items which cannot be quantified or of items which reflect social concerns or changing public standards.' (Dobbins and Fanning, 1981).

2.6 Summary:

The research literature has revealed the increasing prominence being given to the concept of business social responsibility in modern accounting theory. In particular, the stakeholder view of the corporation as well as the notion of a social contract binding the corporation with the society provide sound theoretical background to the concept of social responsibility accounting. The principle of adequate disclosure and the modern day objectives of financial statements have developed and expanded the scope of conventional financial reporting by taking into focus the right to financial accounting information of several interest groups.

Chapter 3

3.0 THE CONCEPT OF SOCIAL RESPONSIBILITY IN CORPORATE FINANCIAL REPORTING

3.1 Overview

The research was aimed at empirically determining the desirability of adopting a stakeholder as opposed to a stockholder approach to corporate financial reporting.

This chapter provides a general conception of the research problem covering four other sections - Section two gives a critical examination of the theory of business social responsibility in relation to corporate financial reporting. Section three provides an update of the country's legislations having bearing on corporate financial reporting, while the fourth section discusses why the issue of business social responsibility should be of much concern to the accounting discipline in particular and to society in general. Lastly, Section five summarises the critical issues raised in the chapter.

3.2 A Critical Evaluation

3.2.1 General Conception

There is a general belief that the main, if not the sole

objective of a business enterprise is to make profit for its owners. Consequently, the accounting function of financial reporting is premised on the stewardship concept which explicitly states that the steward is to be accountable to the owner for the management of the resources entrusted to the former by the latter. Presently, however, this view is being challenged. There is a popular contention that a company has social obligations to the community and environment within which it operates.

As the society develops technologically and the production pattern becomes more capital intensive, increased corporate profits can only be achieved at high social costs in terms of atmospheric pollution resulting from the emission of poisonous gases from factory plants, disturbances resulting from factory noice, water contamination as a result of wastage disposal, etc. Enterprise managers are therefore expected to consider and integrate the interests of the larger society when they make business decisions or implement policies. Hence this view of social stewardship (or social accounting) seeks to examine and report on the overall social impact of the entity on the environment.

According to Ramanathan (1976), social accounting is 'the process of selecting firm-level social performance variables, measures and measurement procedures; systematically developing information useful for evaluating the firm's social performance;

and communicating such information to concerned social groups both within and outside the firm.' Also in a more concise interpretation, Estes (1976), defined social accounting as 'the measurement and reporting, internal or external, of information concerning the impact of an entity and its activities on society.'

These definitions are conceived to mean that social responsibility accounting involves the determination and reporting of enterprise activities which have greater significance for their social impact than for their financial effect on the company.

The reporting of enterprise activities falling in that category which is presently being advocated is in respect of:

(i) how companies pay for the cost of damage (for e.g. by way of air or water pollution) to the environment,

(ii) how companies compensate society for the exploitation of her human and scarce material resources,

(iii) the role enterprises play in community activities,

(iv) how companies enhance the quality of their products or make them safer for human consumption, and

(v) how enterprises emphasise and encourage the utilisation of locally produced raw materials and other inputs.

On closer observation the above list of areas of social responsibility can be further subdivided into two activity groups - the real or fully social activities and the quasi-commercial activities. The first three activities listed above fall under the former group. The latter are those activities that have an indirect effect on the profitability of the firm, such as the last two activities listed above.

A suitable framework for defining the nature and scope of business social responsibility is embodied in the extended stakeholder view of business enterprise. This view externalises the effects of a company's activities because it assumes that a corporation is socially responsible to all those within and outside the firm who benefit or suffer by the effects of a company's decisions and activities. Externalities arise whenever a corporation's activities have a positive and negative effect on society. For instance an external benefit arises whenever the society rather than the shareholders derive a social benefit, while an external cost is a social cost borne by the society. Internal social responsibility on the other hand is in connection with the management of human resources within the firm, and this has to do mostly with employee recruitment, training, remuneration and promotion, employee participation in decision making as well as the provision of ideal physical working conditions.

On the premise of the extended stakeholder view of business

enterprise, the traditional stewardship accounting function could be re-examined and restated in terms of a general user approach. This will in effect mean that enterprises have a responsibility to provide accounting information to other user groups apart from investors and that the information should be capable of serving as inputs to user's decision models.

3.2.2 Underlying Assumptions

It is noteworthy however that this notion of business social responsibility is a relatively undeveloped phenomenon in Nigeria. Apparently business enterprises deliberatly shy away from delving into this issue and the situation is likely to continue for some time. This may not be unconnected with the following basic assumptions:

3.2.2(i) Societal awareness

It has been observed that the response of business firms to the demand for social accounting is a direct reflection of the strength of special interest groups and the vociferousness of their demands. In Nigeria, the overriding interest of an average investor is the receipt of an annual dividend on his investament. Even then, most investors seem unaware of their entitlement to a share of the declared dividends. This explains why unclaimed dividends amounting to millions of naira have accumulated with most companies over the past years. Pressure groups such as

trade unions are ill-organised, and usually restrict their demands for better workings from their employers to salaries and fringe benefits, neglecting other equally important aspects like industrial safety and job security. Consumer awareness is yet to reach a stage where consumer interest protection groups will be formed.

3.2.2(ii) **Economic realities**

Nigeria is generally perceived by economic analysts as a seller's market in the sense that it appears there is a ready market for almost any commodity produced or brought into the country. The situation is such that there is often an excess of demand over supply and the demand for most commodities is inelastic. In such circumstances, enterprises find it both expedient and convenient to exploit the situation by shuning socially desirable performance because the societal pressure and demand necessary to make these enterprises responsive enough will be palpably lacking.

3.2.3 **Pattern of Information disclosure**

It has been observed that the most widely used media for disclosing information pertaining to social responsibility by companies are through company bulletins and press releases. These are mainly done for the purpose of boosting corporate image or as a mere advertisement gimmick. In the absence of a clearly defined corporate social role (e.g. by governmental legislation

or regulation) individual companies determine the extent of their social responsibilities. A closer look at some of these bulletin reports will reveal the lack of some fundamental precepts of accounting such as objectivity, verifiability, timeliness and comparability. However one may pardon such lapses on the grounds that the bulletins are primarily intended to serve public relation objectives than to meet accounting reporting standards. Two examples are cited below:

The Shell bulletin Vol. 29 No. 4 of April reports that

> The Bendel State Government and the communities in Shell areas of operation have profoundly expressed appreciation for the company's magnanimity in providing various amenities for the people in its areas of operation. The most recent of such amenities include the Agbarha-Otor town road tarred at the cost of ₦104,000, the Edjeba town road at the cost of ₦140,000 and the Olomoro town road tarred at the cost of ₦114,000. Other contributions were the sinking of water boreholes ..., at a total cost of about ₦100,000.

Similarly, the nation's largest corporate house - United Africa Company, Nigeria Ltd. (UACN) in one of its numerous corporate image campaigns said:

> As a corporate citizen of Nigeria, UACN is involved in ways that make Nigeria a better place to live in. In the field of education, the company's contribution is impressive ... Under the company's higher education scholarship scheme, open scholarships are awarded to two students every year at each Nigerian University. A lot of good has accrued to whole communities and institutions through the response of UACN to charitable causes and national appeal funds. The company has made donations of money and/or materials to some universities for the development of

> their faculties. In both the public and private sectors, the knowledge and experience of UACN employees has been made available for the country's benefits ... the company helps guarantee employment for many Nigerians in other companies through its vast network of business transactions with Nigerian companies ... through all the activities enumerated above, UACN is helping the nation achieve a healthy, peaceful, viable socian and economic order.

The trend is identical with other companies. For instance, advertisement gimmicks such as "the more profit we can bring to our customers, the more Mobil profits", are also rampant. All these misdirected efforts stem from the absence of a regulatory framework that will guide socially-responsible financial reporting.

According to a panel of discussants during a management development course organized by the Nigerian Institute of Management for directors and chief executives of private and public sector organisations held in July 1984, 'Corporate bodies which have paid serious attention to their social responsibilities have done so in enlightened self-interest.' The panel also quickly pointed out that 'organisations which for example built hospitals and schools, improved drainage, cleared off oil spills, financed academic chairs or established farms usually derive substantial direct and indirect benefits from such undertakings.'

