SOCIAL ACCOUNTING DISCLOSURES AND MARKET VALUE OF LISTED INSURANCE FIRMS IN NAIROBI SECURITIES EXCHANGE, KENYA

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ABSTRACT

This study aimed at studying social accounting disclosures and market value of listed insurance firms in Nairobi securities exchange, Kenya. The objectives for the study were; to study human resource accounting, environmental accounting, community involvement disclosures, consumer product disclosure and the respective market value of insurance companies listed in NSE, Kenya. The targeted population was all listed insurance companies in Kenya for the period 2019-2023. Secondary sources of data were utilized for the entire study and the census method was used in data collection. Tobin's Q ratio was used in measuring the firm value and the data was analyzed using regression method. Results show a significant positive relationship of social accounting disclosures on the insurance firm's market value. The relation between consumer and product accounting, community involvement accounting disclosures were strong, positive and significant on market value. Human resource accounting disclosures has a moderate relationship with market value while environmental accounting disclosures has a weak relationship on the market value of listed Insurance Firms in the NSE from 2019 to 2023. Policymakers should develop a guideline for the disclosures of human resource accounting and then make sure that the firms comply with the guidelines. This would help in standardizing the disclosures regarding human resource accounting for all the firms. Firms should integrate environmental sustainability goals into their broader business strategies. Highlighting measurable outcomes, such as reduced carbon emissions or increased energy efficiency, can demonstrate tangible value to stakeholders and investors, thereby enhancing market valuation. Insurance firms should invest in impactful community involvement programs, such as education, healthcare, and environmental conservation projects. As well firms should ensure strict adherence to all community laws and regulations. This includes maintaining transparency in legal compliance and disclosing efforts to meet local governance and community standards in their reports. The firms should also embrace consumer product disclosure which includes; fee, interest, past performance, suitability of product and risk involved.

Key words: Social Accounting, Market Value, Disclosure, Human Resource

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The Strategic Journal of Business & Change Management. ISSN 2312-9492 (Online) 2414-8970 (Print). ww.strategicjournals.com

BACKGROUND TO THE STUDY

Deegan (2017) states that accounting is the act of providing a system that gathers, analyses and interprets data and provides the results to the end users namely; shareholders, management, government, employees, lenders, competitors, trade unions, creditors, financial analyst and potential investors to make informed socio-economic decisions that could help improve the quality of life as a whole. Carmona and Trombetta (2010) states that, the most important role of annual reports is to provide relevant, reliable and useful accounting information to the various users.

According to Duker and Olugunna (2014), nowadays stakeholders have become increasingly demanding that organizations to be sensitive to social and environmental aspects when managing their businesses. Social disclosures of reports further the social dimension of accounting systems of organizations (Odhiambo, 2015).

Social and environmental accounting disclosures, consists of organization's activities and how it deals with social issues and the environment (Grey et al 2011).According to Sarkar et al (2018), Human Resources (HRs) are important assets of an organization. Sveiby (1997) argued that human capital, intellectual capital and structural capital concept are similar to other assets.Community involvement disclosure entails disclosing the social conscious of the company activities. This traditional contract between the organization and the society has changed over time due to additional social value responsibilities placed upon the organizations (Gatimbu and Mukaria, 2016) Consumers make purchasing decision based on the range of factors including price, brand recognition and recommendations from friends or family members. Studies suggest that consumers tend not to read the mandated disclosure information before they make a purchase, and even if they read it, they only get superficial understanding regarding the disclosed information. The unspoken assumption is that if the information is made more comprehensible, then consumers will become more informed, which will lead to informed decisions regarding the purchase of the products on sale (Malbon and Oppewal. 2018)

Statement of the Problem

Several studies have been done in the area of social accounting and accounting and its effect on the value of the firm. According to Porter et al (2006), most organizations are spending big portions of their earnings on social activities thus necessitating accounting and reporting of the social activities. Waweru (2018) researched on voluntary accounting disclosures and market performance of non-financial firms listed in the Nairobi Securities Exchange. The researcher found that there was a positive significant effect of value-added statement disclosure; forward looking information disclosure; human resource accounting information disclosure, social accounting information disclosure and management discussions and analysis disclosure on market performance of non-financial firms listed in NSE. Nyamongo (2017) studied the relationship between voluntary disclosure and value of listed insurance companies in Kenya and found that the relationship was positive and significant. Msyoka (2017) did a research on the effect of voluntary disclosure on financial performance of firms listed at Nairobi Security Exchange. The researcher concluded that there was a positive and significant relationship between voluntary financial disclosure and firm performance. Naja and Jarboui (2013), researched on the social disclosure impact on corporate financial performance, a case study being the big French companies and it was found that the disclosure on non-financial information had a significant positive effect on Return on Asset (ROA). Bhuyan et al (2017) conducted a study on the effect of corporate social disclosure on the firm performance and found that the effect is positive and significant. Oyedokun (2019) researched on Environmental accounting disclosure and firm value of industrial goods companies in Nigeria and it was found that financial indicators showed a positive insignificant effect on the value of the firm. From the studies analyzed the most researchers have studied the effect of general social disclosure on

the value of the firm. There exists a gap of the study of social accounting and the value of the firm specifically on the listed insurance firms. The study therefore will bridge the gap by studying social accounting disclosures and market value of listed insurance firms in Nairobi securities exchange, Kenya.

