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Corporate Governance, Wealth Creation and Social Responsibility Accounting

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Abstract

The spate of social unrest resulting in corporate disruption and production shortages have assumed alarming dimension. Companies' activities most often impact negatively on the environment within which the company is doing business. Howbeit the environment is adversely affected, the company increasingly exploits it to increase profits and provide attractive returns on investment. In recent times, most companies have come to terms with the fact that their continuous existence and increasing expansion of shareholders' wealth depend on the conduciveness and acceptability of the company in the environment. With this realization, companies strife to identify with the needs and problems of the environment where they operate by contributing part of the profit generated to the social welfare of the environment. This concern by companies for the environment where they operate has given rise to the widely embraced concept of corporate social responsibility. Companies become socially responsible as they are alive to the demands of the society. The society embraces such companies thus enhancing the image and status of the company. The image and status of the company directly impact on shareholders' wealth thus reflecting the strength of corporate governance. Corporate governance encourages best practices by protecting the interest of shareholders and creating atmosphere for increased returns on investment for the shareholders. This paper has demonstrated the undisputable correlation between social responsibility accounting and shareholders wealth manifested in good corporate governance. The paper has shown that changes in profit attributable to shareholders result from changes in corporate social contributions. Companies investing in societal activities rapidly create wealth, image and good social status for the shareholders. It becomes necessary therefore for companies focusing on growth and survival indices to equally watch its corporate governance rating and corporate social responsibility outlook.

Key words: Corporate governance; Shareholders' wealth; Corporate image; Corporate social responsibility; Social responsibility accounting

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INTRODUCTION

Following the increase in corporate failures witnessed around the globe in recent times, the issue of corporate governance has taken centre stage in business discuss and intellectual gathering on business management. This rise in interest can be traced to the clear separation of ownership from management, which is a major feature of modern corporations. Alo (2007) noted that this separation has given rise to the need to install an appropriate framework for ensuring transparency and accountability in the management of business organizations.

On the other hand, Hendriksen and Breda (1992) explained that the entity theory of the firm which considered the firm to be a separate economic entity operated primarily for the benefit of shareholders, has given way to the "enterprise theory" which sees the corporation as a social institution operated for the benefit of many interest groups (stakeholders) which include shareholders, creditors, employees, customers, the government and the general public. The implication of this is that the responsibility of the firm is not only restricted to her shareholders but also to a wider sector, known as stakeholders, which cover the general public. This had led to a new era of corporate citizenship movement in which Chief Executive Officers (CEOs) aspire to be social entrepreneurs and companies look for ways to combine profit with social responsibility.

Beyond embarking on corporate social responsibility activities, Davies and Okorite (2009) report that there is the call by the public, environmentalists and host communities for a reported evidence of such activities on the part of business enterprises.

This paper seeks to identify the inter-relationship between corporate governance and social responsibility with a view to establishing the impact of corporate governance on social responsibility, and how social responsibility accounting can help organizations achieve good corporate image.

THEORETICAL FRAMEWORK

Corporate governance is concerned with promoting corporate fairness, transparency and accountability. The Organization for Economic Co-operation and Development (OECD) defined corporate governance as the system by which business corporations are directed and controlled, with respect to the distribution of rights and responsibilities among the board, management, shareholders and other stakeholders. OECD outlined the principles of corporate governance to include:

- The rights of shareholders
- Equitable treatment of shareholders
- The role of stakeholders
- Disclosure and transparency
- The responsibility of the board.

Sheridan and Kendall (1992) defined corporate governance as consisting of a system of structuring, operating and controlling a company to meet the need of stakeholders. It includes fulfilling the long term strategic goals of the owners, caring for and protecting the interest of employees, taking account of the needs of the environment, maintaining excellent relations with all stakeholders, maintaining proper compliance with all applicable legal and regulatory requirements.

From his perspective, Alo (2009) looked at corporate governance as the manner in which power is exercised in the management of economic and social resources for sustainable human development. This is seen as the creation of a balance between economic and social goals and between individual and communal goals. Corporate governance is therefore concerned with improved stakeholder performance with respect to accountability, board's disclosure, investor involvement and related issues. Corporate governance is a system of structuring, operating and controlling a company with a view to attaining wealth and satisfying other stakeholders. It is equally seen as the manner in which the powers of the corporation are exercised in accounting for the corporation's total portfolio of assets and resources with the objective of maintaining the degree of increase in shareholders' value and the corporate value and maximum human centered development.