In certain countries such as the USA where some companies institute some form of social reporting in corporate external reporting, the reports are often characterised by similar vagueness and lack of basic accounting concepts. For example the

General Motors Corporation's 1973 Report on progress in areas of public concern contained sections on automabile safety, pollution control, energy conservation, research, employee development and product quality (Estes, 1975). One of the several descriptive commentaries in the report stated that 'GM plants salvage about 120,000 tons a year of cardboard and paper.' The report did not, however, state the quantity not salvaged or the total quantity used so as to find a basis for comparison. Instead the company was on the defensive when in reacting to criticisms it said 'The role of the automobile in air pollution is frequently misunderstood. It is not the sole contributor as some ecology buffs would have you to believe. For too long, the businessman has been maligned and misinterpreted and mistaken for an exploiter of society instead of a contributor to society.'

Due to the varying interpretations of the nature of business social responsibility given by both individuals and organisations, some companies tend to ignore the significant social impact of their basic day to day operations, believing that this aspect is economic rather than social. If, however it is to be comprehensive enough, 'social accounting must take into account all effects of an organisation on society, attempts to separate the economic and non-economic effects are usually arbitrary and often futile. (Estes, 1976).

3.3 Existing Legal Provisions

An overbearing obstacle hindering significant developments in the area of corporate financial reporting is to be found in the absence or obsoleteness of appropriate legislations and regulations. In Nigeria, the concept of business accountability is used in relation to certain legally binding requirements placed upon business enterprises. These requirements include the auditing of annual financial reports, the declaration of financial information and the filing of returns with the Registrar of Companies. The relevant provisions for these requirements are contained in the Companies Decree 1968 which is the principal law governing the conduct of corporate financial reporting in the country. There are also some quasi-legal requirements relating to financial information disclosure such as those imposed by the Nigerian Stock Exchange and the Securities and Exchange Commission for companies wishing to have their shares quoted or retain their public quotations in the stock market. In addition there are various recommendations put forward by the professional bodies such as those contained in the SAS issued by the NASB and other similar publications. However, the provisions of the companies Decree 1968 overides all other requirements and recommendations because the latter lack the necessary legal backing for proper enforcement.

The provisions of the Companies Decree 1968 particularly sections 140-156 dealing with accounts and audit provide the

legal mandate for corporate financial reporting by detailing out among others, the nature of financial reports to be prepared and presented as well as the persons entitled to receive the annual financial reports and for whom the information was intended.

Sections 141 (1) and (2) of the Decree specifies the financial reports required. Section 141(1) of the decree stated that 'The directors of every company shall at a date not later than 18 months after the incorporation of the company and subsequently once at least every calendar year, lay before the company in a general meeting, a profit and loss account ...'

Section 141(2) states 'The directors shall cause to be made out in every calendar year and laid before the company in general meeting, a Balance Sheet as at the date to which the Profit and Loss account ... is made up.'

Schedule 8 parts I-IV of the decree provide in detail, list of items for inclusion in the profit and loss account and the Balance Sheet together with their proper interpretations.

Furthermore, section 149(1) states that 'The Profit and Loss Account and so far as not incorporated in the Balance sheet or Profit and loss account, any group accounts laid before the company in general meeting, shall be annexed to the Balance sheet, and the auditors' report shall be attached thereto. While section 149(2) said 'Any accounts so annexed shall be approved by the Board of Directors before the Balance sheet is signed on

their behalf.'

Thus by these provisions, companies are considered to have met their legal obligations regarding the disclosure of accounting information by the presentation of the audited Profit and loss account and Balance sheet. Sections 150(1) and 151(1) of the decree provides for persons entitled to receive the annual accounts. Section 150(1) stated that 'there shall be attached to every Balance sheet laid before a company in general meeting a report by the directors with respect to the state of the company's affairs, ...' Section 151(1) went further to specify persons entitled to receive these annual accounts by stating that 'A copy of every Balance Sheet, including every document required by law to be annexed thereto, which is to be laid before a company in general meeting, together with a copy of the auditors' report shall, not less than 21 days before the meeting be sent to every member of the company (whether he is or is not so entitled to receive notices of general meetings of the company), every holder of debentures of the company (whether he is or is not so entitled) and all persons, other than members or holders of debentures of the company being persons so entitled.

All the above provisions of the decree were essentially designed to secure corporate accountability in line with the protection of the interests of shareholders and corporate creditors at the expense of other categories of users of financial statements. This situation may be interpreted to mean

that in Nigeria, the notion of business social responsibility is hooked on the classical hypothesis that the only social responsibility of a company is to operate within the laws of the land to increase the wealth of its owners. This indeed has been a most serious obstacle towards adopting a form of general user approach to financial reporting. Most companies are reluctant to disclose financial information further than meeting the requirements of the Companies Decree 1968, i.e. the presentation of the Income Statement and Balance sheet in a manner that is geared towards serving primarily the interests of only the shareholders and creditors.

However there are a host of other legal promulgations and regulations designed to secure some measure of corporate responsiveness to societal values. Amongst them are for example the statutory disclosure by companies on the extent to which they have complied with the guideliness of the Productivity Prices and Incomes Board (an anti-inflationary measure) and the rather obsolete Factories Act of 1958 (modelled after the United Kingdom Factories Act of 1937). This Act which is administered by the Federal Ministry of Employment, Labour and Productivity, contains laws governing workers' safety, health and environmental welfare as well as the installation, use and maintenance of industrial machinery so as to avoid hazards and accidents. Most of the requirements contained in this Decree have gone out of tune with modern day realities of industrial and labour related practices. There is also the added problem of its effective enforcement

considering the opportunities taken by some industrial establishments to exploit the various loopholes in the decree because of the ineffective penalties enforced for any violations of its provisions. This has led to renewed calls for the promulgation of a comprehensive Organisational Safety Health and Environment Welfare (OSHE) decree.

It is apparent from the foregoing that existing laws are inadequate for the purpose of securing corporate responsiveness to the desire for a user-decision oriented aporoach to financial reporting. In particular, the provisions of the Companies Decree 1968 have to be re-examined not only to consider other user groups for financial accounting information but also to make it mandatory for enterprises to prepare and present other forms of financial statements (such as value added statements and funds flow statements) in addition to the current Income Statements and Balance Sheets.

3.4 Ethical Guidelines and Considerations

3.4.1 General Considerations

It is now quite evident that the single financial objective of profit maximisation which has been attributed as the sole criterion for judging corporate peformance is no longer a universally accepted doctrine. A certain school of thought advocates that rather than seeking to maximise profits only, a

firm should seek to optimise profits alongside a plurality of other objectives.

This modern view of corporate social responsibility involves extending the accountability of organisations beyond the traditinal role of providing a financial account. It incorporates both the social and economic dimensions in the sense that it is a process by which the overall social impact of an organisation's economic actions is communicated to interest groups within society and to the society at large. Hence there is the need to expand the scope of conventional financial statements to reflect this modern outlook due to the fact that these financial reports over-emphasize the dominance of shareholders and to some degree corporate creditors as the sole parties for whom financial accounting reports were meant.

3.4.2 Ethical considerations and SAS

The SAS No. 2 lists out the components of an annual financial report as comprising of the Balance Sheet, Income Statement, Notes on the accounts, Source and Application of Funds Statement, Value-added statement and the historical financial summary. However due to the explicit provisions of Sections 141(1) and (2) of the Companies Decree 1968, most enterprises in Nigeria limit their financial information disclosure only to the satisfaction of the minimum legal requirements which mandates companies to present only the Balance sheet and Profit and loss

account. This has been found to be grossly inadequate for most user groups of financial statement. Additional reports such as the Value-added statement. Flow of funds statement, amongst others, as recommended by SAS No. 2 serve very useful purposes in highliting and guiding the audience on several aspects of the organisation's activities. Hence the standard in paragraph 9 takes the view that 'disclosure which goes beyong minimum legal requirements is useful for a more meaningful understanding of financial statements.'

