Social and Environmental Reporting: How informative is the disclosure of Community Involvement Cost – Qualitative or Quantitative

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Abstract

Evidences exist that investors see social and environmental information as very important in making investment decisions and hence demand adequate disclosure of such information. This research seeks to explore the information content of 'rarely' researched environmental information - community involvement. Similar decision-usefulness studies of this nature have investigated human resource and pollution costs but none has investigated community involvement.

The community has been identified as an important member of the stakeholder system, it is therefore expected that information on community involvement in annual report should have a significant relevance to investment decision. This research therefore seeks to test the stakeholder theory as it relates to the community and also explore the linguistic relativity of accounting information as theorized by Jain (1973) and Belkaoui (1978). Furthermore following the suggestion of Dierkes and Antal (1985) that the usefulness of social information can better be measured by investigating its impact on decision making, this research will focus on the decision-usefulness of community involvement cost and will investigate the mechanism for presenting this information in the most useful way to stakeholders. To this end the research will explore specifically the effect of disclosure format of community involvement cost on investment decision.

Following a deductive approach, the research will be conducted using quantitative methodology, while the research strategy will be experimental. The experiments will be based on an objective and systematic attitude survey of investors and other users of financial report. The instrument to be used for the survey will be modelled after Hendricks (1976) and Belkaoui 1980.

Keywords: Social & Environmental Reporting; Corporate Social Responsibility; Community Involvement Disclosure; Stakeholder Theory; Linguistic Relativity Hypothesis; Ethical Investment Decision.

Introduction

Andersen & Franckle (1980) described social and environmental reporting as a 'communication' of a corporation's community involvement activity, human resources, environmental impact and other social activities through the annual report to the stakeholders. Such reports may provide qualitative and/or quantitative information regarding a firm's environmental activities. Over the last three decades environmental reporting has increased considerably among corporations. The question as to why report on social and environmental activities has generated volumes of controversial literatures. Various reasons have been given for the motivation for environmental reporting, such as been a partial fulfillment of Corporate Social Responsibility (CSR), Brooks, (1984); reputation building mechanism (Campbell et al 2000), legitimizing the company's activity (Adams, Hills & Roberts, 1998; Deegan, 2002; Deegan et al 2002; Milne & Patten, 2002). While other studies argued that company size, type of industry and country of domicile are factors influencing environmental reporting (Deegan & Gordon, 1996; Hackston & Milne 1996; Cowen et al 1987; Smith et al 2005, Campbell et al 2006).

In addition, theories such as legitimacy theory, Political economy theory, Stakeholder theory and Agency theory have all been employed to justify the disclosure of social and environmental information although there has been no consensus among scholars as to the best theoretical explanation for the disclosure of this information. This is so partly, because there are lots of uncertainties surrounding its practices and application, it has remained a voluntary disclosure till date and again no regulations or standard has yet been universally accepted to give it uniformity of best practice (Gray et al

1995). The AA1000 assurance standard of the Institute of Social and Ethical Accountability (AccountAbility, 2003) and the G3 of the Global Reporting Initiatives (GRI, 2006) are reporting guidelines for social and environmental reporting, developed by two independent organizations but yet to receive universal acceptability. However it is not within the scope of this paper to provide a comprehensive review as to why organization discloses environmental information, the issues presented here is how informative or useful the disclosure of community involvement is to stakeholders and what implication this might have for corporations.

Nevertheless there have been empirical studies providing evidences that investors see social and environmental information as very important in making investment decisions and hence demand adequate disclosure of such information. A number of studies (Acland 1976; Hendricks 1976; Belkaoui, 1980; Milne and Patten 2002; Rikhardsson and Holm, 2006) have also provided strong evidences on the decision usefulness of social information, although, only very few studies (Cowen et al, 1987; Epstein and Freedman, 1994, Campbell, 2000) have mentioned the importance of Community Involvement Disclosure (CID).

Going by the precepts of the Stakeholder Theory and the Linguistic Relativity Hypothesis, this research seeks to explore the information content of CID and its impact on investment decision. In other words this research will explore whether or not community disclosure is informative enough as to motivate ethical investment and hence be seen as a signaling tool for corporate social performance. The rest of the paper is organized as follows. The next section discusses the findings of previous studies on the demand for and the decision-usefulness of social and environmental disclosures. The third section discusses the theoretical framework for this study leading to the development of hypotheses to be tested. The fourth section describes the proposed methodology for the study while the fifth section discuses the limitation of the proposed methodology and concludes on the paper.

