

The Attitudes of Managers and Stakeholders towards Corporate Social and Environmental Disclosure

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Received: August 26, 2012

Accepted: October 22, 2012

Online Published: November 13, 2012

doi:10.5539/ijef.v4n12p240

URL: <http://dx.doi.org/10.5539/ijef.v4n12p240>

Abstract

Many studies have been conducted in order to investigate the reasons behind the differences in corporate social and environmental disclosure (CSED) practices throughout the world. Firm's characteristics, corporate governance, and contextual factors are provided as influential determinants of the level and quality of CSED. The impact of these determinants can be seen in the attitudes and behaviours of the two main parties in the issue of CSED; information preparers and information users. The level and the quality of CSED made by companies can be justified by investigating and understanding what motivates their managers and stakeholders to involve in social and environmental issues. This paper presents the possible reasons which might be better looked at and investigated by researchers, in order to understand the current practices of CSED and to predict the future trend of such practices.

Keywords: CSED, managers, stakeholders, analysts

1. Managers' Position towards CSED

In evaluating CSED practices, some elements are needed to be taken into consideration such as values and motives, which influence the perceptions, attitudes and decisions of those who are responsible for the organisation performance (MacLagan, 1999). Many researchers, such as Deegan and Rankin (1999) and Lungu, Caraiani, Dascalu, Guse & Sahlian (2009) proved the existence of a gap between those who are responsible for producing social and environmental information (managers), and the users of this kind of information. Thus, much attention has been paid (see Buhr, 1998; Larrinaga-Gonzalez & Bebbington, 2001; Larrinaga-Gonzalez, Carrasco-Fenech, Caro-Gonzalez, Correa-Ruiz, & Paez-Sandubete, 2001; Adams, 2002; Buhr, 2002; O'Dwyer, 2002; Lodhia, 2003; O'Dwyer, 2003; Rahaman, Lawrence & Roper, 2004; Kuasirikun, 2005; Belal & Owen, 2007; Belal & Cooper, 2007) examining and discussing the perceptions, motivations and attitudes of the first group in regard to social and environmental issues related to firms' activities, hoping that the findings gained might help in explaining and bridging that gap. The importance of managers in the issue of social and environmental disclosure can be noted in that all factors, which have been argued to be Influential in this issue (such as firms' characteristics, corporate governance and political, economic and social contexts), are considered in terms of its influence on managers' decisions pertaining to this issue. In line with this, the related decisions might be classified into two kinds: first, decisions taken as just a response to, and a result of, legislations enforced by law and interventions of governmental bodies, financial markets, and professional associations. The second kind of decision is that which is taken in voluntary environment, where managers have the final say in disclosure matters. In the latter case, it seems more worth, and important, to pay a particular attention to what might impact managers' decisions to disclose the result of the interaction process between their firms and environment and society at large. Healy and Palepu (2001, p. 420) found that: "Management motives for making voluntary disclosure and their credibility are interesting empirical questions", and Khan (2010, p. 102) suggested that "Another directions of future research which emerge to be worthy of exploration is to find out the motives and opinions of management towards reporting CSR information".

It is assumed that managers gain benefits from communicating social and environmental information. Cormier and Magnan (2003) argued that the information gap between managers and investors can be reduced (by managers) by providing investors with an adequate and related information. The researchers argued that this will enable managers to obtain users' trust , and brings many benefits to a firm such as allowing it to lower its cost

of capital, raising its stock valuation multiples, increasing stock liquidity and enhancing interest by institutional investors. The authors mentioned a confirmation of Canadian study, which considered the case of large firms, that such incentives do influence managers' decisions regarding environmental disclosure. In discussing the motivations for voluntary disclosure, Healy and Palepu (2001) pointed to some goals, managers aim to achieve from disclosing voluntary information, such as rising their chances of getting and increasing compensations.