3.4.3 Corporations and Social Responsibility: Outspoken demands

Furthermore, the outspoken demands for corporations to be socially responsive has been supported by several contentions, significant among which are:

(i) The compensation argument

(ii) The stakeholder view

(iii) The socio-economic information argument

3.4.3.(i) The Compensation Argument

This view is based on the observation that business enterprises especially the multinationals have been exploiting the resources and people of Nigeria with reckless abandon for a very long time. They bring to bear several social costs upon society such as environmental and ecological problems of

pollution and congestion as well as the systemmatic erosion of indigenous jobs and skills. They also engage in several unethical activities such as price policy and exchange control manipulations, abuse of expatriate quotas, etc. It has therefore been argued that social accounting should aim at highlighting these anti-social aspects of enterprise actions and report on the efforts, if any, being made to rectify them as well as the manner in which enterprises compensate society for these acute inconveniences.

3.4.3(ii) **The Stakeholder Argument**

It is based on the assumption that the primary objective of an enterprise has shifted from serving the interest of the 'stockholder' i.e. maximising shareholders' wealth, to the broader objective of serving a plurality of interests of all 'stakeholders'. Stakeholders will therefore encompass all those within and outside the organisation who stand to gain or lose by its decisions and actions. This will undoubtedly cover groups like employees, government agencies and customers amongst others. Hence socially-oriented financial reporting should be geared towards providing additional information for the benefit of all stakeholders.

3.4.3(iii) **The Socio-economic information argument**

This is related to the second view above but with the added responsibility on the accountant as an information expert to

supply the required socio-economic information relevant to a particular user and for a particular purpose. This is necessary so as to avoid or minimise a situation of inter-group and intra-group conflicts. Situations abound where for example the interests of management and shareholders conflict with that of the government, hence enterprises falsify their accounts and tax retuns while the auditors out of sheer expediency rubber stamp such reports. Therefore a social responsibility approach to corporate financial reporting should provide a medium by which socio-economic data can be made available to all interested audience without any reservations.

It is noteworthy also that business social responsibility is a dynamic concept reflecting the society's ever-changing perception of what is good and bad about corporate activities. According to Aziz (1980), the government also tend to react to society's demands on corporate organisations in a variety of ways, the most common being by:

(a) Legislation, which outlaws certain undesirable social impact of business such as environmental protection and industrial safety regulations.

(b) Taxation, which serves a compensatory purpose and sometimes used as a punitive measure against certain unethical business behaviour.

It is felt that there is the need for government to make

more effective use of these and other means in tackling the numerous socio-economic problems emanating from business activities.

3.5 Summary

The issue of what constitutes socially-responsible financial reporting is hooked on to the stakeholder notion of business enterprise. This implies extending the accountability of corporations beyond the conventional task of providing the statutory financial reprots. However, any effort to progress along this line is likely to be hampered by the nature of the country's governing legislations on financial reporting which tend to support restrictive financial disclosures in favour of shareholders and corporate creditors. There is however a general feeling that major segments of society having an interest in financial reports have important roles to play in this regard. In particular, greater societal awareness and pressure from special interest groups backed by appropriate governmental legislations will do a lot of good.

Chapter 4

4.0 SURVEY AND EVALUATION OF PUBLISHED FINANCIAL STATEMENTS

4.1 Preview

The accounting function of corporate financial reporting has suffered from the lack of clearly specified objectives with the resulting conflicting views over reporting alternatives. Prominent among the fundamental objectives of financial reports are the stewardship objective and the usefulness or relevance objective. The former advocates that financial statements should report on the stewardship of corporate resources, while the latter states that the financial reports should provide accounting information useful to investors and other interested parties. Due to the fact that corporate activities have both economic and social impact on the society, it is important to integrate the two objectives into a dominant objective that reflects the socio-economic nature of corporate activities.

The dominant objective upon which the objectives of financial reporting were established was the usefulness of the system's information output to users' requirements. The stewardship concept can then be conceived in terms of the usefulness objective to mean that enterprises have a stewardship responsibi-

lity to report financial accounting inforamtion that is relevant to the needs of all users.

The remainder of this chapter is organized into five other sections. Section two spells out the standards adopted for corporate financial reporting. The third section evaluates a sample of financial statements based on the selected standards in section two while the implications resulting from the evaluation are discussed in section four. The fifth section takes up the role of the professional accountant in taking up the challenge for social responsibility reporting. Finally section six summarizes the major issues discussed in the chapter.

4.2 Criteria for Corporate financial reporting

It is important from the onset to pose certain questions that will guide the selection of suitable criteria for financial reporting based on the general user approach. It is therefore felt that the criteria to be established should be directed at providing solutions to the following four questions concerning financial statements:

(i) What information should be disclosed?

(ii) For whom is the information to be disclosed?

(iii) How should the information be disclosed?

(iv) How much information should be disclosed?

Four primary criteria for evaluating financial reports can therefore be established, each in line with one of the preceding questions. Financial reports that fail to comply with all the following four criteria should be considered unacceptable. Related to each of the primary criteria, there could be established a secondary criterion whose compliance should be viewed as very desirable but not mandatory. These criteria are enumerated as follows:

4.2.1 Relevance

This answers the first question by advocating that the information to be disclosed should be relevant or useful to the needs of users. Thus information that is immaterial should be excluded and only relevant or material data should be reported. The secondary criterion to this is timeliness since in most cases the usefulness of financial data may be lost if it is not provided at the appropriate time.

4.2.2 Neutrality

This second criterion is directed at who the audience for financial accounting information are. It is in recognition of the fact that several parties have a reasonable right to the accounting information that should be provided in published financial reports. Biased and distorted reporting in favour of certain class of users to the detriment of others is certain to

be misleading and generate odd responses from users. Thus financial reports should be as fair as possible to all concerned in order for the information they provide to be reliable. The secondary criterion in this case is verifiability of the information. To be verifiable, the financial reports should as a matter of policy be independently attested by an external auditor so that the ideals of fairness and reliability could be established.

4.2.3 Understandability

The manner of presentation of financial statements should be guided by the primary criterion of understandability. This is because the financial statements will be valueless if they cannot be understood by their users. The format should neither be so complex nor obscure. To forster understandability, the secondary criteria of comparability and consistency need to be observed. Financial reports should be comparable as regards format, underlying concepts and procedures. Also consistency in the application of accounting policies is quite desirable.

4.2.4 Completeness

The last criterion explains the magnitude of accounting data to be disclosed in financial statements. Adequate and complete information should be provided in order to avoid any omissions and consequent misrepresentation. However it is vital

not to overlook the secondary criterion of concision or information optimisation. Optimisation of information will ensure selectivity and the omission of trivial and excessive details in order to avoid information overload.

4.3 Evaluation of sampled financial statements

A sample of financial statements from ten companies engaged in different lines of operation was drawn. This sample is considered adequate for the purpose of evaluation since in virtually all cases, accounting reports are prepared by adopting identical concepts and conventions. The ensuing evaluation of the sampled financial reports is based on the four criteria enumerated in the preceding section.

Table 4.3 Data outlay

	Manufacturing Group	Trading Group	Service Group	Total
Number of companies in the sample	4	3	3	10
Number of quoted companies	2	2	2	6
Content of financial statements:				
(i) Statement of accounting policies	4	3	3	10
(ii) Balance sheet	4	3	3	10
(iii) Profit and loss account	4	3	3	10
(iv) Notes on the account	4	3	3	10
(v) Statement of source and application of funds	3	3	3	9
(vi) Value-Added statements	2	2	2	6
(vii) Five year historical financial summary	1	2	2	5
(viii) Other corporate information	2 satisfactory	2 satisfactory	3 satisfactory	
	1 partial	1 partial		
	1 nothing			

4.3.1 Relevance of Published financial statements

The relevance of anything is a function of its utility or usefulness for a particular purpose or purposes. The financial statements provided especially the Balance Sheet and Profit and loss account together with the accompanying notes are drawn up taking into focus the stewardship responsibility of enterprise managers, to the shareholders and other providers of capital. The financial reports provide accounting data relevant to the needs of mainly the shareholders as well as corporate creditors. This is done invariably at the expense of other classes of users of financial reports such as employees, customers and the community. The timing aspect of the statements examined could be considered satisfactory in that they were all examined by the Directors, audited and reported upon within periods not exceeding three months.