Previous Studies

The demand for and use of social information by ethical investors have been documented in literature. Belkaoui, (1976), recognized the existence of ethical investors and found that organizations who disclosed pollution control cost in their annual report were better rewarded in the capital market than those who did not and therefore advised that managers should not only allocate a proportion of their resources to pollution control but that this expenditure should also be reported to the investors. He argued that there is the need for investors to be able to compare the negative effect of disclosing social information on EPS along with the compensating positive effect that reduced risk of penalty from Environmental Agency may create. In the same vein, Anderson and Franckle, (1980) not only recognized the existence of ethical investors but established that they indeed dominate the market. The study found that the capital market value the disclosure of social information positively. The result revealed that portfolios containing the securities of socially disclosing firms yielded higher returns than those of equivalent portfolios of the same risk but which composed of securities of non-disclosing firms. This is consistent with the argument of Simon et al 1972 who assert that ethical investors will always be willing to pay a premium on the securities of socially conscious firm arguing that some community development programmes may help build sources of human capital that the company may tap in the future, such positive contribution, they argued could in effect have a long term positive impact on profits.

Apart from market studies, studies on institutional investors such as Buzby and Falk, (1978), found that mutual fund investors placed a relatively high degree of importance on some social and environmental information than they placed on some non-social information. So also Epstein and Freedman, (1994), reported a strong demand for social information especially product safety and environmental activities while Tilt (1994) also documented strong evidence that community pressure groups demand social disclosures in annual report and indeed make use of the information. Deegan and Rankin, (1997), found that shareholders, accounting academics and review organizations demand disclosure of environmental information and indeed make use of the information to assist in making various decisions. Other studies such as Preston (1978); Belkaoui, (1980); Solomon and Solomon (2006) all documented strong evidences for the demand for environmental information by stakeholders.

In addition to the demand for social information, the decision-usefulness of some of this information, such as human resources and pollution control expenditure has been extensively examined in literature (Acland, 1976; Hendricks, 1976; Belkaoui, 1980; Freedman and Jaggi 1986, Chan and Milne, 1999; Lim & Dallimore 2002) are few of such studies. Some other studies examined the usefulness of social information as a whole for instance Andersen and Franckle, (1980); Murray, Power & Gray, (2006) provided evidences that social information has an impact on the market, they made a general conclusion on social disclosure without measuring what impact, different categories of social information might have on the market. Gray et al, (1995) opined that studies of this nature are unsatisfactory. Other studies, such as Abbott & Monsen, (1979); Cowen et al, (1987); Epstein and Freedman, (1994); Patten (1995), investigated various categories of social disclosures and found that not all social and environmental information are considered relevant or useful by investors.

However, despite the fact that the community has been identified as one of the important members of the stakeholder system (Clarkson, 1995, Altman, 2000), no study has yet investigated the information content and how relevant this information may be to investors in making investment decisions. The only study identified so far on community disclosure by Campbell et al, (2006) investigated the pattern and frequency of community disclosure and not the relevance to investors. Campbell found that the disclosure of community involvement is not unconnected to the demand for it but also observed that disclosure was mostly by high profile organisation. In the same vein, Cowen et al. (1987) found that community disclosure responded to company size and industry type with 64% of the companies in his sample mostly in the Chemical industry disclosing the information. Although Patten (1995) found that community involvement is disclosed in lower volume than other categories of social disclosures, a more recent study by Campbell et al (2006) investigated the reporting behaviour of companies over a longer period and found out that volume and frequency of community disclosure is positively associated with high public profile companies, which is consistent with Cowen et al, (1987).

Although no study has specifically investigated the usefulness of this information, the demand for it has been documented in literature (Epstein and Freedman (1994); Cowen et al. (1987); Campbell et al (2006). Epstein and Freedman (1994)'s experiments indicated that 47.6% of the respondent wanted community involvement disclosed in the financial report while another 23.58% want it, not only disclosed but also audited making it 71.18% in total requiring to see community involvement disclosed in the financial report. Over 60% of the respondents also required that corporations disclose the social impacts of its activities on the community group.