Nevertheless, there are many reasons behind the weak or even negative role of managers, regarding social and environmental disclosure. Lack of knowledge in field of non-financial disclosures and, in particular, how to gauge, produce and release information on the result of interactions of firms with environment and society, seem to be a real obstacle, causing low levels of disclosure and even absence of such action. Belal and Cooper (2007) investigated the reasons behind the lack of disclosure made by Bangladeshi companies regarding three topics, namely: child labour, equal opportunities and poverty alleviation. The researchers surveyed the opinions of 23 senior corporate managers by using interview method. Lack of Knowledge and awareness was found to be one of four reasons which caused the very low level of disclosure regarding those issues. The authors pointed that such finding is more relevant to the case of developing countries, where managers do need training programs to arm them with the necessary knowledge and skills in order to implement, and succeed in, social and environmental activities. Lungu et al. (2009, p. 7) confirmed the need for qualified personnel in this side. They stated, "In areas such as scope of reporting, consistency of methodological approaches as recognition and measurement policies and timeliness of reporting, we believe that improvements in quality are required". It is obvious that such quality needs certain qualifications or special training programs, which might not be found or even considered in case of developing countries. In Qatar, a study conducted by Al-Khater and Naser (2003) revealed that one of possible reasons for not disclosing corporate social information, is a lack of knowledge available in companies regarding this kind of information. Belal (2001) mentioned under-developed corporate culture as one of many factors caused the unsatisfactory level of social disclosure of Bangladeshi firms. In line with this result, and in the same country after some years, Sobhani, Amran & Zainuddin (2009) pointed out to a good corporate culture, in banking sector, as one of several reasons of the superior disclosure practices of banks amongst 19 industry groups.

The previous shortcoming is complemented by the misunderstanding of some managers regarding CSED. In many cases, non-financial information is considered by managers as a mean to build reputation of firms instead of a way to discharge and enhance a firm responsibility towards environment and society (Trueman, 1986; Owen et al., 2001). Furthermore, since involving of a firm in issues of environment, society and ethic is likely to impact its image in people eyes (Al-Khater & Naser, 2003), enhancing this image has become a main goal for some managers, instead of benefiting environment, people and society at large. Some firms disclose social and environmental information to their stakeholders so as to satisfy them, and appear in favourable image (Haniffa & Cooke, 2005; Sobhani et al., 2009). In their study of Islamic banks and the impact of these banks upon environment and society, Maali, Casson & Napier (2006) found that most of Islamic banks do not deemed social issues as an important concern needs to be taken care of, rather these banks use social disclosure as a tool to create a positive image. This confirms the assumption of Brown and Deegan (1998) that some managers may use environmental disclosures in particular ways to shape or alter the perceptions of information users.

Following this way of thought, it is reasonable to presume that managers may go further to produce only positive information, and omit the negative one. Many studies proved this trend. Managers are afraid of the negative impact of releasing bad news on the price of their firms' shares, and the future of such firms. Thus, they deal with it with caution. The respondents in Al-Khater and Naser's (2003) study consider social information as a sensitive kind of information. However, releasing just positive information may lead to an unexpected and unwanted result. Releasing too self-serving information increases a possibility to render them lack of credibility from investors' point of view (Cormier & Magnan, 2003).

The disposition of managers towards risky investments can also affect their desire in releasing more information. Nier and Baumann (2006) pointed that investors will punish banks that choose risky investments, and such reaction is likely to not happen or to be weak in two cases: lack of investors' knowledge, in regard to the risk profile of the bank (in the former case), and releasing limited information regarding the matter (in the latter one). Based on Nier and Baumann's argument, one can assume that management, which choosing risky investments, tends to conceal, partly or entirely, the related information. Also, since some risky investments can be attributed to its environmental and social effects, the level of social and environmental disclosure made by such management is likely to be low, and the content of this disclosure might be questionable.

The weak or even negative role of managers, regarding social and environmental disclosures, can be also attributed to the continuous consideration of economic objective as the only goal firms have to achieve. It is

another example of the lack of awareness some managers have regarding social and environmental issues, and changes in business world pertaining to the positive role of entities in society. One of the results found in Al-Khater and Naser's (2003) study, which considered the opinions of four groups (including bank officers), underscored the importance of economic performance as a goal of companies rather than social one. As such, even managers' time, devoted for discussing social and environmental issues, is expected to be limited. Cormier and Magnan (2003) criticized financial statement for being inadequate regarding the cost of environmental performance of firms. They suggested three steps to render financial statement more accurate and dependable, and one of those steps is to extend the time dedicated for managers to discuss environmental issue related to firms' activities.