4.3.2 Neutrality of published financial reports

The profit and loss account and Balance Sheet are drawn up to determine the liquidity, profitability and viability of the reporting entity. This, of course is the main interest of investors and creditors in the activities of the enterprise. Hence there is a bias in financial reporting in favour of these groups to the neglect of other less prominent groups of users like employees, government agencies and customers. It has however been observed that one element of the financial state-

ments - namely the value added statement stands out prominently as an effort at establishing neutrality among the major users of accounting statements. It reveals how the wealth created by the company is shared among employees, providers of funds, government amongst others. Verifiability of the information is established by the fact that all the statements examined were statutorily audited by public auditors.

4.3.3 Understandability of Published financial reports

It has been observed that a high level of education is required for a meaningful understanding of the contents of financial statements due to their sophistication. Unfortunately, not many users of these statements possess the required knowledge and skill to fully comprehend them. This situation is further compounded by the fact that the methods underlying the preparation of these statements vary greatly, i.e. depending on the accounting bases and policies adopted by individual companies and whether there is some consistency in their application or not. Furthermore, the data contained in financial statements is too condensed and the accompying notes are largely too technical for the majority of users who are not so skilled to understand. The only probable exceptions appear to be the VAS as well as the general corporate information provided by most enterprises. These are devoid of most of the problems highlited above and are therefore most likely to be understood and appreciated by the less previledged users.

4.2.4 Completeness of Published accounting reports

Two vital ingredients for determining the completeness of accounting statements include the number and types of statements provided as well as the extent of information disclosure in those statements. Going by the recommendation of the NASB contained in its SAS No. 2 as regards the seven components of published accounting reports, it was observed that companies differ on the extent to which they provide the required statements. The comprehensiveness of the reports also vary greatly. Whereas some do provide all the recomended reports and make significant disclosures of relevant data, several others not only restrict their disclosures to the statutory minimum, but also condense the data in such statements so much to the extent of redering their relevance and understanding quite negligible.

4.4 Findings and Implications

The foregoing analysis has highlited some of the strengths and inadequacies of current trends in financial reporting practices. A significant milestone has now been attained due to the fact that a majority of enterprises in Nigeria now go beyong the statutory requirements in the types of accounting reports they provide in their annual reports. However, the performance of financial reports when viewed in relation to the four criteria earlier enumerated in this chapter, is quite unsatisfac-

tory.

This is because all along the fundamental objective has been to discharge the function of stewardship - based on the premise that only the providers of funds have a stake in the continued existence of the corporate entity and therefore financial reporting should be carried out with the objective of serving their needs. Therefore if the stakeholder concept of business enterprise is to be meaningful, further improvements in financial reporting are inevitable so that the interests of other users of accounting reports could be more adequately taken care of, thereby enabling the statements to meet up to the established criteria.

Several recommendations have been made over the past years for an expansion of the present financial reporting provisions mostly by professional accountancy bodies. One of these is contained in the 'Corporate Report' of the U.K.-based ASSC which advocates the publication by companies of additional reports such as value-added statements, employment report as well as statements of money exchanges with the government, transactions in foreign currency, corporate objectives and future prospects. Two of these reports, namely the value-added statement and statement of corporate objectives (which can complement the corporate information presently provided by some companies) have been observed to be suitable for the expansion of financial reporting practices by firms in Nigeria basically due to the

following two reasons:

(i) Most enterprises do at present provide a value-added statement (VAS) in their final accounts package and therefore only certain modiciations need to be made in order to adopt some measure of standardization.

(ii) The information required to produce a VAS is readily available and it can be designed in such a way that most of the data to be found in other statements such as foreign currency transactions and money exchanges with the government can be made readily available in the VAS. Similarly, the current practice by some companies in providing a section on other corporate information in the annual financial reports (where information on the background and nature of business undertaking among others are provided) could easily be expanded and modified to contain more vital information on corporate objectives and future prospects.

5.4.2 The Value Added Statement

The potentials of the VAS as a medium for social responsibility disclosures are evidently unmatched by any of the other traditional financial reports. Several other researchers such as Lee Seidler have recognized these qualities and have designed social reporting models incorporating the VAS. It provides an avenue for incorporating the activities of the socially

responsive firm into the coventional reporting framework. This will be a significant achievement in view of the fact that most companies now disclose information partaining to their interactions with the society either in the annual report of the Chairman or in press releases and bulletins. Such a practice is considered improper since it merely portrays a descriptive commentary of events devoid of fundamental accounting precepts such as verifiability, materiality and consistency. However, the VAS will be more meani gful if the following recommendations are adopted:

4.4.2(i) ***The recommendation of the NASB*** requiring companies to publish a VAS as part of the total package of annual financial reports should be given a statutory backing. This is to check the tendency whereby several companies fail to publish this statement in their annual reports due to the fact that it is not in the category prescribed by the Companies Decree of 1968.

4.4.2(ii) **An accounting standard** should be issued which will prescribe the format and method of preparation of the VAS. But this should allow a measure of flexibility to meet varying needs of different types of business (e.g. banks and insurance companies for which there are special disclosure requirements). Such uniformity when adopted will make possible the audit of the VAS together with other reports in the final accounts package.

In line with the above recommendation for a prescribed

format and having observed the absolute lack of uniformity different companies, a proposed format for VAS is provided below. This is arrived at after a careful study of the VAS contained in the sampled financial statements. The VAS's of three companies from the sample investigated are shown as Figures 4A, 4B and 4C below, while the proposed format is given as Figure 4D so as to allow for comparison.

Note:

In Table 4D The contributions made to the society were categorized into two -

(i) Socio-economic contributions: These have an indirect bearing on sales and hence profitability e.g. product or service contributions involving the improvement in the quality and safety of product or service provided and human resoruces stewardship which may involve enhancing the quality or skill of personnel as well as job satisfaction.

(ii) Social responsilibity - this is to enable the company report its endeavours in community involvenent activities, compensation to the community for environmental inconveniences amongst several others.

The proposed format is certainly more comprehensive than any of the several other formats being used by enterprises in Nigeria. It is designed in such a way that it extends the scope of the conventional financial reporting framework by allowing a

Table 4.4.2(A) VAS for a Manufacturing Company

Prime cost (raw materials input):		%	%
	To Nigerian farmers for tabacco leaf	14.4	
	To Nigerian suppliers for goods and services	16.3	
	To overseas suppliers for goods and services	5.2	35.9
Value-Added (wealth created by the company):			
	To employees' salaries, wages and allowances	15.8	
	To government - Company income tax	10.1	
	- excise on cigarette manufacture	23.1	
	To shareholders - dividends payable	7.2	
	To provide for replacement of assets and growth	7.9	64.1
			100

Source: Nigerian Tobacco Company Ltd.
1986 Annual Report and Accounts (p.6)

Table 4.4.2.(B) VAS for a Trading Company

		₦M
Our Group sales of products and services were		390.3
We deduct outside purchase of goods and services		328.5
To obtain what we earned		61.8
These earnings were used as follows:	Per ₦	Total ₦M
Employees	50k	30.5
Wages, salaries, welfare, company's share of pension schemes and other personnel-related costs		
Tax		
Levied by the government on company's profit for the year	10k	6.3
Interest	9k	5.5
On borrowings made by the company		
Dividends	8k	5.1
Distributed to shareholders		
Investments	23k	14.4
To prepare for the future and to increase our production and management efficiency. We replaced worn-out machinery and purchased new equipment and allocated funds to the launching of new projects.		
	100k:	61.8

Source: SCOA Nigeria Ltd. 1984 annual report and accounts (p.11).

Table 4.4.2(C) VAS for a service sector company

	₦'000	₦'000	%
Gross earnings		569,172	100.0
Interest paid		(236,924)	41.6
Bought in materials and services	(63,984)	332.248	58.4
Bad and doubtful debts	(57,793)	(121,777)	(10.2)
VALUE ADDED		210,471	37.0
Applied in the following way:			
To pay employees			
Salaries, wages & fringe benefits		91,930	16.2
To pay providers of capital:			
Dividents to shareholders		16,339	2.8
To pay government:			
Direct taxation		32,238	5.7
Contribution to national economic recovery levy		-	-
To provide for maintenance of assets and expansion of business:			
Depreciation	12,650		2.2
Retained Profit	57,314	69,964	10.1
		210,471	37.0

Source: United Bank for Africa Ltd.
1987 annual report and accounts, p28.

