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MEASURING CORPORATE IMAGE AND PROFITABILITY FROM THE PERSPECTIVE OF COMPREHENSIVE INCOME AND SOCIAL COST REPORTING

A SURVEY OF QUOTED COMPANIES IN NIGERIA

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Abstract

This paper investigated the compliance by Nigerian Companies with comprehensive income reporting, social cost and externality disclosures with a view to identifying the effect of such practice on profitability and corporate image protection. This study was informed by the fact that the Financial Accounting Standards Board (FASB) in 2011 provided new guidelines on the implementation of the comprehensive income financial statements due to complaints by stockholders on high cost of implementation and corporate reputation. In addition, the researchers felt that if the FASB found it necessary to introduce the comprehensive income accounting concept, then it was also necessary to look at comprehensive expense concept to include externalities cost as a write off cost to comprehensive income to determine the actual income position of a firm. The study was conducted on ten selected companies quoted on the Nigerian Stock Exchange for a period of twenty-two years based on their annual financial reports. Primary data were collected through structured survey questionnaire. The data was analysed with E-view after presenting data with Microsoft Excel 2007 model. The results revealed that comprehensive income reporting significantly affects the profitability of a firm if measured with the reporting of the externalities and that corporate image improves substantially if firms follow such reports on a regular basis. The researchers recommended that firms should consistently present such reports in the annual financial statements.

Keywords: Comprehensive income, social cost, quoted firms, profitability, corporate image

INTRODUCTION

Financial statements are the final product of the accounting process. Income statement provides data for investment and other decisions. Income measurement and financial position of an economic entity have always been a challenge for accounting standard setting bodies. The main purpose of financial reporting is to provide information for user groups, especially stockholders and creditors to assist them in making decisions. Financial statements are the main instruments in conveying the information to the users of financial information.

Market efficiency is based on the theory of competition, in which prices are competitively set and decisions reflect available economic information. One type of economic information used to promote market efficiency is financial statements information. Financial analysts are a primary catalyst in gathering and disseminating such information. When economic information is difficult to locate or is not consistently presented among companies, analysts are unable to perform their role optimally and efficiency suffers (Ali, 2011). Such a breakdown in efficiency affects the reliability and truthfulness of the statements especially when the social cost paid for by third parties is deliberately excluded or omitted in the reports. Comprehensive income statement is a measure of firm performance. The purpose of issuing this statement is to make firms to disclose certain elements of financial performance to help users of financial reports in making better financial performance evaluation. Also, comprehensive income statement as a basic financial statement, should report in details all the recognized revenues and expenses of the firm. The focus of income statement is on the operating expenses and revenues. User groups of financial reports for decision-making require data related to all revenues and expenses (including gains and losses). Therefore, a basic financial statement to include such items and to show changes in owners' equity related to those items is necessary (Ali, 2011; Biddle and Choi, 2003).

The Financial Accounting Standards Board (FASB) in 1997 issued the statement of Financial Accounting Standard No. 130 (SFAS, 130): "Reporting Comprehensive Income". The statement requires the disclosure of both net income and more comprehensive measure of income for fiscal years beginning after December 15, 1997. Four items that are recorded as owners' equity under previous FASB pronouncements in SFAS, 130 should be recorded in comprehensive income. These items are: adjustments to unrealized gains and losses on available-for-sale marketable securities (SFAS, 115); foreign currency translation adjustments (SFAS, 52); minimum required pension liability adjustments (SFAS, 87) and changes in market values of certain future contracts as hedges (SFAS, 80). According to Norwalk (2011), FASB in 2011, made a change on the reporting model which was an update to the standard with a view to defer updates on the classification of other comprehensive incomes. He reported that the update defers the specific requirement to present items that are reclassified from accumulated "other comprehensive income" to net income separately with their respective components of net income and other comprehensive income. Earlier in 2012, the FASB issued Accounting Standards Update No. 2011-05, Comprehensive Income (Topic 220): "Presentation of Comprehensive Income". The Update was intended to increase the prominence of other comprehensive income in financial statements and help financial statement users better understand the cause of a company's change in financial position and results of operations. Stakeholders, however, recently raised concerns that new presentation requirements about the reclassification of items out of accumulated 'other comprehensive income' would be costly for preparers and add unnecessary complexity to financial statements.