Reasoning further, corporate governance is concerned with effective management of a business organizations and value creation for all stakeholders so as to promote sustainable development. This means that corporate governance is concerned with running a business venture profitably and effectively applying the profit to ensure shareholders' wealth maximization and promoting the welfare of the general public. This translates into value creation for the company by way of sustainable development. Laying credence to this fact, Emenike (2007) sees corporate governance as the way corporate bodies utilize their funds to generate financial wealth for shareholders and social wealth for the community in which they are located. In his words, "long gone are the days when the corporation saw itself as just converting raw materials into products for profit." The need to build corporate image and reputation in the decision-making matrix of the firm has taught many CEOs not to ignore potential damage to corporate names; hence brand name is now part of strategic corporate equity of the firm. Based on this scenario, the firm is to increase profit in a socially responsible way. That is, in a way that supports the building of a better society for all her stakeholders.

The promotion of the social values that are expected of businesses is a movement loosely called Corporate Social Responsibility (CSR) (Eberly, 2008, p. 49). In enhancing corporate social responsibility, businesses are expected to give something back to the community as a form of conscious payment for what they took out in the course of creating wealth. Parkes (1981) states that, there is but one mode of using enormous fortunes – namely, that the possessors from time to time during their own lives should so administer these fortunes so as to promote the permanent good of the communities from where they were gathered. It therefore follows that since the firm does not exist in a vacuum, it cannot isolate corporate social responsibility from corporate governance. Wealth creation is central to the economic role of the business but the society determines the extent to which this wealth can be enjoyed and the values system which surround the enterprise.

Corporate social responsibility can be an important tool in promoting sustainable development. The operation and management of corporations are vital to the promotion of economic development and social progress of both developed and developing economies. Equally, the efficiency and accountability of the corporation is now a matter of both public interest and good corporate governance. Thus, good corporate governance seeks to promote:

- Efficient, effective and sustainable corporations that contribute to the welfare of the society by creating wealth, employment and solutions to emerging challenges.
- Responsive and accountable corporations.
- Legitimate corporations that are managed with integrity, probity and transparency.
- Recognition and protection of shareholders' rights.
- An all inclusive approach, based on democratic ideals, legitimate representation and participation.

While it is important for corporate organizations to embark on corporate social responsibility, it is equally necessary to produce evidence that these activities have been carried out. There is a continual scenario of face-off between host communities and the companies operating in their areas. The bone of contention has always been social irresponsibility by corporate citizens. These disagreements have in no small measure affected the operation of such companies. However, Davies and Okorite (2007) argued that where there is a fairly reported account of these companies' social activities, duly audited, attested to and published by the companies for all to see, some of these problems would be minimized, if not eliminated. Social responsibility accounting is the way out. The global requirement for more disclosure of information in the reports of companies logically includes the requirement for social responsibility accounting.

Social responsibility accounting is seen as the measurement and reporting of internal and external information concerning the impact of an entity and its activities has on the society. In a simple form, social responsibility accounting is a way of demonstrating the extent to which an organisation is meeting its stated socio-ethical goals.

The basic objectives of social responsibility accounting include:

- The identification and measurement of the periodic net social contributions of an individual firm which does not only include the social costs and benefits internalized to the firm but also those arising from externalities affecting different social segments.
- The determination of whether an individual firm's strategies and practices which directly affect the relative resources and power status of individuals, communities and social segments are consistent with widely shared social priorities on one hand and individuals' legitimate aspirations on the other.
- Making available in an optimal manner to all social constituents, relevant information on the firm's goals, policies, programmes, performances and contributions to social goals.

The first two are measurement goals and until they are achieved, there can be no basis for the third objective. It is therefore evident that social responsibility accounting provides a snap-shot of a company's corporate social image.

Scholars have come to agreement that a business only contributes fully to a society if it is efficient, profitable and its corporate social responsibilities made integral part of good corporate governance. It therefore implies that when a company is reporting her corporate social responsibility activities through social responsibility accounting, it is equally evidence that the constituents of corporate governance have been met.