Table 4.4.2(D) Proposed Format for Value-Added Statement

	₦	₦	₦
Turnover (or Gross earnings):			
Export Sales/earnings	X		
Local Sales/earnings	X	X	X
Add other incomes	X	X	
Less bought in materials and services:			
Imported	X		X
Local	X	X	X
VALUE-ADDED		XX	XX
Applied in the following way:-			
To pay employees:			
Expatriate staff salaries	X		
Nigerian staff salaries and wages	X		
Staff welfare and fringe benefits	X	X	X
To pay providers' of funds:			
Dividends repatriable in foreign exachange	X		
Dividends to Nigerians	X		
Interest on debentures and other loans	X	X	X
To pay the government:			
Direct taxation (Corporate income tax)	X		
Indirect taxation (Excise duties, etc.)	X		
Other levies	X	X	X
*To the society:			
i Socio-economic	X		
ii Social responsibility	X	X	X
To provide for maintenance of assets and future expansion and growth of business:			
Depreciation	X		
Deferred taxation	X		
Retained earnings	X	X	X
	XX	XX	XX

Source: Adapted from Odiongenyi, O.T. 'How to make social responsibility accounting in Nigeria more functional unpublished seminar paper (1987)

company to incorporate information partaining to its interaction with the society. The user of the VAS can also be able to know a company's utilisation of foreign exchange from imports as well as its generation of same from exports. The format also shows that both depreciation, deferred taxation and retained earnings are available for maintenance of existing assets as well as for new investments. The VAS can also serve as a database for regulatory agencies to monitor foreign exchange repatriations from dividends and the emoluments of expatriate technical or management staff. The format is certainly more inclined to the 'stakeholder' as opposed to the 'stockholder' orientation of the conventional accounting statements.

4.4.3 Statement of Corporate objectives and future prospects

This statement is basically intended to cover three major areas:

4.4.3(i) General Corporate information

This section should provide information dealing with:

(i) the background and nature of business undertakings

(ii) organisational structure and hierachy as well as the functional structure

(iii) Holding, subsidiary or associated companies (if any) and the extent of control.

(iv) Board of Directors and general management.

(v) Other supporting organisations like bankers, auditors, solicitors, etc.

4.4.3(ii) **Corporate Objectives**

This might include:

(i) Concise statement of the general philosophy or policy of the company.

(ii) Principal and/or other objectives or aims. For instance, the principal objective may be the optimisation (or maximisation) of shareholders' funds (or profits), while the supporting objectives may include the enhancement of the quality of its products (through research) and the skill of its personnel (through training) or even the improvement of the living standards of its immediate community.

4.4.3(iii) **Future Commitments and Prospects**

Since the future cannot be predicted with much certainty, it is desirable that only the expectations of the following year should be reported particularly in areas like profitability level, investment and employment levels. This should however be supported by a statement of the principal assumptions upon which the expectations were based. Consequently report of the next year should explain the important deviations between the preceding year's projections and the actual results and then the

projections and assumptions should be updated whenever necessary.

4.5 Social responsibility reporting and the role of the Professional Accountant

The professional accountant's role can be viewed from two perspectives: first in his capacity as a public auditor and then, in relation to his professional calling, i.e. his position in relation to the professional bodies like ICAN and NASB to which he belongs.

4.5.1 Role as an auditor

In the first situation - as an auditor - the accountant's role has not been encouraging. This may be because the powers and duties he exercises are governed by the statutory provisions of the Companies Decree 1968. The auditor therefore finds a ready scapegoat by emphasising that he has little or no room for using initiatives and exercising discretionary powers. The Companies Decree makes it mandatory for all companies to publish their accounts annually. This provision seems to be complied with by the mere audit of the conventional profit and loss account and balance sheet. Just as it is not binding on a Company to publish other accounting statements like the VAS, so is it not mandatory for the auditor to audit such statements. However nothing stops the auditor from extending the scope of his audit to cover such areas, but rather the trend so far is that

auditors tend to exploit the situation to suit their convenience. They simply overlook the audit of other statements apart from the profit and loss account and balance sheet which are the only two usually mentioned in the final audit report. To further compound the situation, most audit firms also insert a form of alibi in the value-added statement part of the financial reports that says 'these schedules do not form part of the statutory financial statements.' This explains the differences in the way companies present their value-added statements in the annual reports as revealed in some of those presented in this chapter.

4.5.2 Professional calling in relation to the Professional bodies

The lack of concern shown by auditors for social responsibility reporting is further proved by the fact that they have often insisted that financial statements should be devoid of social responsibility disclosures, thus disregardintg the fact that corporate activities have both economic as well as social impact. In the opinion of most professional accountancy firms separate media should be designed for communicating social responsibility information instead of incorporating it into the conventional financial reporting media. This sentiment came out clearly in a report entitled 'Objectives of financial statements for business enterprises' published by Arthur Andersen and Company, an international firm of professional accountants. The

report said that "the information necessary for proper ethical enforcement and accountability to these broader social goals (of corporations) should not be integrated with the information needed for economic decisions. Accountability in these other areas should be established by separate reports designed especially for these social responsibilities". Apparently, this view will not augur well for the development of social responsibility reporting because the manner in which financial reports will be presented will make it impossible for users to appreciate the interdependence of economic and social objectives in achieving the long term goals of an organisation.

The professional accountant has however been relatively stronger in the theoretical or intellectual sense. Accountancy bodies the world over have been conducting a lot of research and several opinions and pronouncements are coming up by way of Accounting Standards, Research Bulletins and so on as to how financial reporting could be improved. Enterprises have continued to show some reluctance in implementing the recommendations in accounting standards mainly because they do not have any statutory backing.

Finally an interesting revelation from the financial reports examined is that that bigger companies tend to provide more comprehensive financial statements and also make more extensive dislosures than their smaller counterparts. The logical explanation for this is that they have more competent

accounting personnel than the smaller companies whose accountants are mainly those without much formal training apart from the usual on-the-job kind of training. The former being better trained than the latter are likely to be more broad minded in accepting changes and adapting to new challenges.

4.6 Summary

The chapter has, by evaluating a sample of financial statements, highlighted some of the outstanding characteristics of the present day financial reporting system. It was established that the major standards for judging the qualities of any financial reporting system are relevance to user requirements, neutrality in the face of diverse interests, understandability by the audience and completeness in content. Financial reporting as presently conducted is less than satisfactory in the context of these standards. The value-added statement could provide the starting point for companies to make far-reaching disclosures of accounting information relevant to and understandable by a large cross-section of users. However, professional accountants need to be less conservative especially in the discharge of their audit functions.

Chapter 5

5.0 SOCIAL RESPONSIBILITY IN CORPORATE FINANCIAL REPORTING: DATA ANALYSIS AND RESULTS

5.1 Preview

This chapter analyses the responses received through the questionnaire administered. The analysis was made by using simple percentages. It is worth noting however that the findings resulting from the analysis were based on the interpretation of both the questionnaire responses as well as the oral interviews which were conducted to complement the questionnaire.

The analysis covered four sections of the chapter (5.2 to 5.5) organized according to the sections into which the questionnaire was divided. It is pertinent to remember also that each section of the questionnaire was tailored towards finding answers to the four research questions which constitute the major aims of this research. Section 5.6 sets out how the results of the analysis can be applied in explaining the research questions. Finally the seventh section summarizes the major issues treated in the chapter.

5.2 The nature of social responsibility in corporate financial reporting

Two important facts were established from the review of literature: First that the objective of profit maximisation being the sole objective of a business corporation is no longer a unanimously accpeted view. Second, that corporate activities tend to have both economic and social impact on the society. These are the central issues examined in Section A of the questionnaire. In response to the first question on the fundamental objective of the modern day business corporation, the following was the outcome:

Table 5.2(a) The fundamental objective of a business corporation

	Number of responses received	%
a	18	36
b	23	46
c	9	18
d	-	-
	50	100%

Key: a = maximisation of profit or shareholders funds
b = optimisation of profit levels vis-a-vis other objectives
c = enhancing the well being of its immediate community
d = others specify.