From the above discussion if Community Involvement Information (CII) is so demanded by investors, then one may argue that the disclosure of this information will have some influence on investment decision and consequently motivate ethical investment, which may lead us to conclude that CII disclosure may be used as a signaling tool of CSR. The argument put forward in this research therefore is that CID can be employed as a language of communication and hence motivate ethical investments. The justification for this assertion can be found in the stakeholder theory and the linguistic relativity paradigm which are examined in the next section.

Theoretical Framework

The ability of stakeholder's theory to properly define and explain the position of the community in the stakeholder system made it a very relevant conceptual framework for this study which lends itself to the importance of disclosing information regarding this group of stakeholders and the understanding of the vulnerability of corporations to issues associated with the community.

The word stakeholder has been given various definitions by different stakeholder theorists. The Stanford Research Institute's (SRI) defined stakeholders as "those groups without whose support the organization would cease to exist" (SRI, 1963; quoted in Freeman, 1984; p.31) Freeman offered his own definition as "any group or individual who can affect or is affected by the achievement of the organization's objectives" (Freeman, 1984: 46).

Clarkson (1995) further classified stakeholders into primary and secondary stakeholders. The community, within which a company operates therefore, falls within the primary stakeholder's category of Clarkson (1995). It follows therefore that as a primary stakeholder, management have a responsibility towards the community within which their organization operates. Altman (2000), merging the gap between theory and practice, provided a definition for the community as a stakeholder group;

> "Community as stakeholder can be defined as those groups or individuals having mutual interests with the firm, those located within the immediate vicinity of the firm's operations, and those having the power to negatively impact the corporation's operations …." (Altman, 2000, p.65).

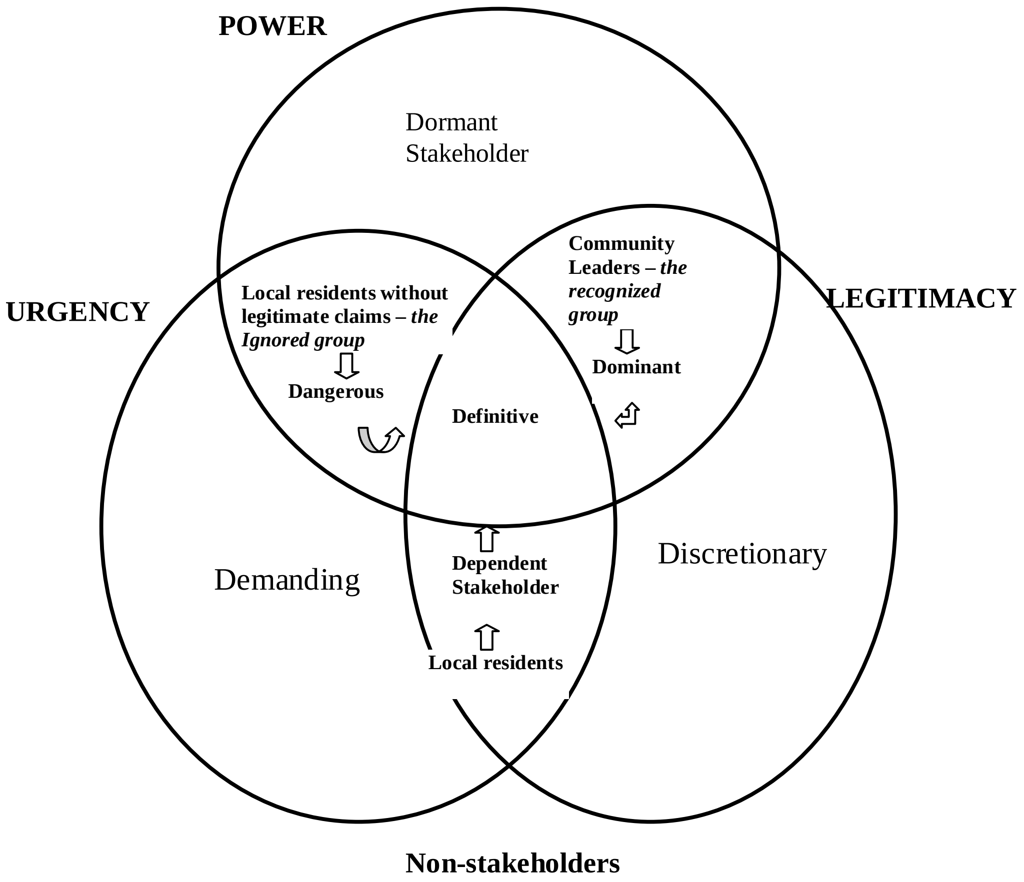
Following from this definition, Altman went further to rank the community stakeholder group into groups "recognized" by the firm; Individuals "recognized" by the firm; and groups "ignored" by the firm, (Altman, 2000, p.65). This ranking of the 'community stakeholder group' supported Mitchell, Agle & Wood, (1997) theory of stakeholder identification and salience and offered a simplistic view of stakeholder theory in the community context and thus a move towards understanding the management of the community as a stakeholder group. Altman's study confirmed that the salience accorded to specific stakeholders' claim is a function of the attributes they possessed, thus supporting the stakeholder identification and salience theory. According to Mitchell *et al,* (1997) the salience accorded to a particular stakeholder by management may be low, moderate or high depending on the number of identifying attributes they possess.