As a result of these concerns, the Board decided to reconsider whether it is necessary to require companies to present reclassification adjustments by component in both the statement where net income is presented and the statement where other comprehensive income is presented for both interim and annual financial statements. The Board did not defer the requirement to report comprehensive income either in a single continuous statement or in two separate but consecutive financial statements. To defer only those changes in Update 2011-05 that relate to the presentation of reclassification adjustments, the amendments in this Update supersede only those paragraphs that pertain to how and where reclassification adjustments are presented. While the Board is considering the operational concerns about the presentation requirements for classification adjustments, entities will continue to report reclassifications out of accumulated comprehensive income consistent with the presentation requirements in effect before Update 2011-05. The amendments are effective at the same time as the amendments in Update 2011-05. Therefore, the amendments in this Update are effective for public entities for fiscal years, and interim periods within those years, beginning after December 15, 2011. For nonpublic companies and not-for-profit organizations, the amendments in this Update are effective for fiscal years ending after December 15, 2012, and interim and annual periods thereafter.

Research Problem

The deficiency of SFAS, 130 is that it fails to mention a comprehensive measurement of the income to be netted off with expense variables. When an income is comprehensive, the variables to be written off ought to be comprehensive based on the marching concept and the duality of accounting. Economists had provided for this with the concept of marginal social cost. Marginal social cost is the cost imposed on third parties by a firm due to its externalities (Buhari, 2002; Barton, l976). It is the total cost to society as a whole for producing one further unit, or taking one further action, in an economy. This total cost of producing one extra unit of something is not simply the direct cost bone by the producer, but also must include the costs to the external environment and other stakeholders.

It is expected that the negative externalities caused by production activities and the remedial actions taken by such companies are reasonably reported in the financial statements. Unfortunately, social accounting standards and laws are incompetent to enable corporations to efficiently, sufficiently and accurately provide socially valued information in the annual reports. This deficiency creates social information gap which the researchers wish to call "information disequilibrium" or "social accounting imbalance". Advocates of the "all-inclusive concept" argue that comprehensive income statement provide better measures of a firm's profitability than other summary income measures. On the other hand, those who advocate "current operating performance" view of income argue that net income without inclusion of extraordinary and nonrecurring items, got better ability to reflect the firm's future cash flows (Kiger and Williams, 1977; Robinson, 1991; Brief and Peasnell, 1996; Yazdi, Mohammad and Radmehr, 2003).

Yet, some scholars claimed that reporting social accounting will have a negative effect on their profitability. Still, others argue that such reports will affect the corporate image of the firm (Appah, 2011). These claims have influenced the refusal by corporate bodies to implement social accounting practices in Nigeria (Awolabi, 2008). This paper investigates the compliance by Nigerian companies with comprehensive income reporting, social cost and externality disclosures with a view to identifying the effect of such practice on their profitability and corporate image protection.

Purpose of the Study

The major purpose of this study is to assess the effect of the relationship between comprehensive income and social cost reporting on a firm's profitability and corporate image. Thus, the specific objectives of this study are:

1. to assess the relationship between profitability and the reporting of comprehensive income and externalities by listed firms in Nigeria;
2. to assess the relationship between corporate image and the reporting of comprehensive income and externalities by listed firms in Nigeria.

Consequently, the following research questions were addressed:

1. To what extent does the reporting of a firm's comprehensive income and externalities impact its profitability?
2. To what extent does the reporting of a firm's comprehensive income and externalities affect corporate image?