Source: Questionnaire responses

The results enumerated above further strengthen the fact that the objective of profit maximisation is no longer unanimously accepted as the sole criterion for a firm's existence. All the respondents were of the opinion that the presence of a company in a given locality or community will surely have an impact on that community. In addition majority of them (84% or 42) believe that the nature of such an impact will incorporate both economic and social dimesions.

Of fundamental importance is the question of what the ultimate aim of preparing financial statement is. This will shed light on the pattern it will likely follow. Responses to that question revealed the following result:

Table 5.2(b) The ultimate aim of financial statements

	Number of responses received	%
a	27	53
b	22	43
c	2	4
d	-	-
	51	100%

Key:
a = Providing information to shareholders on how resources have been utilised to achieve desired results.
b = Providing information to shareholders and other interested parties on the company's performance financially.
c = Providing information to shareholders and other interested parties on the company's performance both financially and socially.
d = *Others specify.*

Source: Questinnaire Responses

This clearly shows that respondents were of the view that corporate financial reports are not prepared with the aim of providing information on the social aspects of enterprise activities. Rather, the sole aim is to provide information partaining to the company's financial performance (in the area of profitability and liquidity for instance) during the period. However respondents differ on whether this information is directed at shareholders only or it covers other interested parties like the government, employees, etc. The majority however (53% or 27) opined that the financial statements are geared towards the interest of shareholders.

5.3 Users of financial statements and their information requirements

It has been extensively discussed in the literature that there are several interest groups (apart from the providers of capital) who require accounting information, and that it is important to consider this fact in the manner of presenting financial statements. The questionnaire responses also justify this fact because over 90% of respondents answered in the affirmative when asked whether they subscribed to that view or not. This is further strengthened by the fact that all respondents made multiple choice in selecting the users of finanaicl reports that should be so considered. The result obtained was as follows:

Table 5.3 Users of financial statements

	Number of respondents	%
a	50	100
b	42	84
c	46	92
d	35	70
e	41	82
f	44	88
g	43	86
h	-	-

Key: a = shareholders/investors
b = creditors/suppliers
c = employees
d = researchers/specialised institutions
e = government agencies
f = customers
g = the community
h = others, specify

Source: Questionnaire responses.

The final enquiry in this section was aimed at determining the various uses to which financial accounting information could be channeled. The result as expected shows that different users have different purpose for which they require the information contained in financial statements. For instance it was shown that shareholders require accounting information that will enable them determine enterprise liquidity profitability and viability. Governmental agencies on the other hand are mainly interested in assessment and imposition of taxes in addition to monitoring and regulating business activities. The community will like to know the contributions made by the company towards the development and

well being of the society while the customer and employee may be interested in assessing from the financial report, the ability or readiness of the enterprise to continue producing goods and services.

5.4 The relevance of financial statements to user requirements

Accounting standards and other expert publications have recommended the publication of other reports in the annual financial statements (apart from the traditional income statement and balance sheet which are enforced by the companies decree). Examples of these reports include funds flow statements, value-added statements, five-year historical financial summary, statement of corporate objectives and future prospects, etc. Respondents were also of the view that most if not all of these statements should be included by companies in their annual financial reports. This is shown by the fact that all respondents made multiple selections from the variety of financial reports given. When the respondents were asked to rank these reports in order of preference an interesting revelation emerges. The ranking depends entirely on the user group. Thus, while shareholders reveal their preference for the profit and loss account, other users such as employees and customers place priority on such reports as value-added statements, corporate objectives and future prospects, etc.

A key issue in this section is the need to determine whether or not financial statements can serve meaningful purpose in terms of their relevance to user requirements. In responding to the question on whether financial reports as presently composed can serve the desired purpose(s) meaningfully, 43 (or 84%) of them said 'no'. The respondents were then further asked what the likely defects in the financial reporting system are. The following result was obtained[1]:

Table 5.4 The defects of the financial reporting system

	Number of respondents	%
a	13	25
b	16	31
c	37	73
d	44	86
e	2	4

Key: a = They appear too condensed and technical
b=The variety of reports published is insufficient.
c = Their information contents are biased in favour of certain groups of users
d = The scope is too narrow and cannot therefore accommodate all that the company needs to disclose
e = Others, specify.

Source: Questionnaire responses

1. Respondents were free to select more than one option.

Thus there are several defects in the system which need to be examined with a view to rectifying them. Major among these are the need to ensure neutrality and the incorporation of other matters not covered by the present accounting statements.

5.5 Suggested Improvement in financial reporting

One of the connerstones upon which the concept of corporate social responsibility was built is the notion of a social contract which binds the corporation with the society. This is based on the thinking that companies owe the society a social responsibility to contribute towards its upliftment and act to the satisfaction of members of the society. The society's obligation is to ensure that a conducive environment exists for the proper functioning of the business entity. In line with this reasoning, respondents were asked whether the fact that several interest groups require financial statements imposes any obligations or responsibility on the manner a company presents such statements. 46 respondents (90%) answered 'yes' to this question. They were then asked what the nature of such responsibilities are likely to be and the following was the result:

Table 5.5(a) A company's responsibility to the users of financial statements

	Number of respondents	%
a	-	-
b	12	26
c	34	74
d	-	-

Key: a = Casual responsibility which does not necessarily entail recognizing their information requirements in financial reports.

b = Moral obligation to provide accounting information which all users of financial reports will appreciate.

c = Evolving new system(s) of financial reporting that will not be too inclined towards one or few groups of users.

d = Others specify.

Source: Questionnaire reponses.

The result shows that there is the need to direct effort towards a more comprehensive financial reporting system that will ensure neutrality (or freedom from bias) among various user groups. This will portray a better image of the company as being able to discharge its 'social contract' to the society.

Before requiring respondents to suggest any improvements to financial reporting, they were first asked whether they think such changes or improvements are necessary at all. 87% or 44 answered 'yes', while the remaining think such changes are not

necessary. But even the latter group went further to say that their response does not imply that financial statements are devoid of any serious lapses. For the majority who think such improvements are desirable, the next inquiry requires them to suggest the likely changes or improvements that are needed. The following result was obtained:

Table 5.5(b) Suggested changes in financial reporting

	Number of respondents	%
a	10	23
b	1	2
c	28	64
d	5	11
e	-	-
	44	100

Key: a = Introducing additional reports to cover other areas of corporate endeavours.

b = Preparing separate financial reports for specific group of users.

c = Expanding the scope of available financial statements to cover all the areas a company may wish to report on.

d = Simplifying the financial reports as far as possible.

e = Others, specify.

Source: Questionnaire responses.

Thus respondents were mostly of the opinion that the scope covered by financial reports is at present too narrow and cannot accommodate all the areas a company may wish to report on. Hence the need to widen the scope, or in other words there is need for a shift of emphasis towards a user-oriented approach to financial reporting.

5.6 Interpretation of the research questions

The research questions outlined in chapter one of this write-up are designed to direct the focus of the research thereby serving as the major aims of the research. These are restated as follows:

(i) What is social responsibility in the context of corporate financial reporting?

(ii) Who are the target audience (or user groups for financial accounting information and what are their respective information requirements?

(iii) To what extent have current financial statements served their purposes adequately?

(iv) What are the improvements required to make financial statements more meaningful and relevant to a greater category of the audience?

The responses received through the questionnaire as well as

the data gathered by means of oral interviews have to a large extent provided answers to these questions. These are outlined as follows:

5.6(i) The case for social responsibility in corporate financial reporting is built on the contentions that the business corporation has multiple objectives which it seeks to attain and secondly, its activities have both economic and social impacts on the society within which it operates. Hence a socially desirable financial reporting should aim at providing accounting information to shareholders and other interested groups on the company's overall performance i.e. both financially and socially. This is quite distinct from the status quo where the focus is on the information needs of shareholders only as revealed by the responses analysed.