Drawing from stakeholder identification and salience model of Mitchell *et al*, (1997) fig.1 below, and the theory/practice definition by Altman, the importance of the community in the stakeholders' system and the level of salience due to them by management, can best be understood by classifying the community into dominant, dependent or dangerous stakeholders (fig.1 below) given the attributes they possess and the operational status ("ignored" or "recognized") they fall into. This will give an understanding of the position of the community in the stakeholder system and the importance of CID to this group of stakeholders. Altman (2000) argued that the corporations' responsibility to its community included the improvement of the quality of life in its cities and towns, its employees and the immediate area around its field of operation, and, potentially, for the groups or individuals that could be harmed by its operations (Donaldson & Preston, 1995, p.85). Stakeholder theory therefore suggests that managers should take into account the corporations responsibilities to this group of stakeholders and not only the shareholders when making decisions.

One of the tenets of stakeholder theory is the recognition that the activities of a corporation affects and are affected by the environment in which they operate (Freeman 1984). This suggests that if the activities of a corporation adversely affect the community it could result in adverse reaction from the members of the community and this may impact negatively on the corporations' operations.

Figure 1

Stakeholder Identification and Salience Model



Source: Adapted from "Toward a theory of Stakeholder Identification and Salience: Defining the Principle of Who and What really counts. Mitchell, Agle & Wood, 1997, p.874

The corporation enjoys loyalty from the community in return for the performance of its social responsibility (Chan & Milne, 1999). That is why a company receives negative reaction for any failure perceived by its stakeholders, who would not hesitate to reward or punish a corporation when the corporation's actions meet or do not meet their expectations (Chan & Milne, 1999; Rowley and Berman, 2000).

Clarkson (1995) argued that a stakeholder will withdraw from a firms stakeholder system if he thinks he is not been fairly treated. Such withdrawal may be in different forms, which may include withholding necessary resources or placing conditions on the usage of the required resources (Frooman, 1999). It could also be through disrupting the operation of the corporation, where members of the community think they have not been fairly treated for instance if the claims of the third group of community stakeholders classified as 'dangerous stakeholders' (fig.1 above) is ignored, they may result to violence (Mitchell *et al,* 1997, p.877) thereby disrupting the firms operations.

Withdrawal may also mean withdrawing investment that was originally socially motivated. Van Buren and Paul, (2000) found that socially responsible investors have influence on corporations as a stakeholder group. They assert that this category of investors, serve as "monitors of corporate social performance" (p.135) and would not hesitate to withdraw their investment if they perceive that the corporation is socially irresponsible. These groups are those classified as dominant stakeholders in figure 1 above as they possess legitimacy and power to impose their will on the corporation by virtue of their investment as theorized by Mitchell, et al.

