Article

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VALUE RELEVANCE OF MODERN SLAVERY ACCOUNTING IN DEVELOPING COUNTRY: EVIDENCE FROM NIGERIA

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Abstract
This paper examines the relationship between modern slavery accounting and the performance of companies in Nigeria. Using multivariate analysis to analyze data drawn from the top 100 companies listed in the Nigeria Exchange Group as at 2023, our study reveals that although modern slavery reporting is still voluntary in Nigeria's context, there is a significant and positive relationship between modern slavery accounting and the performance of companies in Nigeria. The study also shows that the level of disclosure of modern slavery is poor across industries in Nigeria. Based on our findings it is recommended that the company should provide relevant information on how it tackles issues about modern slavery in the company. Providing relevant information about modern slavery accounting would underscore companies' significant effort in combating this menace and ensure corporate governance, stakeholder engagement, and sustainable business practices. By prioritizing transparency and accountability in their operations, companies not only contribute to the global fight against modern slavery but also position themselves favourably in the eyes of investors and consumers, ultimately enhancing their long-term value.

Keywords: Modern Slavery accounting; sustainability Reporting; Social Accounting; Nigeria companies; Value Relevance; Performance

Introduction

The concept of value relevance in the context of modern slavery accounting refers to the importance of providing transparent, reliable, and relevant information regarding a company's efforts and performance in addressing issues related to modern slavery. This emerges as a critical component of broader corporate social responsibility (CSR) and sustainability accounting practices. Crane (2013) stated that modern slavery is an umbrella term used to describe a collection of practices which, in a business context, includes traditional slavery, bonded labour, human trafficking and forced labour. Though, traditional slavery has been abolished, Christ, Rao and Burritt (2019) argue that there are more slaves in the world today than at any other time in human history and refer to these illegal practices as modern slavery. Modern slavery has not simply emerged from nowhere to become a challenge for business and society. Indeed, the relationship between companies and employee rights has a long history related to the abuse of human rights. It has been estimated that over thirty-five million people live in modern slavery in the world; out of this, ninety percent are from developing countries (Christ, Ikpor and Burritt, 2024).

Crane, (2013) and Christ et al (2024) argue that modern slavery can be found in different business models and that it is essentially an attempt to underprice a key resource (labour) through illegitimate means. When the key resources are illegally underpriced, companies would tend to make more profit. This is especially more pronounced in developing countries where work is limited and workers seeking to improve their livelihoods resulting to terrible working conditions involving human right abuses, bonded labour, forced labour, child labour and human trafficking (Akor,2011).

In Nigeria, modern slavery is systemic and often manifests in multiple forms, particularly due to economic challenges, weak regulatory frameworks and social inequality. The 2023 Global Slavery Index states that more than 1.6 million people are currently living in slavery conditions within the country and this is more than the total number of the 16 other West African countries together (Walkfree Foundation 2023). Within Africa, the highest prevalence of modern slavery is in Nigeria, pervading its industries and agriculture. Transparency International (2022) gives Nigeria 24 out of 100 in its Corruption Index with an overall ranking of 150 out of 180 countries worldwide. Crime is high, and the abuse of human rights within the country is a daily occurrence. This calls for a serious concern prompting the need for transparency and accountability in the reporting of companies' activities.

Relevance of Modern Slavery Accounting

Modern slavery accounting is still at abysmal stage in Nigeria despite its importance in protecting stakeholders. Stakeholders, including investors, consumers, and regulators, increasingly demand clear disclosures about ethical practices, including labor conditions within supply chains. Companies that provide comprehensive reports on modern slavery risks and mitigation strategies enhance their credibility (Christ et al., 2019). Moreover, firms demonstrating a commitment to eradicating modern slavery can bolster their brand reputation, attracting ethically conscious consumers and investors. Conversely, lack of transparency can lead to reputational damage and loss of consumer trust.

Thirdly, various jurisdictions have enacted laws requiring companies to report on modern slavery practices (e.g., the UK Modern Slavery Act,2015; California Transparency in Supply Chains Act; the Australia Modern slavery Act,2018). Compliance with these regulations is essential not only for legal standing but also for maintaining operational licenses. Understanding and reporting on modern slavery risks can help companies mitigate legal and financial risks associated with noncompliance and potential lawsuits. Finally, in recent time, Investors increasingly incorporate environmental, social, and governance (ESG) factors into their decision-making processes. Companies demonstrating effective handling of modern slavery issues may have a competitive advantage in attracting investment, better workforce engagement, productivity and long-term performance. Companies viewed as socially responsible are often more resilient to market shocks and reputational crises. To achieve success in modern slavery accounting in Nigeria, there is need for constant communication with stakeholders about efforts and achievements in combating modern slavery can strengthen relationships and build trust. Collaboration and another veritable option would be quality collaboration and Partnerships. Engaging with NGOs, industry coalitions, and other stakeholders can amplify efforts to combat modern slavery, providing access to resources and expertise.