Another obstacle preventing disclosure of social and environmental information at acceptable level is that some managers are not convincing that CSED is really vital for their business. They do not believe that CSED is a necessary and important activity to ensure the continuous of their firms in the highly-competitive economic world, and at the same level of importance, to inform society, which has the right to know whether firms are fulfilling their responsibility towards society and environment. The study of Belal and Owen (2007) unveiled that social disclosure made by Bangladeshi firms is a response to pressure of powerful stakeholder groups, especially outside forces such as international buyers and parent companies, without any real changes in the behaviour of firms regarding social issues. Such observation confirmed what was found in other studies, such as Larrinaga-Gonzalez and Bebbington (2001) and Larrinaga-Gonzalez et al. (2001). This situation seems to be prevalent not just in case of those who produce social and environmental information, but also in the case of those who use such information. Thompson and Cowton (2004) investigated the case of banks in UK, regarding the linkage between environmental information and lending decisions, and found that the importance placed by banks on environmental information is just for its relation with managing risks, associated with lending decisions, rather than implementing their social responsibility. It is very important to realise the difference between conceiving social and environmental disclosure as a necessary response (firms must give) to stakeholders, and considering such disclosures as one of society rights firms should respect. Deegan, Rankin, & Tobin (2002) stated that disclosure decisions driven by the desire to be legitimate are not the same as disclosure policies driven by a management view that the community has a right-to-know about certain aspects of an organisation's operations. The first motivation relates to survival whereas the other motivation relates to responsibility. It is obvious that the latter is more likely to be lasting, and to represent the real meaning of responsibility.

Even for those managers who are aware of the importance, necessity and benefits of disclosing social and environmental information, there is another issue might emerge and prevent them from disclosing such information at acceptable level, and that is cost-benefit measurement. The issue of whether disclosing information is economically a right decision is one of the main three research problems in academic field (Hossain & Reaz, 2007). The cost of such information is suggested, by prior research, to affect corporate disclosure (Cormier & Magnan, 1999). The result of investigating the case of 33 Canadian firms during the period of 1986-1993, by Cormier and Magnan (1999) also confirmed that the cost of environmental information is one of the main determinants of disclosing it. The possibility that such cost might exceed the benefit of information disclosed was considered in the study of Al-Khater and Naser (2003). The study revealed the opinion of University lecturers, accountants, external auditors, and bank officers that the cost of disseminating social information outweighs the benefits expected, and this might be - *inter alia*- one cause of not disclosing such information. Hossain and Reaz (2007) agreed that low level of disclosure, or even no disclosure, might be a result of the interaction between benefits and costs of information disclosure, although such relation has not been found for social disclosure in the study of Cormier and Gordon (2001). Cormier and Magnan (2003) specified some aspects of the cost of disclosing environmental disclosure. They mentioned the likelihood of using such information by external groups (like competitors firms and pressure groups) to cause damages to the disclosed firm in many ways, such as harming its reputation, and even emphasising the bad news released to be an excuse for the intervention of governmental bodies. This matter might push the firm in question to filter the information intended to be released, so as to stop being taken advantage of. Nevertheless, Cormier and Magnan (2003, . 45) stated that "in most cases, such value creation is greater than any potential reduction in value resulting from the release of negative environmental information. Most studies on other countries provide similar evidence (US, France)."

Accomplishing personal and specific interests can be another reason for not practicing CSED in efficient way. The absence, or weakness, of such practices can be construed as a wilful action to serve interests of some powerful stakeholders such as shareholders and managers (Guthrie and Parker, 1990; Belal and Cooper, 2007). In regard to managers interest, the relationship between both: ownerships structure and board composition, and

voluntary disclosure made by 158 financial and non-financial Singaporean companies (listed on the Stock Exchange of Singapore) in 1995, were examined by Eng and Mak (2003). The authors expected a negative relationship between voluntary disclosure and managerial ownership. They justified such expectation by arguing that low managerial ownership implies that managers will find motivation to consume perks and decreased incentives to maximize job performance, and this will lead to increased monitoring (and cost as a result) on managers to prevent such behaviour. The researchers suggested that voluntary disclosure might work as a substitute for this costly process. The result of the study confirmed such suggestion, that is, the increased level of voluntary disclosure was found to be correlated with lower managerial ownership. The negative relationship between disclosure and managerial ownership was also found in a previous study conducted by Ruland, Tung & George (1990).