The above discussions suggest that managing the community as a stakeholder group may be a complex one if not handled with care and therefore needs to be strategically approached; management must be willing to divulge as much information regarding community involvement as possible to the stakeholders. It follows that managing a company's stakeholders involves not only formulating social responsibility programs but also disclosing such activities (Ullmann, 1985 p.552) as a means of showing compliance (signaling tool) with the social contract existing between the corporation and its community as posited by legitimacy theory (Patten, 1991 & 1992; Deegan and Rankin, 1996& 1997).

According to Preston (1978), the best matrix for managing social issues are; firstly, the corporation is aware or recognizes an issue, secondly the corporation should analyze and plan on solving it and incorporate such plan into its corporate goal, thirdly the corporation should respond in terms of policy development, and finally implement the policy. In addition to this, this paper opined that it is very important that this process be communicated to members of the community. Such information therefore forms the basis for dialogue between the corporation's management and the community and other stakeholder groups (Dierkes & Antal, 1985). It follows that management should communicate with the community from time to time as they do with the shareholders and other stakeholder groups, to discuss their concerns and the risks resulting from the corporation operation in their environment (Preston *et al*, 1999). Collison, et al (2003) provided evidences that external stakeholders (e.g. community) attached more importance to environmental communications than the shareholders.

Such report should show the steps already taken by the corporation to meet the immediate and future needs of the community as a stakeholder group and according to AccountAbility, (1999, p.7), a quality report should also be capable of reflecting the "aspirations" of all stakeholder groups including the community. The primary aim of a report is to inform and influence behaviour (GRI, 2002, p. 9); CID should therefore show the willingness of the corporation to dialogue with the community leaders and the community as a stakeholder group. In other words CID should be used as a language of communicating the performance of the company's CSR to its stakeholders. It is therefore expected that such reports will influence the attitude of the investing community towards the corporation and hence motivate support and ethical investment.

The reference to CID in the paragraph above as a language of communication can be discussed within the premise of linguistic relativity of accounting paradigm as put forward by Jain (1973) and Belkaoui (1978). These scholars described accounting as the language of business drawing from the "Sapir-Wharf Hypothesis" also known as the Linguistic Relativity Hypothesis. The hypothesis historically developed through the works and propositions of Edward Sapir (1884-1939) and Benjamin Lee Whorf (1897-1941). Although most of these works were not published, they later became the source of controversial debate among anthropologists, psychologists, and linguists. The argument put forward by Sapir and Whorf is that each language involves particular interpretation uncommon to other languages and that such interpretation is interrelated with variety of experiences and hence is capable of influencing thoughts in different ways, (Gumperz and Levinson, 1996).

The fact that language influences thinking and hence behaviour has been well argued by renowned scholars in the field of linguistics and psychologists such as Huxley (1962); Gumperz and Levinson (1996); Lucy (1992 &1997). Lucy 1997 classified the manner in which language can influence thoughts into three; semiotic, structural, and functional. Of interest to this study is the functional use of language. The argument is that when language is used in a particular way it may influence thinking and hence have effect on perception or decision making (Lucy 1992 & 1997). The functional use of language developed from the concept of functional fixation. This concept according to Jain (1973) state that once a person relates a meaning to a particular phenomenon or event through past experience, this meaning becomes fixed in his head and is related to subsequent phenomena or event irrespective of alternative meanings or causes of that event.

Drawing from the linguistic relativity hypothesis discussed above, accounting and social information scholars like Jain 1973, Belkaoui 1978 and Macintosh, (2005) argued that information contained in the annual report represent accounting language capable of influencing behaviour. Macintosh, (2005) drawing from the ideas of theorist like Derrida, Baudrillard and Foucault asserts that accounting information are artefacts of language capable of being understood through theories of language and discourse. He argued that accounting information is capable of influencing significant aspects of human activities. Jain 1973 argued that as languages represent phenomena in the real world so does accounting in the business world. Therefore he describing accounting rules as financial grammar, Jain considers it as analogous to grammatical structure in linguistics and therefore examined its effect on the perception of listeners which is considered analogous to the effect of financial grammar on the users of financial information. This was confirmed in Chan & Milne (1999) who found that investors reacted negatively to companies who reported poor environmental performance, indicating that social and environmental disclosures in annual report can attract reactions. According to Belkaoui (1978), the lexical characteristics and grammatical rules of accounting will affect the linguistic and non-linguistic behaviour of users of accounting information. To this end he introduced four propositions indicating that the use of accounting language in different ways by different users can affect its information content and therefore influence behaviour in different ways.