5.6(ii) It is an irony to accepet the fact that there are several interest groups who require financial reports and yet fail to reflect this in the financial statements. The data gathered has shown that users of accounting information include among others shareholders/investors, creditors, employees, government agencies, customers, the community, researchers, etc. Their information requirements differ according to the use they make of the information. For instance while shareholders require financial reports so as to determine enterprise liquidity, profitability and viability, the community may like to know the contributions made by the enterprise towards the development and

well-being of the society.

5.6(iii) Several factors could determine the ability of financial reports to serve the needs of users adequately. Principal among these are the types of financial statements and the manner of presentation. Responses received have shown that it is improper to restrict annual financial reporting to merely the statutory balance sheet and income statements. This is because certain category of users may not be able to find the information they desire in these statements. This explains why respondents unanimously believe that financial statements (as presently composed) cannot adequately serve their purposes.

5.6(iv) Having acknowledged the fact that certain shortcomings exist in the financial reporting system, it becomes imperative to consider the likely remedies. Suggested remedies differ, ranging from expanding the scope of available financial statements to the introduction of additional reports. But the bottom line remains the same - the desire to ensure that the standards established for corporate financial reporting namely relevance, neutrality, understandability and completeness are upheld. When these criteria are properly enshrined and implemented in the financial reporting function, financial statements are likely to command the attention of a much larger audience.

5.7 Summary

The chapter has provided empirical proof to most of the underlying assumptions of the concept of social responsibility in corporate financial reporting. Both written (questionnaire) and oral (interviews) data were used in the analysis and this has explained the phenomena behind the research questions that were earlier posed.

Chapter 6

6.0 SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

6.1 Research Summary

The purpose of the research was to examine the relevance and feasibility of adopting a 'general user' approach to the accounting function of corporate financial reporting. Being a social responsibility concept, the related literature discussed the underlying assumptions of the theory of business social responsibility with particular emphasis on corporate financial reporting. The social responsibility of business has been a different thing at different points in time. It was first conceived as being synonymous with 'making as much money as possible for its stockholders'. It later developed to a stage where 'equity' became the watch word, i.e. a business corporation should attempt to maintain an equitable balance between its primary objective of profit maximisation and several other subsidiary objectives. Currently, business social responsibility is built on the contention that a company has no single dominant objective but a plurality of objectives which it seeks to optimise rather than maximise. Related to this is the all important notion of a social contract binding the company with the larger society. A company embarks upon certain socially-

desirable tasks in anticipation of some reward or benefit from the society or vice versa. That is why a company is deemed to be responsible to all stakeholders rather than to merely its shareholders.

The research approach was essentially evaluative and thus the procedure incorporates both primary (i.e. questionnaire responses) and secondary (i.e. annual financial reports) sources of data. The sample financial statements were evaluated on the basis of four enumerated standards and the results have revealed that there is the need and opportunity for extending the boundaries of financial statements so as to cover other aspects of corporate activities that are not adequately treated in existing financial statements. For instance the VAS could be modified to provide more relevant information to a wide range of users. Similarly a statement of corporate objectives and future prospects could be easily created from the existing section on general corporate information found in most annual reports of companies. There is however a general feeling that the country's legislations governing the conduct of corporate financial reporting have to a large extent aided and abated restrictive practices in financial reporting disclosures by recognizing the rights of mainly the shareholders to the information contained in financial statements.

The primary data gathered from questionnaire responses and oral interviews has gone a long way in explaining the research

questions earlier posed. This has provided empirical evidence to the critical assumptions of the concept of social responsibility in corporate financial reporting.

6.2 Conclusions

Most research in the field of social responsibility accounting has focussed on the introduction of social reports, social audit and the underlying measurement problems of social costs and benefits. This may be quite appropriate for the advanced countries where research in this field is at an advanced stage. This research has however considered the peculiarities of a society like ours where developments in the field of corporate financial reporting have been quite slow and segments of the society that constitute the users of accounting reports (such as employees, customers and governmental bodies) are yet to assume their rights and responsibilities vigorously. It has thus advocated for the application of the theory of social responsibility accounting as a basis for corporate financial reporting by modifying it to mean that a company should consider and reflect the interests of all 'stakeholders' in its annual financial reports.

The research has contributed its quota to knowledge in this field in the following respects:

(i) It has given practical meaning to the concept of social responsibility in the context of financial reporting - the

kind of meaning that is easily understood and appreciated.

(ii) The research findings will generate a desire for extending the scope of the conventional financial reporting framework so that more information could be generated which will be relevant to other users. This will not stop just at that because the research findings could easily be practicalised.

(iii) It will stimulate awareness amongst the users of financial reports and the corporate organisations as well. Users will be made more aware of their rights to accounting information as well as the nature and significance of the information provided. The companies on the other hand will be more conscious of the social role which the society expects of them.

It is hoped that most of the present undesirable practices which some companies engage in, such as falsification of accounts or statements of financial position, violation of statutory, financial and business regulations amongst others may be done away with. This is true because a business corporation is more likely to resort to these unethical tendencies if it knows that it is accountable to only its shareholders whose primary concern is to get as much return as possible regardless of the rules of the game. In a situation where a company knows that there are a number of 'stakeholders' with genuine interests in its continued existence and well-being, its focus of attention will shift to

determing how best to reconcile and optimise the multiple objectives that will most naturally arise.

6.3 Recommendations

The concept of business social responsibility in financial reporting involves an attempt to determine the potential for a 'stakeholder' rather than a 'shareholder' approach to corporate accountability as well as the implications for the accounting profession of such a development. It is therefore an attempt at evaluating and practicalising the desirable attributes of the concept in discharging the function of corporate accountability.

The research findings enunciated in this write-up have practical applications in serveral respects as enumerated below:

6.3(i) The extent and nature of information disclosure in accounting statements determines to a large degree, the relevance, understandability, neutrality and completeness of such statements. It is therefore recommended that companies make considerable improvements in their financial reporting practices by publishing all the financial statements enumerated in SAS 2 and even more. Also the manner of presentation and nature of information contained call for a review. The format proposed for presentation of a VAS is an attempt in this regard.

6.3(ii) A call has been made in this write up (chapter 4)

for companies to introduce a statement of corporate objectives and future prospects. This is because the nature of corporate objectives will go a long way in explaining the phenomena behind corporate activities.

A company that gives due regard to societal values or aspirations is likely to have multiple objectives or some complementary objectives to the main objective (rather than a single objective of say profit maximisation) which it will strive to attain. This will make corporate organisations more conscious of the fact even though the pursuit of economic gains may be their primary objective, it should not be considered as the sole objective to the neglect of the genuine aspirations of other groups in the society like its employees, customers and the governmental organisations.

<u>6.3(iii)</u> The government should consider granting tax incentives to companies that pay serious attention to their social responsibility rather than leaving the matter as a charity function. It is therefore recommended that corporate expenses relating to social responsibility considerations (such as community involvement, human resources stewardship, product or service contributions, etc.) should be tax-deductable. This is the practice in several countries that consider business social responsibility a serious matter. It is hoped that this will boost corporate morale tremendously.

<u>6.3(iv)</u> There is the need to re-assess the audit function

so as to streamline it with this dispensation. This is because the audit function is hooked on the conventional accounting task of stewardship where corporate accountability is viewed from the perspective of only the shareholder. Public auditors should consider all accounting statements as deserving of equal degree of authenticity and therefore their audit work should extend to all financial statements (rather than a select few) so that verifiability and validity could be enhanced.

6.3(v) There is the need for interest groups and associations to enlighten their members and the general public about the various facets of business social responsibility. This is with a view to achieving two main objectives - first, to discourage and possibly eliminate the tendency whereby companies are the sole determinants of what constitutes their social responsibility. Secondly the necessary pressure and demands from interests groups is likely to be more forthcoming. For instance, trade unions may become more broad minded and look beyond short term demands for remuneration, increases to more enduring benefits like industrial safety and job security. Similarly, customer awareness may reach a stage where consumer interest protection groups will be formed. Societal pressures and demands such as these are required in order to make corporate bodies give serious thought to their social responsibilities.