Imitation behaviour can be argued also to be a determinant of disclosure level. Firms' managers, in producing environmental information, keep their eyes on the level of disclosures made by their counterparts, to ensure that they are all on the same page (Cormier & Magnan, 2003). By attempting to improve the understanding of the factors which influence social disclosure in Malaysian context, Haniffa and Cooke (2005) found that a "bandwagon effect" was one of some reasons behind social disclosure practices. The problem with such behaviour is that, in the case of voluntary disclosure, low level or even absence of disclosure is likely to be recorded, especially when social disclosure practices are undeveloped, or flawed. Furthermore, this behaviour can turn disclosing information into a routine process. In such process, the same information is potentially produced in each year, regardless the changes in circumstances of both: firms and information users, and the opportunity of using disclosure as a tool of creating value is likely to be missed (Cormier and Magnan, 2003).

Last point to be made here is that, the fact that social and environmental performance and disclosure practices are normally (especially in developing countries) not considered in the process of evaluating the performance of managers. This in turn, will downplay the desire of managers in being involved in such activities. It is reasonable to assume that managers, and even normal employees, are motivated to meet the standards, which were set to give indicators of good performance of personnel. Considering the quality and the level of social and environmental reports as norms of evaluating managers' performance would improve such reports, and benefit firms and their stakeholders alike.

2. Stakeholders' Position towards CSED

Clarkson (1995, p. 106) defines stakeholders as "persons or groups that have, or claim, ownership, rights, or interests in a corporation and its activities, past, present, or future. Such claimed rights or interests are the result of transactions with, or actions taken by, the corporation, and may be legal or moral, individual or collective. Stakeholders with similar interests, claims, or rights can be classified as belonging to the same group: employees, shareholders, customers ...investors and suppliers (Primary stakeholder groups), and the governments and communities (the public stakeholder group)". In more general sense, Gray (2001, p. 11) identified stakeholders of an organisation as "anyone who can influence or is influenced by the organisation.". As such it is reasonable to assume that they have the right to be informed of the impact of organisations' activities, not just financially, but also socially and environmentally. On the other hand, knowing stakeholders' needs is an essential step organisation must take so as to meet these needs, and have a fruitful relationship with these important players in business world (Frankel and McNichols, 1995).

It is widely believed that stakeholders have an ability to influence firms' practices in relation to social and environmental performance and disclosure. Deegan and Rankin (1999) argued that the expectation gap between the users and preparers of environmental reports can be reduced, and the quality of environmental disclosure in Australia can be improved, by some industrial initiatives. As an example, the authors mentioned the code of environmental management issued by Minerals council of Australia (MCA), which included some requirements, regarding environmental reports, companies should satisfy. Other researchers, such as Cormier and Magnan (1999), emphasised the impact of public pressure on environmental reporting strategies adopted by firms, and argued that such pressure influence directly the political costs, which firms might encounter for their environmental performance. Corporate social disclosure, at large, is also found to be influenced by many factors including ethical investors and pressure groups (Haniffa and Cooke, 2005). Regarding the latter group, this finding confirms the main conclusion of Tilt's (1994) study in that pressure groups are one of main users of corporate social disclosure. Popa, Blidisel & Bogdan (2009) conclude that starting the production of social and environmental reports by companies of Western European countries was mainly because of the pressure of stakeholders.

There are many studies lend support to social and environmental disclosure being affected by stakeholders. For instance, Deegan and Gordon (1996) analysed the environmental disclosure practices of some Australian companies so as to investigate some issues including the possibility that such practices might be influenced by environmental groups. The study revealed that the increased societal concern about environmental issues had an obvious effect on the increased environmental disclosure. A positive relationship was also found between the extent of this kind of disclosure and the pressure of environmental lobby groups. At individual level, Babcock (2009) argued that such groups function as a norm showing people how some of their action might participate in damaging environment.