These propositions have been supported by various empirical studies documented to support the fact that the presentation format has effect on the information content of annual report (Lecault (1981); Davis, (1989), Ryack & Kida (2006) and Ann, Phil et al. (2008). Lecault (1981) found that presentation format has an effect on both the use of financial information and the confidence expressed on that information in decision making. Ryack & Kida (2006) examined whether differences in format presentation at encoding and retrieval can affect the recall of financial data by investors, the study revealed that even a minor alteration in the presentation format has significant effect. It can be argued therefore that the presentation format of CII may have effect on its level of informativeness.

Against this background therefore, and bringing the two theories together, the following hypothesis have been formulated in the null form in order to investigate the argument put forward in this research.

Null Hypothesis 1: There will be no significant difference in investment decision made by investors as measured by mean amount invested before and after the disclosure of CII in the annual report.

Null Hypothesis 2: There will be no significant difference in the perception that CII is informative as measured by the mean perception of usefulness in Company A ($PCII_A$), where A discloses in the narrative form and the mean perception of usefulness in company B ($PCII_B$), where B discloses in the quantitative form.

The Methodology

To test the above hypotheses, this research will be conducted using a quantitative approach and the research strategy to be adopted will be experimental. The experiments will be based on an objective and systematic attitude survey of investors and other users of financial report. Attitude survey will be adopted because the study is about human perception and behaviour. Information will be presented and the subjects will be asked to react to the information as they wish. The research follows the deductive approach in that existing theory such as stakeholder and linguistic relativity theories were first reviewed in other to establish the theoretical framework for the study, this is necessary in order to understand the framework within which subjects interpret their thoughts and take a particular stance in a given circumstance. This is then followed by the formulation of hypotheses to be tested using relevant empirical data collected for the purpose.

Data Collection Methods

Data will be collected through questionnaires and questionnaires will be administered electronically through email or by post where email is not available. The potential participants for the questionnaires will include investors, stockbrokers/ financial analyst, accounting academics, bankers and professional accountants. Sample selection will involve random selection of samples from shareholders association list and random selection of stockbrokers/financial analysts from the London Stock Exchange. Professional accountants will be randomly selected from the membership list of the Association of Chartered Certified Accountants, while accounting academics will be selected from the Accounting Departments of Universities who have such departments. Bankers will also be selected randomly from the list of banks.

A total sample size of 200 is intended for this study while a 20% response is anticipated. It is intended that 40 samples be taken from the shareholders group and 30 samples from each of the other 4 user groups. More samples will be taken from the shareholders group because it is expected that different occupational groups could be found among the shareholders thus enriching the occupational variations in the users to be considered. The procedure will include informed consent of the participants and strict confidentiality of individual responses consistent with the submission of Palys and Lowman (1999).

Questionnaire Design

The questionnaire will be designed to specifically answer the following research questions;

1. Is community involvement disclosed in the annual report in a way perceived to be Informative by stakeholders?
2. If so, can the use of this information motivate "ethical" Investment? - In other words can it change behaviour?
3. What format of presentation is perceived most informative?

The research questions will be answered through an experimental task modelled after Hendricks (1976) and Belkaoui 1980. Two hypothetical companies would be constructed and subjects will be asked to make investment decisions based on information contained in the financial report of these companies. Afterwards the respondents will be asked to complete the questionnaire.

Data analysis methods

Data will be analysed using a standard statistical program – SPSS. Both descriptive and inferential statistical methods will be used in analysing the data. Nonparametric test such as the Chi-square test for independence, Mann-Whitney U test or Kruskal-Wallis test and Wilcoxon Signed Rank test or Friedman tests (Pallant, 2005), will be performed in order to investigate if there is any statistical relationship between investment decision and the disclosure of community involvement cost.