LITERATURE REVIEW

Definition and Meaning of Comprehensive Income

Comprehensive income is defined by the financial accounting standards Board (FASB) as "the change in equity (net assets) of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners". According to the International Accounting Standards (IAS) 1, "Presentation of financial statements", total comprehensive income is the change in equity during a period resulting from transactions and other events, other than those changes resulting from transactions with owners in their capacity as owners. Thus, comprehensive income can be explained as the difference between net income and all the recognized changes in equity during a specific period. For instance, profits or losses in foreign currency transactions are good examples of comprehensive income.

In the views of Spiceland *et al* (2007), comprehensive income is a more expansive view of income than traditional net income as it encompasses all changes in equity other than from transactions with owners. Averkamp (2013) had differentiated between net income and comprehensive income with the difference known as "Other comprehensive income". As he stated, other comprehensive income includes unrealized gains and losses on certain investments in securities, foreign currency items and certain pension liability adjustments. Thus, while net income is reported in the income statement and is included in retained earnings section of shareholders' equity, other comprehensive income items are not reported on the income statement and are included in the accumulated other comprehensive income section of shareholders' equity. Overall, the key attempt of comprehensive income is to evaluate the sum total of all financial and operating events which have changed the value of an owner's interest in a business. A calculation of comprehensive income can present a company with valuable information about the all- round financial stability of the business.

Social Cost: Externalities

The term social cost as used by accountants in the area of social accounting is not equivalent to the way in which the term is used by economists. According to the committee on Social Cost (1975) economists typically define social cost as the total cost of society of the production of a goods or service or alternatively, as the amount of goods and services sacrificed to produce a goods or service. As such, the term social cost equates with the concepts of economic cost and opportunity cost. A more limited definition, according to the Committee Reports, equates social costs with externalities or external economies and diseconomies.

An externality arises whenever a firm's activities have a negative or positive effect for which the firm is not held accountable. A social cost/benefit is an externality cost/benefit which society (or elements thereof) must ultimately bear rather than owners of the firm or its customers. To the economist, these costs have external (higher-order) impacts as against the direct (first order) cost/benefit that are ultimately borne by owners (due to the direct effects upon return on investment) or customers (due to direct effect upon prices) (Committee on Social Cost, 1975). The committee also reported that the following costs were included in the calculation of a Bank's Social Relations Programme: cash contributions; special expenditures, the value of employee time spent in socially relevant activities, incremental expenses in providing bank services for social purposes and the foregoing interest on loans for socially relevant purposes since the monies could have been more profitably used elsewhere.

Although, the externality concept is closer to the way in which social accountants use the term, the externality concept does not include many internal and pecuniary costs which arise in accounting for human resources, affirmative action programs and environmental pollution. The Committee Reports clearly pointed out that social costs (in the sense of external diseconomies) are those costs that arise from business activity that are paid or borne by entities other than the entity giving rise to the social impact (such as damages to the environment, health and mortality effects from production and consumption of goods and services produced by the entity, use of public streets and property by the entity etc).

The social issues which corporations respond to and report on are defined by the morals of management and public policy (Asechemie, 1996). According to Preston and Post (1981), public policy issues include: (i) relevant law and regulation; (ii) public opinion; (iii) emerging issues; (iv) formal legal requirements and enforcement or implementation practices. In Nigeria, public policy issues are in two key areas – employee welfare and environment. With respect to environmental concerns there are a member of legislations regulating industrial pollution. However, a requirement to report on activities connected with pollution in the financial statements is absent in Nigeria.

Moreover, the Nigerian Companies Act, i.e. the Companies and Allied Matters Act, 1990 (as amended) does not provide for any disclosure requirements of financial data relating to actions and arrangements for social concerns. As Asechiemie (1996) has pointed out, the position in Nigeria is not in accord with the trend in the USA and Canada where Companies are currently required to report on the effect of compliance with laws governing corporate social conduct on capital expenditures, earnings and competitive position, adding that financial, quantitative and descriptive information on social actions and arrangements would be useful to financial statement readers – not just descriptive information alone.