In another study, the impact of stakeholders was also proved in regard to social disclosure. Belal and Owen (2007) surveyed the attitudes of senior managers of 23 Bangladeshi companies (multinational, domestic, private and public) pertaining to social reports in Bangladesh. Managing powerful stakeholders groups was found to be the underlying cause for providing social information. Specifically, instructions of parent companies, demands of international buyers, and pressure from international agencies such as the World Bank were the major elements which compel companies in Bangladesh to conduct social disclosure practices, and to continue practicing such activity in future, as authors stated. This study shed light on the impact of the pressure from international forces, which appreciate more considering social and environmental issues in corporate practices, on companies acting in local context. Stakeholders in developed countries have both; interest (in social and environmental issues) and power to compel companies to be socially and environmentally responsible (Haniffa & Cooke, 2005), the matter which seems to be different in the context of developing countries.

Nevertheless, in the case of developed countries, the importance of some stakeholder groups can vary from group to another. Boesso and Kumar (2009) surveyed the attitudes of 244 managers and 72 firms acting in four industries (including financial services), in Italy and The US, pertaining to firms' interactions with five stakeholder groups (namely; the professional and industry group, labour group, customer group, financial group, and social and environmental group). The results of this study unveiled that the demands of each group is considered as an importance and need to be dealt with when managers perceive this group as a powerful player. As such, only three groups (namely; labour group, customer group, and financial group) were found to be a centre of managers' interest and focus when they take their decisions of releasing voluntary information. Society-specific expectations were found to be a dominant determinant in deciding which group companies have to address its demands. The authors found that managers in the US and Italy confined their attention to those whom are perceived, by their society, to have high level of importance.

Building on the above arguments, it is reasonable to posit that absence or weakness of the stakeholder groups' role will result in low level of disclosure practices. Abu-Baker and Naser (2000), in considering social disclosure of Jordanian companies, found that companies confined its relations to only three stakeholder groups (namely; shareholders, creditors and potential investors) and the absence of pressure groups influenced the existence of social information in companies' reports. In Bangladesh, the study of Belal (2001) proved that the lack in the existence of organised social groups was – *inter alia* – a responsible factor for the low level of social information released by Bangladeshi corporations. In Chinese context, Liu and Anbumozhi (2009) investigated the environmental disclosure of 100 Chinese listed companies, and found the level of such disclosure marginal. The role of stakeholders, other than government, such as shareholders and creditors was described by the authors as weak. In the case of Islamic banks, the researchers were clearer in pointing the impact of the pressure from the external group on the level of social disclosure. The study of Farook, Lanis & Hassan (2011) indicated that the level of such disclosure (made by Islamic banks) is less than that expected. The researchers affirmed that the level of both; social performance and disclosure of Islamic banks is depending on the influence of Islamic society on this kind of banks.

The influence of stakeholders can be found even in the reports of governmental organisations. Lynch (2010) examined environmental disclosure practices of 18 Australian state government departments (during the period of 2000-1/ 2007-8), where 12 of which have a responsibility in environmentally sensitive areas. Despite the overall increased environmental disclosure during the period investigated, a reduction in providing such disclosure was noted in some departments. For example, the western Australian department of Agriculture did not disclose any information about energy consumption in 2006–7. The researcher pointed to the possibility that such reduction might be attributed to the lack of pressure from external stakeholders. The researcher mentioned institutional theory as an explanation for such behaviour. In this theory society's expectations is argued- *inter alia*- to be an influential in the conduct of organisations. Thus, in the case of the absence or weakness of pressure from stakeholders one might expect low level of disclosure practices. The researcher stated that “Department managers are aware of community expectations and change their disclosures accordingly.” (Lynch, 2010 , p. 41).

Another point to be mentioned, in the discussion of the relation between stakeholders and social and environmental disclosure, is that misunderstanding of some stakeholders, in regard to social policies and practices, might lead to flawed inferences and decisions as a result. For example, codes of social responsibility are assumed by many information users to be an indication that companies fulfil their social responsibility. Yet, the study of Bondy (2008), which examined this assumption in three developed countries (Germany, The UK and Canada), demonstrated that it is not always the case. The researcher suggested that stakeholders must be careful in seeing codes as a reflection of social responsibility commitments or behaviour. They advise investigating the content of these codes. What can be added to this point is that even in the case of comprehensive codes, existence of written codes does not always mean that they are implemented.