6.3(vi) There is the need for the NASB to issue an accounting standard which will reflect among other things on the

plurality of corporate objectives. This will give professional backing and recognition to the multi-lateral nature of corporate objectives and will serve as a springboard for a further extension of this concept. Alternatively an amendment to the present SAS 2 along the same line could be quite satisfactory.

6.3(vii) Finally the recommendations cannot be complete without a call for the promulgation of a legislation, probably an amendment to the Companies Decree 1968, particularly sections 141(1) and (2) which tend to encourage restrictive financial reporting by requiring companies to publish merely a profit and loss account and balance sheet. Until this is done, some companies will insist on their narrowed-down financial disclosures irrespective of recommendations made by professional bodies such as NASB. The legislation should manadate enterprises to publish all the financial statements recommended in this write-up as well as require independent auditors to extend their audit to all published financial reports.

With the current efforts at economic recovery and reconstruction which many a times runs into turbulent waters due to the intricate manipulations and wanton violations of business ethics and regulations by giant corporations, there is obviously the room for further discoveries in this area.

It is hoped that the recommendations (though not exhaustive) emerging from this study will form part of serious efforts

towards recognizing 'a social responsibility approach to corporate financial reporting' by government, regulatory bodies and corporate managements.

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APPENDIX I

AHMADU BELLO UNIVERSITY, ZARIA

FACULTY OF ADMINISTRATION

DEPARTMENT OF ACCOUNTING

Dear Sir/Madam,

A SOCIAL RESPONSIBILITY APPROACH TO CORPORATE FINANCIAL REPORTING

I am introducing to you Zakari, Aminu Salihu who is a post graduatestudent of this department now undetaking a research on the above topic area.

The research is aimed at establishing a fundamental concept for corporate financial reporting by determining the relevance and feasibility of adopting a 'stakeholder' rather than the present 'stockholder' approach to corporate financial reporting.

Your sincere response will be highly appreciated and will also be treated with all confidentiality.

Finally we will be glad to share our findings from this

research with you if you so desire.

Thank you very much.

Yours truly,

(Mr. A. Silva)
Coordinator
Postgraduate Programmes

Tuesday 16th February, 1988.

APPENDIX II

QUESTIONNAIRE

1. Name of organisation or nature of profession .....

   .....

2. Position or Rank .....

3. Educational background (tick as appropriate).

   (a) Post graduate qualification

   (b) Professional qualification

   (c) First degree or equivalent

   (d) Diploma or below

SECTION A

1. What in your opinion should be the fundamental objective of the modern day business corporation?

   (a) Maximisation of profit or shareholders' funds

   (b) Optimisation of profit levels vis-a-vis other objectives

   (c) Enhancing the well being of its immediate community

   (d) Others, specify .....

2. Is the presence of a company in a given locality or community likely to have any impact on that community?

   (a) Yes

(b) No

3. If the answer to 2 above is 'no', why is that so (briefly)

.....

4. If the answer to 2 above is 'yes' what sort of impact do you think it will have?

(a) Economic

(b) Social

(c) Both social and economic

(d) Others, specify .....

5. What do you envisage as the ultimate aim of the annual financial statements prepared by business entities?

(a) Providing information to shareholders on how resources have been utilised to achieve desired results.

(b) Providing information to sharedholders and other interested parties on the company's performance financially.

(c) Providing information to shareholders and other interested parties on the company's overall performance, both financially and socially.

(d) Others, specify .....

SECTION B

5. Do you subscribe to the view that there are several interest groups who require accounting information and that this fact should be considered in the presentation of

financial statements?

(a) Yes

(b) No

7. If the answer to (6) above is 'no', please state your reasons (briefly)

.....

8. If the answer to (6) above is 'yes', which of the these groups of potential users of financial reports do you think should be considered?

(a) shareholders/investors

(b) creditors/suppliers

(c) employees

(d) researchers/specialised institutions

(e) government agencies

(f) customers

(g) the community

(h) Others, specify .....

If more than one group is applicable, tick as many as appropriate and rank them below in order of priority (by putting a,b,c, etc., against the appropriate number).

1st 2nd 3rd 4th 5th 6th 7th 8th

9. Match each of the possible uses of financial accounting data with the likely user from the listings given below by putting the appropriate letter (a,b,c, etc.) against the choice made.

(a) Determine liquidity, profitability and viability.

(b) Assessing enterprise ability or readiness to continue producing goods and services.

(c) Assessment and imposition of taxes in addition to monitoring and regulating business activities.

(d) Determining the contributions made towards societal development and well being.

(e) Serving as a data base for reference and future plans.

LIKELY USERS

Shareholders/investors

Employees

Government agencies

Customers

The general public especially the community

Researchers/specialised institutions.

SECTION C

10. Which of the following accounting reports to you feel should be included by all companies in their annual financial statements package?

(a) Balance Sheet

(b) Profit and Loss Account

(c) Statement of Accounting Policies

(d) Elaborate notes on the Accounts

(e) Statement of source and application of funds

(f) Five-year historical financial summary

(g) Value-added statement

(h) Statement of corporate objectives and future prospects

(i) Others, specify .....

If more than one option is applicable, tick as many as appropriate, and rank them in order of priority as follows:

1st 2nd 3rd 4th 5th 6th 7th 8th 9th

11. Do you think that financial reports as presently constituted can serve the desired purpose(s) meaningfully?

(a) Yes

(b) No

12. If the response to (11) above is 'yes', in what ways (briefly).

.....

13. If the response to (11) above is 'no', what are the probable defects?

(a) They appear too condensed and technical

(b) The variety of reports published is insufficient

(c) Their information contents are biased in favour of certaing groups of users

(d) The scope is too narrow and cannot therefore accommodate all that the company needs to disclose.

(e) Others, specify .....

what more than one option is applicable, tick as many as appropriate.

SECTION D

14. Deos the fact that several interest groups require the information published in financial statements impose obligations or responsibilities ont he manner a company should present such statements?

    (a) Yes

    (b) No

15. If the answer to (14) above is 'no', why do you think so? (briefly .....

16. If the answer to (14) above is 'Yes', what are the nature of those responsibilities?

    (a) Casual responsibility which does not necessarily entail recognizing their information requirements in the financial reports.

    (b) Moral obligations to provide accounting information which all users of financial reports will appreciate.

    (c) Evolving new system(s) of financial reporting that will not be too inclined towards one or few group(s) of users.

    (d) Others, specify .....

17. Do you think certain changes or improvements are required in order tc enhance the usefullness or relevance of financial reports?

    (a) Yes

    (b) No

18. If the answer to (17) above is 'no' does it imply that financial statements are devoid of any serious shortcomings?

(a) Yes

(b) No

19. If the answer to (17) above is 'yes', what are the likely changes or improvements needed?

(a) Introducing additional reports to cover other areas of corporate endeavours.

(b) Preparing separate financial reports for specific group of users.

(c) Expanding the scope of available financial statements to cover all the areas a company may wish to report on.

(d) Simplifying the financial reports as far as possible.

(e) Others, specify.

Appendix III A Breakdown of the Distribution and Responses to the Questionnaire administered

Group Classisification	Number administered	Number of respodnents	% of respondents to total administered
Shareholders/ investors	10	5	50%
Employees/ customers	60	33	55%
Governmental Institutions	5	4	80%
Professional Accountants & Academics	10	9	90
Total	85	51	60%

Appendix IV List of Sample Companies:

Source of Secondary data

Sector		Company	Annual report and accounts for the year ended
Manufacturing	1.	Nigerian Tobacco Company Ltd.	30 September, 1986
	2.	Cadbury (Nigeria) Ltd.	30 September, 1987
	3.	Afprint Nigeria Ltd.	31 December, 1986
	4.	Debo Industries Ltd.	31 December, 1986
Trading	5.	SCOA (Nigeria) Ltd.	30 September, 1984
	6.	A. G. Leventis & Co. (Nig.) Ltd.	31 March, 1987
	7.	Buhari United Company Ltd.	30 September, 1986
Service	8.	Nigerian Industrial Development Bank Ltd.	31 December, 1986
	9.	United Bank for Africa Ltd.	31 March, 1987
	10.	Union Bank of Nigeria Ltd.	30 September, 1986