Presented in table 1 is a summary of prior empirical studies related to comprehensive income reporting and social disclosures conducted in various countries.

Table 1: Review of selected empirical studies

Author	Methodology and sample	Main findings
Appah (2011)	Content and simple percentage analysis on 40 companies listed in the Nigerian stock Exchange for the period, 2005 to 2007.	i. Nigerian companies prefer to disclose social accounting in the director's report, chairman's report and notes to the accounts. ii. the most popular themes in the report are human resources, community involvement and environmental effects.
Ponnu and Okoth (2009)	Content analysis and chi-square of all the 54 listed companies in Nairobi Stock Exchange	Corporate social disclosure is given only a modest attention, based mainly on community involvement.
Owolabi (2008)	Content analysis of 20 listed companies in the Nigerian Stock Exchange, covering 10 sectors of the economy from 2002 to 2006.	i. 35% of companies show social disclosure in their annual reports. ii. social information is disclosed by multi-national companies more than indigenous companies
Kamla (2007)	Content analysis of 68 companies' annual reports from Saudi Arabia, Oman, Kuwait, Syria, Jordan and Egypt.	i. employee disclosure is more in the financial statements ii. environmental disclosure is low in Arab Countries
Adams *et al* (1998)	Content analysis of 150 companies annual reports from Netherland, Sweden, Switzerland, France, Germany and the United Kingdom.	Significant factors influencing social reporting patterns were found to be company size, industry grouping and country of domiciliation.
Arab, Mazar Yazdi and Radmehr (2003)	Using a questionnaire, ask the opinions of Iranian different financial information users and academics on each item of comprehensive income. They also studied the necessity of reporting such items in separate reports.	Findings indicate that from the respondents' points of view, disclosure of different items of comprehensive income is required in external reporting, but they find it unnecessary to report each item in a separate report.
Mojtahead, Zaheh and Momeni (2003)	Using a questionnaire, investigated the effects of comprehensive income statement on users' decision-making.	Users of financial information use some measures for management efficiency, investment returns and future cash flows prediction, in their decision-making process. Disclosure of comprehensive income paves the way for evaluation of those measures.
Rao and Walsh (1999)	Content analysis with secondary data examined the impact of applying the SFAS No. 130 to a sample of 103 Multinational firms from 11 industries for the 1997 fiscal year.	The results indicate that the potential effect is that total comprehensive income is lower than the traditional net income number for a majority of firms studied. A majority of the firms are affected negatively by foreign currency translation adjustments.

The present study departs from the above prior studies in its consideration of a comprehensive measurement of income that recognizes social costs (along with other expense variables). It is our view that when an income is "comprehensive", then the variables to be written off ought to be comprehensive as well. Hence, the study assesses the effect of comprehensive income and externalities reporting on corporate image and profitability of companies quoted on the Nigerian Stock Exchange. Accordingly, the following hypotheses, stated in their null form, were tested.

Ho_1: There is no significant relationship between profitability and the reporting of comprehensive income and externalities by quoted firms in Nigeria.

Ho_2: There is no significant relationship between corporate image and the reporting of comprehensive income and externalities by quoted firms in Nigeria.

METHODOLOGY

Management and accounting staff of the ten (10) companies listed in the Nigerian Stock Exchange Fact Book (2012) cutting across the information, aviation, banking, manufacturing, construction and the oil sectors of the Nigerian economy constituted the study population. The Yaro Yamen model was used to determine the sample size. Consequently, primary data was collected through the administration of structured questionnaire mailed to one hundred and fifty (150) staff of the companies as determined. Of the 150 copies of questionnaire distributed, one hundred and forty-four (144) copies were completed and returned between 16th May, 2014 to 9th October, 2014. The one hundred and forty-four copies of the questionnaire returned were, thus, used for the analysis, representing ninety-six percent (96%) response rate. Secondary data sources utilized was based on the annual reports of the companies for a period of twenty-two (22) years – 1990 to 2011.