METHODOLOGY

This study adopted correlational descriptive survey design, using secondary quantitative data. According to Saunders et al. (2009), descriptive research design is a scientific method, which involves observing and describing the behavior of a subject without influencing it in any way. A descriptive research design is considered appropriate when the study attempts to explain how the phenomenon operates by identifying the underlying factors, which produce change in it with no manipulation of the independent variable (Kerlinger & Lee, 2000).

Target Population

The target population of the study comprised of all insurance companies listed in the Nairobi Security Exchange (NSE) for the period 2019-2023.

Sample Size and Sampling Procedure

The sampling frame consisted of all the six insurance companies listed in the Nairobi Security Exchange which have been operating in the period 2019-2023. The sample therefore included; Britam Holdings Limited, CIC Insurance Group Limited, Jubilee Holdings Limited, Kenya Re-Insurance Corporation Limited, Liberty Kenya Holdings and Sanlam Kenya Limited. The study used census method since the population was too small (Mugenda Mugenda 2003).

Data Collection & Analysis

The data collected is both quantitative and qualitative. The study used secondary data and all data was collected by the use of a data collection sheet (appendix I), through reviewing of annual reports of insurance companies listed in the Nairobi Security Exchange. The period under review was a five-year period; 2019-2023.

The data was edited, coded and classified into different components, that facilitated data analysis. The components of social accounting disclosures that is; Human resource accounting, environmental accounting, community involvement and consumer product disclosure were used to analyze social accounting disclosures' effect on the value of insurance firms. The computer package Microsoft excel and Statistical Package for Social Scientists (SPSS) was be used to analyze the quantitative data since it has in-build formulas. According to Microsoft corporation (2003), SPSS software is a comprehensive system for analysis of data and can take data from any type of file and use it to generate tabulated reports, charts, compare means, correlation and any other techniques of data analysis. The coefficient of determination, R squared, measure will be used to test the significance of regression model in explaining the relationship between the social accounting disclosures and the value insurance firms. R squared is a measure of goodness of fit showing the percentage variance in the dependent variable that is explained by the independent variable(s). The higher the R squared the better the model. The P-value and the t-test were used to test the individual of the predictor variables that were used in the study.

FINDINGS

Correlation Statistics

Correlation coefficient shows the magnitude and direction of the relationship between the study variables. The study sought to find out the strength of the relationship between human resource accounting disclosures, environmental accounting disclosures, consumer and product accounting disclosures, community involvement accounting disclosures and market value. To achieve this, Pearson's moment correlation was used to measure the strength of the relationship as shown in table 1.

Table 1: Correlation Between social accounting disclosures on the market value

		HRA	EA	CIA	CPD	Market Value
HRA	Pearson Correlation	1				
	Sig. (2-tailed)					
	N	25				
EA	Pearson Correlation	.518**	1			
	Sig. (2-tailed)	.008				
	N	25	25			
CIA	Pearson Correlation	.648**	.268**	1		
	Sig. (2-tailed)	.000	.000			
	N	25	25	25		
CPD	Pearson Correlation	.462*	.240**	.744**	1	
	Sig. (2-tailed)	.020	.001	.000		
	N	25	25	25	25	
Market Value	Pearson Correlation	.485*	.229**	.710**	.697**	1
	Sig. (2-tailed)	.004	.000	.000	.000	
	N	25	25	25	25	25

**. Correlation is insignificant at the 0.01 level (2-tailed).
*. Correlation is significant at the 0.05 level (2-tailed).
Source: Researcher, (2024)

The study findings depicted that there is a significant, moderate and positive relationship between market value and human resource accounting disclosures (r=.485, p<.004). Therefore, an increase in human resource accounting disclosures will lead to an increase in the market value of listed insurance firms in the Nairobi Security Exchange. The study also shows there is a significant positive but weak relationship between environmental accounting disclosures and market value (r= .229, p<.00). Therefore, an increase in environmental accounting disclosures leads to an increase in the market value. The results also showed that there is a strong, significant and positive relationship between community involvement accounting disclosures and market value (r=.710, p<.00). There was a significant, strong and positive relationship between the consumer and product accounting disclosures and the market value (r =.697, p<.00). This implies that consumer and product accounting disclosures increase market value of listed Insurance Firms in the NSE. The most influential factor in relation to the market value was community involvement accounting disclosures since it had the highest correlation coefficient followed by consumer and product accounting disclosures, human resource accounting disclosures and environmental accounting disclosures respectively.