In a bid to remain socially responsible, organizations by the standards of good corporate governance, not only commit themselves to corporate social responsibility activities but also strive to make their commitment known to all interest groups. Therefore, the desire to achieve good corporate governance has led to increased awareness on, and adoption of social responsibility accounting.

METHODOLOGY

The study examined the extent to which corporate social responsibility accounting can manifest the strength or otherwise of corporate governance in the studied organizations.

Scholarly literatures on corporate governance and social responsibility accounting were consulted in the course of this paper. This pilot study concentrates on the Nigerian financial sector which has stood out as the most patronized sector in the Nigerian economy. This patronage signifies that this sector contributes more significantly to the well being of the nation.

Statistical materials for this work were basically from the published annual reports and records of eleven Nigerian banks for 2007 – First Bank of Nigeria (FBN) Plc, United Bank for Africa (UBA) Plc, Oceanic Bank Plc, Zenith Bank Plc, Access Bank Plc, Union Bank Plc, First City Monument Bank (FCMB) Plc, First Inland Bank Plc, Intercontinental Bank Plc, Diamond Bank Plc and Sterling Bank Plc. These banks were selected on the strength of their shareholders' fund and their international branch network. The year 2007 was considered appropriate base year as the concept of corporate governance started gaining prominence in Nigeria.

The data obtained in 2007 relate to profits attributable to shareholders, which were affected by corporate social responsibility activities (Corporate Donations) for years 2006 and 2007. These were further analyzed into percentage changes which were used as test data for the following hypothesis.

H_0: The absence of social responsibility accounting impairs wealth creation for the shareholders and reveals weak corporate governance.

H_1: Social responsibility accounting creates wealth for the shareholders and reveals strong corporate governance.

The Pearson Product Moment Correlation Co-efficient was used as a model for testing the above hypothesis. The formular is given below:

$$r = \frac{n\sum xy - \sum x\sum y}{\sqrt{[n\sum x^2 - (\sum x)^2][n\sum y^2 - (\sum y)^2]}}$$

Where: r = Co-efficient of correlation
n = Number of observations
x = Shareholders' wealth revealing corporate governance
y = Social responsibility accounting

The student's t-test was employed to test for the significance of the level of association between the variables. The formular below was used:

$$t = r\sqrt{\frac{n-2}{1-r^2}}$$

Where: t = Student's t-test statistic
r = Co-efficient of correlation
n = Number of cases examined

The test was carried out at 90% level of confidence resulting in 0.05 significance on a two-tailed arrangement with n-2 degree of freedom. Data obtained for the study are presented below.

RESULTS AND DISCUSSIONS

The result of the test shows that t-calculated is greater than t-tabulated, hence the alternative hypothesis (H_1) was accepted which states that, social responsibility accounting creates wealth for the shareholders and reveal strong corporate governance.

Table 1
Profit Attributable to Shareholders

	2007 (₦'000)	2006 (₦'000)	Increase (₦'000)	Increase (%)
FBN	18,355,000	16,053,000	2,302,000	13
UBA	19,831,000	11,468,000	8,363,000	42
OCEANIC	17,134,085	9,558,828	7,575,257	44
ZENITH BANK	18,677,006	11,620,276	7,056,730	38
ACCESS BANK	15,881,676	6,083,439	9,798,237	62
UNION BANK	13,223,000	10,802,000	2,421,000	18
F.C.M.B	5,948,679	2,833,278	3,115,401	52
FIRST INLAND BANK	2,649,120	(10,346,832)	(7,697,712)	(3)
INTERCONTINENTAL BANK	7,215,469	5,703,353	1,512,116	21
DIAMOND BANK	12,748,621	5,738,815	7,009,806	55
STERLING BANK	1,873,025	1,053,660	819,365	44

Table 2
Corporate Social Responsibility Activities (Corporate Donations)