Another possible attitude stakeholders might take towards social and environmental disclosure can be found in answers of some interviewees in the study of O'Dwyer (2003). Stakeholders might focus exclusively on financial profits, and ignore the issues of social responsibility, the matter which affect negatively disclosure practices. One of the interviewees commented "One of the difficulties they [public companies] are forced into by analysts is the focus is always on short term results, you know, this year's profits, next year's profits..... the analysts look at what is today's EPS and what are they going to be next year and how does that relate to the share price and so on (NM)." (O'Dwyer, 2003, p. 536). Another one stated "I probably see about a hundred [fund] institutions a year, say over the last ten years, that's... about a thousand institutional visits, one on one meetings. The environment hasn't been raised by one ... there have been a huge range of topics, but never the environment." (O'Dwyer, 2003 , p. 536). This point of view is observed also in the study of Belal and Owen (2007 , p. 481), where one of their interviewees stated "Very few companies make social and ethical disclosures in Bangladesh because shareholders and people in general are not interested". He wondered "who is interested to know about the social and ethical activities of a company" and proceeded "Most of the shareholders are only interested in dividends and financial performance."

As a conclusion, it can be said that there is a symbiotic relationship between stakeholders and social and environmental disclosure. The former benefits from the latter in taking right decisions and, at the same time, stakeholders put pressure on companies to produce such disclosure and enhance it to be more credible. Lastly, it might be worth discussing next one of those stakeholders, which is analysts, as an example of how useful social and environmental disclosure is, and the impact of ignoring such disclosure in decisions taken by stakeholders.

2.1 Analysts' Position towards CSED

Analysts are a major part in the mechanism of capital market, and particularly in the matter of economic decisions taken by variety of economic players, such as brokers, institutional investors, and other decision makers (Lang & Lundholm, 1996). They gather information from its public and private sources, evaluate it and use it to make forecasts in regard to companies' earnings, and also suggest taking some decisions pertaining to buying or selling securities (Cheng, Liu & Qian., 2006). They "interpret the complexity of a company's reporting" (Campbell and Slack, 2011, p. 60). Considering the topics covered in their reports and variety sources they use to derive the required information used in such reports, analysts are in a suitable position to render information they acquire more useful and accurate for making decisions (Campbell & Slack, 2011). Their reports are given "great consequence by many market participants" (Fogarty & Rogers, 2004, p. 331), and they effect the decisions of institutional and individual investors (Li, 2005). Therefore, their work is seen valuable (Womack, 1996; Barber, Lehavy, McNichols & Trueman, 2001). Financial analysts are described as capital market gatekeepers, and one of key stock market agents (Aerts, Cormier & Magnan, 2008). The importance of their role has been highly recognised to the extent that 1990s were named "Age of the Analysts." (Li, 2005).

There is a compelling reason to consider the attitude of financial analysts towards social and environmental disclosure. According to Aerts et al. (2008) it is more practical to observe the expectation of financial analysts rather than market expectation. They stated "assessing the effect of a firm's environmental disclosure policy on stock markets is rather difficult as most of their actions are not immediately visible ...In contrast; it is possible to directly measure how environmental disclosure affects the professional effectiveness of financial analysts." (Aerts et al., 2008 , p. 647). This argument is also found in work of Lang and Lundholm (1996), who mentioned that both; Nichols (1989) and Schipper (1991) suggested that investors' activities and beliefs can only be observed indirectly, and this can be achieved by considering analysts behaviour. Based on this, Lang and Lundholm (1996) suggest that financial analysts might be seen as a representative of, or at least influential on, investor beliefs.