The main purpose of this study therefore is to find the nexus between modern slavery disclosure and company performance.

The next section of the paper discusses the related theory and the relevant literature. Section 3 describes the data and methodology while sections 4 and 5 present our results and conclusion.

Brief Literature Review and Theory

Debate persists around the negative environmental and social impacts of businesses in an attempt to make their profits. It was argued that sustainable business would results in an improvement in profitability and society. Organizations are increasing held accountable for their effect on society and environment as reflected by the growing number of laws, regulations and penalties in this area. Investors now look for evidence of sound business strategy and effective management of risks, some customers are concerned with product origins and the conditions under which they are manufactured, and employees want to work for organizations that visibly account for their responsibilities to the society and environment (Amnesty International 2022)

While many studies have investigated sustainability reporting, in recent time, social accounting nay modern slavery accounting is taking the centre stage especially in developed countries. This has resulted to a better treatment of the goose that lays the golden eggs and the workforforce in those areas. In developing countries, there has been a scanty work on the issue of modern slavery despite its importance. This is in exception to the work done by Christ,Ikpor and Burritt (2024) on modern slavery risks in Nigeria.

Prior literature suggests that there are benefits to capital markets for voluntarily disclose information. For example, increased disclosure reduces the cost of capital; increased liquidity and increased information intermediation (Ikpor et al 2016). Firm behavioural theory, holds that when a price-maximizing manager withholds information from the market, investors become suspicious about the quality of the investment and they discount its quality to the point where the manager is always better off when full disclosure policy.

This definitely could affect the performance of the firm. Hence, our intention is to find the relationship between modern slavery accounting and firm performance. Arguably, this would showcase how Nigeria companies are tackling the issue of modern slavery in their business operations. Earlier study has identified that it is poor (Chrst et al 2024). Many theoretical frames have been applied to corporate accounting disclosure(Auquo et al 2018). Particularly prominent are stakeholder and legitimacy theories. Stakeholder theory provides insight into the behaviours.

As an emerging economy, Nigeria was selected as the research focus of this study. As stated by Christ, Ikpor and Burritt (2024), “Nigeria is a developing country that has faced many social, economic and environmental problems for years. As the most populous country in Africa, with 226 million people as of 31 December 2023 and an average age of 18 years, it also has 84 million people who live below the poverty line, representing the second-largest poor population of any country in the world.1 Social services are inadequate and sometimes non-existent, and corruption presents a constant problem. For example, Transparency International (2022) gives Nigeria 24 out of 100 in its Corruption Index with an overall ranking of 150 out of 180 countries worldwide. Crime is high, and the abuse of human rights within the country is a daily occurrence. This has been exacerbated by events such as the COVID-19 pandemic2 and ongoing internal conflicts with groups like Boko Haram and Islamic State West Africa Province (a splinter of Boko Haram)”. There is also incidence of modern slavery even within those in government employ, resulting to strike actions by various trade union in recent past. One of such lasted for more than seven months. Until now, the cause of the impasse appears not to have been settled resulting to another treat from Academic staff Union of Universities.

Data and Methods

This study makes use of secondary data. The data were extracted from three sources- Annual Reports and Accounts, Sustainability Reports and Corporate Websites of top 100 companies listed in Nigeria Exchange Group. This paper draws from the report of Christ,Ikpor and Burritt in the suggested procedure for data gathering of the study of this nature. Hence, data on five key aspects of modern slavery were carefully extracted from the reports. These includes – Human Trafficking (Akor,2011), Force Labour, Minimum wage, Bonded Labour and Child Labour and these form our independent variables. The dependent variable is performance of companies which was proxied with stock price and stock returns. Given the time-consuming process of coding the corporate sources, we restricted our work to the top 100 companies earlier used by Christ, Ikpor Buritt (2024) but extended the base year from 2020 to 2023. With this in mind, weighted disclosure index was employed to extract the data.

Model Specification

In line with the objective of this paper, which is to investigate the nexus between modern slavery accounting and company performance in Nigeria. For the purpose of this paper, modern slavery accounting is defined as the disclosure of various measures aimed at tackling the exploitative practices such as human tracking, forced labour, child labour and debt bondage by company. Bearing this in mind, the model tries to state that company performance is a function of modern slavery disclosure. Thus;

Performance = f(MSD) ---1

Since we have two measures of performance; stock prices and stock returns because of investors consideration and performance that supply – driven, we have equation 2 as follows

Stock Price = f(MSD) ---2

And Stock Returns = f(MSD) ---3

Substituting the indicators of MSD in equation 2 and 3, we have the baseline equations 4 and 5 as follows;

$SP = B_o + B_1HT_1 + B_2FL_2 + B_3BL_3 + \beta_4CL_4 + \beta_5MW + E$------------------------------------4

$SR = B_o + B_1HT_1 + B_2FL_2 + B_3BL_3 + \beta_4CL_4 + \beta_5MW + E$------------------------------------4

Where :

- SP stands for Stock price
- SR is the Stock return
- HT represents dsclosure of human trafficking information
- FL is disclosure of forced labour information
- BL respresnts Bondedor Debt Labour
- CL means Child Labour
- MW stands for disclosure of firm's compliance with the country's minimum wage

The information about these Modern slavery practices and companies' effort at tackling them are voluntary. However, most companies have started disclosing them voluntarily in either annual report and accounts, stand-alone reports (e.g. sustainability report) and/or company websites.