Before the actual data gathering phase of study we embarked upon a pilot study which helped to guide us in planning for the real study. The trial study (pre-testing) ensured the reliability and validity of the questionnaire questions.

The pre-test was undertaken on people that are similar to the real subjects of the study in terms of characteristics and experiences. Towards this end, managers and accountants in different manufacturing and service sector firms as well as academics knowledgeable in the area being studied were consulted. One of the most important characteristics of academics consulted was that they have extensive professional backgrounds and industry consulting practices. The pretesting assisted in eliminating errors in the questionnaire such as ambiguity, contradictory questions, poor instructions, poor wording of questions all of which would have affected the validity and reliability of the final result.

A reliability and internal consistency test was also done on data collected using Cronbach Alpha and Pearson Product Moment Correlation Coefficient. The test shows that the questionnaire was reliable and consistent at 0.6320 and 0.741. Excel was used to transform the data into analyzable format, after which the least square regression was used with Economic View (E-View) software. As explained by Gujarati and Porter (2009), the ordinary least square regression analysis shows the direction of cause and effect between the regressand and the regressor variables.

The ordinary least square was guided by the following models:

Y = f(x) …………………………………..(1)

Where x means the factors that affect profitability (prof) and corporate image (coin) by corporate beings

Y = f(X1, X2)……………………………..(2)

Where X1 = comprehensive income reporting (cio), X2 = reporting externalities (rest),

prof = a0 + alcio + a2rest + e…………(3)

coin = a0 + alcio + a2rest + e ………….(4)

A priori expectation of the linear function is as below:

cio/prof > 0;rest/prof > 0; and cio/coin > 0; rest/coin > 0;

al and a2, are the co-efficient of the regression and **a** is the intercept of the regression and **e** is the error term, capturing other explanatory variables not included in the model.

ANALYSES AND RESULTS

Tests of Hypotheses

Ho_1: There is no significant relationship between profitability and the reporting of comprehensive income and externalities by quoted firms in Nigeria.

Table 2: E-view analysis result of the relationship between profitability and reporting of comprehensive income and externalities

Dependent Variable: PROF
Method: Least Squares
Date: 10/18/14 Time: 22:57
Sample: 1990 - 2011
Included observations: 22

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	37.39572	6.536225	5.721303	0.0000
CIO	0.863585	0.265914	3.247607	0.0042
REST	-0.421416	0.264111	-1.595601	0.1271
R-squared	0.448423	Mean dependent var		54.86364
Adjusted R-squared	0.390362	S.D. dependent var		12.82221
S.E. of regression	10.01149	Akaike info criterion		7.571468
Sum squared resid	1904.369	Schwarz criterion		7.720247
Log likelihood	-80.28615	F-statistic		7.723347
Durbin-Watson stat	0.987309	Prob(F-statistic)		0.003510

R-Square test

From table 2, the computed value of F-View is 45% for R-Square and 40% of adjusted R-Square meaning that comprehensive income reporting (cio) and reporting externalities (REST) explains 45% and 40% of the change in profitability of a firm while other variables excluded in the model affect 55% and 60% of changes in profitability of a firm. This percentage effect is significant because a 40% change in profitability can alter the survival status of a firm.

Coefficient test (Best of fitness)

From table 2 above, the analysis shows that a 1% improvement in reporting comprehensive income will lead to a 86% change in profitability. While a 1% fall in practice of reporting externalities will lead to a change in the profitability of a firm by 42%.

F statistic test

From table 2, the computed value is 7.7233 while the tabulated value is 3.49 (at Ni = 2 and N2 = 22). Since the computed is more than the tabulated and with a probability of 0.003510, the null hypothesis is rejected and the alternative is accepted that there is a significant relationship between profitability and the reporting of comprehensive income and externalities by a firm.

T stat. probability test.