Considering the source of their information, annual reports of companies are not the only source analysts rely on to find the relevant information to conduct their work. There is a variety of sources inside and outside companies

analysed, such as: analysts' briefings given by the managements of the companies, meetings with managers, the departments of investor relations, websites, trade associations, and independent economic information sources (Campbell & Slack, 2011). Nevertheless, information released by companies is still deemed as a main resource analysts rest on. As such, it is argued that information released by companies (mandatory, voluntary, financial and nonfinancial) is vital to analysts' work and its accuracy. The study of Baginski and Hassell (1990) revealed that analyst forecast revisions are affected positively by management forecasts, and the study of Lang and Lundholm (1996) indicated – *inter alia*-that companies with more forthcoming disclosures will lead to more accurate analysts' earnings forecasts, and more consensus among those forecasts. In another study, Vanstraelen, Zarzeski & Robb (2003), investigating the case of three European countries, concluded that disclosing forward looking nonfinancial information, on voluntarily bases, increase the accuracy and decrease the dispersion of analysts' earnings forecasts. In Australia, Coram, Mock & Monroe (2011) consider the relation between non-financial performance indicators and financial analysts' work. The result of their study revealed that analysts do pay greater attention to non-financial performance indicators when financial information reflects a positive performance and position.

Regarding social and environmental information, it is argued that such information has an influence on the process of evaluating the performance of companies and their securities. The interaction of a company with environment and society at large is likely to have an impact upon its financial position, and even its continuity in the business world. Some companies, such as Nike and Wal-Mart, were criticized for their irresponsible performance in regard to social issues. Such companies are likely to face some severe reactions from the public such as customer boycotts, which will result at the end in unfavourable financial consequences. In terms of environmental issues, the case is more obvious. With the increased number of environmental legislations throughout the world, companies which do not care about the negative effect of their activities on environment are likely to be punished financially in many ways, such as paying fines, compensations, and the cost of cleaning up the sites contaminated by their activities. Another risk those companies face is reputation risk when they become known publically as polluters, the matter which, in turn, might result in losing their competitive abilities in market, and bad financial consequences eventually. As such it is reasonable to conclude that social and environmental information should be regarded important by financial analysts if they are to make accurate forecasts and useful recommendations. It is also worth mentioning that some financial terms related to environment such as contingent environmental liabilities, environmental capital expenditure, and penalties affect company's ability to generate earnings (Clarkson, Yue & Richardson 2004, Aerts et al., 2008), and affect the accuracy of financial analysts' earnings and recommendation as a result. Cormier and Magnan (1997, 2003) argued that ratios derived from financial statements may give flawed indicators, and thus financial analysts may provide erroneous assessment, as environmental liabilities are not considered explicitly in financial statements.

Nevertheless, many empirical studies indicated different results to the assumed attitude and behaviour of financial analysts. The study of Milne and Chan (1999) studied the usefulness of typical social disclosures for investment decision-making (accountants and investment analysts). The results revealed that social disclosures have a little influence on the decisions of investment. In regard to environmental disclosure, Campbell and Slack (2011) mentioned the result of the study of business in the environment (published in 1994) which demonstrated unimportance of environmental information to the assessment of financial analysts, which is rather based mainly on financial standards. The study of Deegan and Rankin (1997) confirmed such result. They surveyed different groups of annual report users and found that analysts do not believe in the materiality of environmental information to their decisions. In addition, environmental performance was regarded by all groups less important than financial indicators.

Considering the attitudes of financial analysts in regard to environmental information released by Banks in the UK, Campbell and Slack's (2011) study revealed a surprising result comparing to the attitudes of banks themselves. The study examined the attitudes of 19 London based sell-side bank analysts (described by the authors as a significant capital market participant and a specific stakeholder group) pertaining to environmental information disseminated by banks, and the materiality of Environmental risks. An Annual report of a major UK high street bank (included a section for environmental information) was used in the interviews conducted. Although some banks (in developed countries particularly) have become aware of the importance of environmental information and environmental risk to their business, especially its materiality to their lending decisions, financial analysts interviewed ignored such importance and materiality. Environmental information, in their opinions, is "useless...terribly irrelevant...not material at all..." Therefore, many of them never look at any environmental disclosure made by banks. This might – partly- explain the notice of Cheng et al. (2006) that there

is an increase trend of thought among different information users that forecasts and recommendations of analysts might include some bias.