Effect of Human Resource Accounting Disclosures on The Market Value

Objective one sought to study human resource accounting disclosures and the market value of listed Insurance Firms in the NSE from 2015 to 2023. Simple linear regression was applied to generate the findings as shown in table 2.

Table 2: Model Summary for Human Resource Accounting Disclosures

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.485a	.235	.202	.147389

a. Predictors: (Constant), HRA
Source ;(researcher, 2024)

Table 2 is a model summary of a simple regression run for human resource accounting disclosures on market value of listed Insurance Firms in the NSE. From the results shown in Table 4.9a, the study observed R^2 at 0.235. This implies that human resource accounting disclosures explains 23.5 percent of the variations in on market value of listed Insurance Firms in the NSE.

Effect of Environmental Accounting Disclosures on The Market Value

The second objective assessed the environmental accounting disclosures and the market value of listed Insurance Firms in the NSE from 2020 to 2023. This is presented in table 3.

Table 3: Model Summary for Environmental Accounting Disclosures

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.229[a]	.132	.111	.115306

a. Predictors: (Constant), EA
Source ;(researcher, 2024)

Table 3 is a model summary of a regression run for environmental accounting disclosures on market value of listed Insurance Firms. The results indicated that the R2 value was 0.132, implying that 13.2% of the variation in market value is explained by the variations in the environmental accounting disclosures.

Effect of Consumer and Product Accounting Disclosures on The Market Value

The study sought to find out consumer and product accounting disclosures and the market value of listed Insurance Firms in the NSE from 2020 to 2023. The results are as shown in table 4.

Table 4: Model Summary for Consumer and Product Accounting Disclosures

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.710[a]	.504	.482	.118699

a. Predictors: (Constant), CPD
Source ;(researcher, 2024)

Table 4 is a model summary of a regression run for consumer and product accounting disclosures on market value of listed Insurance Firms. The results indicated that the R2 value was 0.504, implying that 50.4% of the variation in market value is explained by the variations in the consumer and product accounting disclosures.

Community Involvement Accounting Disclosures on The Market Value

The fourth and last objective establish the effect of community involvement accounting disclosures and the market value of listed Insurance Firms. Table 5 a, b and c show the findings.

Table 5: Model Summary for Community Involvement Accounting Disclosures

R	R Square	Adjusted R Square	Std. Error of the Estimate
.697[a]	.486	.464	.120770

a. Predictors: (Constant), CIA
Source ;(researcher, 2024)

The results indicated that the R2 value was 0.486, implying that 48.6% of the variation in market value is explained by the variations in the community involvement accounting disclosures.

CONCLUSION & RECCOMENDATIONS

The study investigated the effects of human resource accounting disclosures, environmental accounting disclosures, consumer and product

accounting disclosures and community involvement accounting disclosures on the market value. From the findings of this study, it was established that social accounting disclosures positively and significantly market value of listed Insurance Firms.

The study applied correlation and simple regression and found a moderate, positive and significant relationship between human resource accounting disclosures and market value. Findings of the secondary data show that HR accounting has a positive effect on the market value of listed insurance firms in the Nairobi Security Exchange.

The findings on environmental accounting were determined using environmental costs and environmental information. The findings in Pearson's correlation indicated a weak, positive and significant correlation between environmental accounting disclosures and the market value of listed Insurance Firms in the NSE. The simple regression analysis that ER accounting has a positive effect on the market value of listed insurance firms in the Nairobi Security Exchange. Therefore, the null hypothesis was rejected.

Regarding consumer and product accounting were determined using environmental costs and environmental information. The findings in Pearson's correlation indicated a weak, positive and significant correlation between environmental accounting disclosures and the market value of listed Insurance Firms in the NSE. The simple regression analysis that ER accounting has a positive effect on the market value of listed insurance firms in the Nairobi Security Exchange. Therefore, the null hypothesis was rejected.

The study measured CIA accounting disclosure using compliance with community laws and corporate social responsibility. The study applied correlation and found a strong, positive and significant relationship between community involvement accounting and market value. The study further used simple regression analysis to determine the connection between the two variables. Findings from the analysis of the secondary data show that CIA accounting has a positive effect on the market value of listed insurance firms in the Nairobi Security Exchange.

In conclusion, there is a positive effect of human resource accounting, Community involvement accounting disclosures have a strong, significant, and positive effect on the market value of listed insurance firms in the NSE from 2020 to 2023. While environmental accounting, consumer and product accounting disclosures have a significant yet weak positive effect on the market value of listed insurance firms in the NSE for the period 2020–2023. .

Listed insurance firms should ensure strict adherence to all community laws and regulations. This includes maintaining transparency in legal compliance and disclosing efforts to meet local governance and community standards in their reports. Compliance fosters goodwill and enhances stakeholder trust, which positively impacts market value. Firms should also develop and expand CSR programs that address pressing societal issues, such as education, health, disaster relief, and environmental conservation. These programs should be well-aligned with the needs of the communities where the firms operate to maximize their impact and market value benefits.

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