In order to gather information about these indicators, content analysis was used. As per the Global Reporting Initiative, various core indicators were scored. A score of 1 if information about any of this issue is presented and zero were otherwise. With a total of fifteen information item, the ratio of each of the score was weighted against the overall. This gave us a reasonable estimate of the overall disclosure which was used for the analysis.

For the performance data, we adopted the approach used by Sutope et al,(2018). This gave rise to the use of stock prices (SP) and Stock Returns (SR). According, stock price is defined as the annual closing price of the stock of the company $_t$ in a year $_t$ while the Stock Return is the change in the closing price of the annual stock which is divided by the company's average price in year t and in year $_{t-1}$

Content analysis provides the basis for the analysis using descriptive statistics. Further analysis was performed using multivariate analysis. The descriptive statistics is a foundational aspects of data analysis which provide insights into the characteristics of the variables. These statistics form the basis for further statistical analysis. It allows researchers to quickly see patterns, trends and fundamental characteristics of the data. Multivariate analysis on the other hand is a statistical technique used to analyze data that involves more than two variables simultaneously.

Results

Descriptive Results

The results of the descriptive analysis are presented in Table 1. The result shows poor disclosure practices among the companies in Nigeria and across sectors. This is shown by the average mean score.

Table 1 Total Mean Disclosure score across the three media

	Annual Reports		Standalone Report		Corporate Websites		
Index	**Mean**	**SD**	**Mean**	**SD**	**Mean**	**SD**	**AV. Mean score**
Human Trafficking Disc index	0.8960	0.20294	0.2617	0.38106	0.117	0.025	1.2601
Force Labour Disclosure Index	0.5680	0.39957	0.3861	0.25245	0.591	0.360	0.8133
Bonded Labour Disclosure Index	0.7132	0.39308	0.5475	0.25245	0.93	0.994	1.7542
Child Labour Disc Index	0.3994	0.30118	0.5357	0.27967	0.087	0.116	1.2648
Minimum Wage Disclosure index	0.6965	0.60294	0.4617	0.48106	0.017	0.355	1.2601

Empirical results

In taking our decision, p-value approach was used. In this approach, we obtained p-value using the computed test statistic and the two tailed test. Null hypothesis (Ho) is rejected in favour of alternative hypothesis (H1) at 0.05 level of significance or less, if p-value < α (0.05 level of significance), otherwise, accept. We also made a preliminary test before applying the ordinary least square multivariate regression. Our results of the diagnostics tests prove that we should proceed with the multivariate analysis. These are shown in tables 2 and 3.

Normality Test

The normality tests used in the study are the skewness, kurtosis and standard deviation. The results obtained from the study data are shown below:

Table 2: Jarque-Bera Normality Test

	HT	**FL**	**BL**	**CL**	**MW**
Mean	404.9050		3242.042	1695.555	2344.401
Std. Dev.	5.380994		1.64.241	1.514786	3.228682
Skewness	5.259467		0.232393	1.036425	2.056811
Kurtosis	0.099840		0.663728	0.136712	0.230450
Observations	4200		4200	4200	4200

Table 3: OLS Regression Estimates

Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
HT	0.237259	0.072048	3.208315	0.000
FL	0.034377	0.058142	1.585800	0.000
BL	0.047527	0.067038	3.349429	0.000
CL	0.004561	0.085660		
CL MW	-0.034521			
R-squared	0.760			
Durbin-Watson stat	1.343			

Conclusion

Modern slavery in the context of business is a pressing issue that affects numerous countries worldwide, and Nigeria is no exception. This has necessitated many countries such as the United Kingdom, France and Australia to enact laws requiring companies to disclose their efforts in combating modern slavery issues in their various businesses. The main purpose of this study was to find the nexus between modern slavery disclosure and company performance. Based on our findings, it is recommended that Companies should develop relevant KPIs to measure the effectiveness of anti-slavery initiatives. These may include the number of audits conducted, the number of training sessions, and remediation actions taken. Moreover, Regular audits and assessments help track progress in combating modern slavery, providing data that can enhance value relevance. Furthermore, Integrating Modern Slavery Accounting into the overall corporate Business Strategy, will signal a commitment to ethical practices, aligning operational objectives with social responsibilities.

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