The result of Campbell and Slack's (2011) study can be attributed to many reasons. First, financial analysts are considering what is perceived important from the perspective of their clients (Chan and Milne, 1999; Campbell and Slack, 2011), and in the absence of clients interested in, and recognising the importance of, environmental information, it is logical to find financial analysts downplaying or omitting such information. One of the analysts interviewees, in the study of Campbell and Slack (2011, p. 59), stated "I think...it's a waste of money to be printing a lot of this, and also, I suppose there's a kind of irony in printing an environmental report that nobody reads,". Although some interviewees admitted that the materiality of environmental disclosure may increase, if clients regard it important, they doubt at the same time the likelihood that this will happen. Second, Financial analysts are motivated mainly to focus on short term performance and not to go further, since they are paid for their evaluation of such performance (Davis, Lukomnik & Pitt-Watson, 2006; Juravle & Lewis, 2008; Campbell and Slack, 2011). Juravle and Lewis (2008, p. 291) stated "analysts are often rewarded with bonuses computed on a quarterly or a yearly relative return." In the study of O'Dwyer (2003), which demonstrated the impact of external pressures on social disclosure practices, one of managers interviewed stated "One of the difficulties they [public companies] are forced into by analysts is the focus is always on short term results, you know, this year's profits, next year's profits. the analysts look at what is today's EPS and what are they going to be next year and how does that relate to the share price and so on" (O'Dwyer, 2003, p. 536). Third, providing environmental information in narrative format makes it difficult to be used in the process of analysing and evaluating companies' performance. Campbell and Slack (2011, p. 61) stated "given the focus and remit of the sell-side, environmental disclosure narrative without financial measurement and quantifiable implications will remain largely unused and immaterial to them."

This ignorance of information other than financial one seem to not be confined just to individual analysts, rather it is found also in work of rating agencies. Gutiérrez-Nieto and Serrano-Cinca (2007) examined the association between financial and social performance indicators of Microfinance Institutions (which focus on social issues by providing loans to poor clients who have not a chance in conventional credit systems) in the U.S.A, and the ratings assigned. It was found that better ratings were given to those Microfinance Institutions (MFIs) which were – *inter alia*- more profitable and less risky. Conversely, no correlation was found between social performance and rating. Even in such organisations, where social aims should be given the priority, analysing organisations' performance ignores social aspects. The researchers warned that such analysing might threaten the rationales of the existence of MFIs, especially if investment decisions are based on this kind of rating. The authors emphasised the importance of rating social achievements of MFIs, and using it as a complement to financial ratings.

Although considering social information in the process of evaluating companies' performance by financial analysts is found in some studies, it is notable that this consideration was under some conditions, which means that social information is not seen as important as financial one. The study of Coram et al. (2011), which has been mentioned previously, proved that financial analysts use non-financial performance indicators (included indicators of learning and growth, such as hours of employee training per employee) in their evaluation, but on a condition that financial information reflects a positive trend. This implies that no attention well be given to non-financial information when the indicators of financial performance are showing negative trend, although non-financial information (including social one) might shed light on the reasons of that negative result. In the study of Dhaliwal, Oliver Zhen, Tsang & Yong George. (2011), some constraints were also attached to the result. In their study, voluntary social disclosure was found to be correlated- *inter alia*- to the increased accuracy in analysts' forecasts and a reduction in the dispersion of those forecasts. However, this correlation and effect are significant only in case of those companies which have relatively superior social performance (comparing to their counterparts). Furthermore, the authors mentioned, as a limitation, that some important determinants of social disclosure maybe missed in using their model, since they used control variables derived from the standard voluntary disclosure literature rather than social disclosure specifically.

From the above discussion, it seems that overall social and environmental information is still regarded by financial analysts less important in the process of evaluating companies' performance and securities. In some cases, they use it but under some specific circumstances.

3. Conclusion

Investigating the attitudes and behaviours of companies' managers and stakeholders towards the issue of CSED provides insights into the justification of the level and the quality of such disclosure. Understanding the reasons

behind managers' decisions of releasing social and environmental information, and stakeholders' perception of the importance and usefulness of this information, is an important step to improve the practices of this kind of disclosure. This paper is an attempt to draw the attention to importance of understanding the perspectives of these two important parties by shedding light on some points in this topic.

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