	2007 (₦'000)	2006 (₦'000)	Increase (₦'000)	Increase (%)
FBN	315,833,000	119,887,000	195,946,000	62
UBA	313,194,856	65,026,000	248,168,856	79
OCEANIC	241,014,890	61,265,630	179,749,260	75
ZENITH BANK	571,909,454	428,423,181	143,486,273	25
ACCESS BANK	160,856,000	45,362,000	115,494,000	72
UNION BANK	35,231,000	30,720,286	4,510,714	13
F.C.M.B	34,846,530	28,650,235	6,196,295	18
FIRST INLAND BANK	43,905,541	39,850,000	4,005,541)	9
INTERCONTINENTAL BANK	210,767,538	198,657,528	12,092,010	6
DIAMOND BANK	121,000,000	156,600,000	(34,600,000)	(29)
STERLING BANK	8,575,000	6,857,000	1,718,000	20

Table 3
Correlation Data

S/N	x CSR* ₦'M	y SW/CG** ₦'M	x^2 ₦'M	y^2 ₦'M	Xy ₦'M
1	195.95	2302	38,396.40	5,299,204	451,076.9
2	248.17	8363	61,588.40	69,939,769	2,075,445.7
3	179.95	7575.26	32,310.06	57,384,564	1,361,652.9
4	143.49	7056.73	20,589.38	49,797,438	1,012,570.2
5	115.49	9798.24	13,337.94	96,005,507	96,005,507
6	4.51	2421	20.34	5,861,241	10,918.7
7	6.20	3115.4	38.44	9,705,717	19,315.5
8	4.06	(7697.71)	16.48	(59,254,739)	(31,252.7)
9	12.1	1,512.12	14,641	2,286,507	18,296.7
10	(34.6)	7009.81	(1,197.16)	49,137,436	(242,539.4)
11	1.72	819.37	2.96	671,367	1,409.3
	876.84	42,275.22	165,249.65	286,834,011	100,682,400.8

*CSR-Corporate Social Responsibility
**SW/CG-Shareholders' Wealth/Corporate Governance

Table 4
Correlation Analysis of the Relationship Between Corporate Social Responsibility and Shareholders' Wealth Through Corporate Governance

n = 11				
Variables	∑CSR ∑SW-CG	$\sum CSR^2$ $\sum SW\text{-}CG^2$	∑CSRSW-CG	r
C S R	876.84	165,249.65	100,682,400.80	0.89*
SW/CG	42,275.22	286,834,011		

* Substantively significance @ $r^{95} = 0.89$
t_c 0.05 = 5.86 > t_t 0.05 = 2.262

Table 1 and 2 reveal that for the years under review, almost all the banks studied increased their corporate donations (csr) just as the profits attributable to their shareholders increased. It follows that in an effort to maximize shareholders wealth the banks did not ignore their social obligations as provided under best practices for good corporate governance.

These observations were subjected to test, the result of which, as stated above, validated the statement that, "in the absence of good corporate governance, shareholders' wealth maximization is not guaranteed''.

The whole essence of good corporate governance centres on and around accountability, transparency and management efficiency while ensuring the safety of investments, better returns on investment and commitment to society's welfare. Both returns on investment and social obligations derive from the profitability of the firm. However, without an efficient management which is devoid of inside abuses, profitability will not be achieved neither can anything be achieved in a hostile, agitating and unfriendly environment. Therefore, without the whole constituents of good corporate governance, shareholders' wealth will not be guaranteed from social responsibility accounting.

SUMMARY AND CONCLUSION

In order to achieve good corporate image, firms need to shoulder their social responsibilities (csr). The rating parameters made available by Governance Matrics International (GMI) include, among others, CSR activities. This, therefore, corroborates the fact that corporate social responsibility is a necessary ingredient for good corporate governance. The need for firms to attain good corporate citizenship has led to increased participation in CSR activities. With the increasing attention on corporate governance, good corporate citizenship has become a veritable image of the firm.

Good corporate citizenship is however an assessment by the society, of the firm who identifies with the problems of the society. If the business must succeed in its economic mission, it must reasonably assume other (social) responsibilities. Achieving the social obligations therefore, is an indication that the firm is efficient, profitable and socially responsible. These are the hallmarks of good corporate governance.

Finally, employing any means, method, procedure or medium to provide any kind of information that keeps the firm awake to its social responsibility is a measure to evoke good corporate governance. Such medium is provided by social responsibility accounting.

The drive for good corporate governance is pushing firms to embrace social responsibility accounting. Therefore, social responsibility accounting is having a significant positive impact on corporate governance and corporate image.

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