The probability of comprehensive income to profitability not related is 0.0042 and reporting externalities to profitability is 0.1271, which is significant in the existence of a relationship in the model, hence the null hypothesis is rejected and the alternative that there is a significant relationship between profitability, comprehensive income and reporting externalities is accepted.

Durbin-watson stat. test

With N=22 and k = 2, the tabulated value is 1.147 to 1.541. Since the calculated value from table 2 is 0.98309, there is presence of positive first order serial correlation in the model, so the results of the model cannot be generalized. This is due to the few number of the independent variables in the model.

Ho_2: There is no significant relationship between corporate image and the reporting of comprehensive income and externalities by quoted firms in Nigeria.

Table 3. E-view analysis result of the relationship between corporate image and the reporting of comprehensive income and externalities

Dependent Variable: COIN
Method: Least Squares
Date: 10/18/14 Time: 23:09
Sample: 1990 - 2011
Included observations: 22

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	16.19154	8.750925	1.850266	0.0799
CIO	0.790122	0.356015	2.219348	0.0388
REST	0.011698	0.353602	0.033082	0.9740
R-squared	0.489560	Mean dependent var		49.45455
Adjusted F-squared	0.435830	S.D. dependent var		17.84517
S.E. of regression	13.40373	Akaike info criterion		8.155067
Sum squared resid	3413.541	Schwarz criterion		8.303846
Log likelihood	-86.70574	F-statistic		9.111410
Durbin-Watson stat	1.422606	Prob(F-statistic)		0.001681

R-Square test

From table 3, the computed value of E-View is 49% for R-Square and 44% of adjusted R-Square meaning that comprehensive income reporting (cio) and reporting externalities (Rest) explains 49% and 44% of the change in profitability of a firm while other variables excluded in the model affect 51% and 56% of changes in profitability of a firm. This percentage effect is significant because a 44% change in profitability can alter the solvency status of a firm.

Coefficient test (Best of fitness)

From table 3 above, the analysis shows that a 1% improvement in reporting comprehensive income will lead to a 79% improvement in the corporate image of a firm. While a 1% increase in the practice of reporting externalities will lead to a 1% improvement in the corporate image of a firm.

F statistic test

From table 3, the computed value is 9.11141 while the tabulated value is 3.49 (at Ni = 2 and N2 =22). Since the computed is more than the tabulated and with a probability of 0.00168, the null hypothesis is rejected and the alternative is accepted that there is a significant relationship between corporate image and the reporting of comprehensive income and externalities by a firm.

T stat. probability test

The probability of comprehensive income to corporate image not related is 0.0388 and reporting externalities to corporate image is 0.9740, which is significant in the existence of a relationship in the model, hence the null hypothesis is rejected and the alternative that there is a significance relationship between corporate image, comprehensive income and reporting externalities is accepted as shown in table 3.

Durbin-Watson stat. test

With N=22 and k= 2, the tabulated value is 1.147 to 1.541. Since the calculated value from table 3 is 1.422606, the presence or absence of positive first order serial correlation in the model is inconclusive, so the results of the model cannot be generalized. This is due to the few number of the independent variables in the model.

CONCLUSION AND RFCOMMENDATIONS

The researchers investigated the effect of comprehensive income and externalities cost in financial statements to a firm's profitability and corporate image with the study of ten selected companies listed on the Nigerian Stock Exchange. The study revealed that comprehensive income and social cost (externalities) report is related to a firm's profitability and corporate image positively. The study also show that most Nigerian companies do not comply with the comprehensive income statement report and only a few even report on externality intervention cost without information on the actual externality cost generated for the society to bear.

The researchers recommend that organizations should consistently report their comprehensive income and externality cost on the environment to improve their corporate image and profitability. This will improve the value of the business in the stock market and also improve its share value with better wealth maximization for shareholders. The major limitation of this study is the restriction on interpretation of findings arising from the limited member of independent variables used. However, as indicated in the Durbin-Watson test, further study can be repeated on the variables with additional variables to improve the generalization of the findings.

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