The hypotheses above will be tested to measure such relationships and to investigate whether there could be any causal effect such as occupational background and any other demographic variables that may influence the attitude of investors towards CID. Where the samples comply with the assumption of normality, the parametric equivalence of the above tests such as correlation, ANOVA, independent and paired samples *t* tests will also be performed in order to strengthen the validity of the results. This will help determine if this information is in anyway relevant in making investment decision and the most informative format of presentation.

Justification for the Chosen Methodology

This methodology has been used by earlier scholars of CSR studies such as Elias (1972), Hendricks (1976) and Acland (1976). They all investigated the decision usefulness of Human resource information. The three studies based their investigation on the fact that accounting information is generated to facilitate decision making and therefore adopted quantitative methodology and experimental survey for their investigation. They used this methodology because the aim of their studies was to assess investors' perception of the usefulness of human resource information. A later study by Belkaoui, (1980) investigated how the inclusion of pollution abatement costs would affect

investment decision by different users of accounting information under different investment strategies. His interest was to investigate the multivariate causality in human activity, to this end he was interested in knowing whether decision will be made differently if users were of different professional group or if they have different investment strategy. He therefore adopted quantitative and experimental survey methodology.
Chan and Milne (1999); Milne and Chan (1999); Milne and Patten, (2002); and Rikhardsson and Holm (2006) are more recent studies who have also adopted quantitative and experimental methodology as described in the studies above in an attempt to investigate the investors perception of the decision usefulness of social and environmental information and they are all of the opinion that to investigate individuals' perception of environmental information, experimental attitude survey as well as quantitative research methodology is most suitable.

From the discussion above the reason for adopting quantitative and experimental survey methodology by the various studies compares favourably with this research in that the main aim of this research is to investigate whether or not there are any relationship between investment decision as the dependent variable and CID as the independent variable while controlling causal factors such as the disclosure format, the users occupational groups and other demographic variables. To this end experimental techniques will be most suitable in solving any such hypothesised relationship while controlling for any extraneous variables that may exist. This will help determine the possibility of causal factors (Black, 1999, p.63-65).

The rationale for using survey on the other hand stems from the advantages of survey research which is that of possessing the characteristics of a wide and inclusive coverage (Denscombe, 2007 p.31). Furthermore surveys can be tailored towards obtaining data about specific group of people and also investigates their perception at certain point in time. To this end since this particular research is focused on the perception of the users of financial statements as to the disclosure of particular information in the financial statement and their perceived usefulness of this information in decision making process, survey appears the most suitable strategy to achieve this aim. Experimental survey has been particularly chosen because the study intends to investigate individuals' perceptions of the information content of CID and their behaviour towards this information.

An alternative approach to survey for investigating the usefulness of environmental information that has been used in literature is market reaction methodology; (Belkaoui, 1976; Preston (1978), Andersen and Franckle, 1980; Freedman and Jaggi (1982), Ingram and Frazier (1983); Murray *et al* 2006). With market reaction approach, environmental information is considered to have information content if the disclosure or non disclosure of it has an impact on share price hence making use of market indices rather than survey. This methodology will not be suitable for this current research because market reaction study investigates human behaviour at the aggregated level whereas this study is designed to investigate human behaviour at the disaggregated level (Chan and Milne, 1999). In addition market reaction studies have produced inconclusive results on the information content of environmental information. For instance while studies like Belkaoui, (1976) Preston (1978), Anderson and Franckle (1980), documented that there was market reaction to the disclosure of environmental information contained in the financial statement others, such as Freedman and Jaggi (1982 and 1986), Ingram and Frazier (1983), documented no market reaction. Rikhardsson and Holm (2006) argued that these contradictions may be due to the fact that these studies were market based, that is, measuring the overall market reaction to a piece of information disclosed against changes in stock price, investment levels and so on.

Furthermore results from market reaction studies on social and environmental disclosure may be fraught with invalidity and unreliability in that other factors such as profitability, earnings information and earning announcements might have affected share price (Ball and Kothari (1994, p.1) even a mere change in management structure could affect share price. Again market research makes use of secondary data which might have been produced for some other purposes other than for the specific aim of investigating the usefulness of social and environmental information. Moreover it is often difficult to substantiate the credibility of the sources of such data (Denscombe, 2007 p.244-245). In addition, Rikhardsson and Holm (2006) argued that the variables tested in market research, companies examined, selected time periods and contextual influences during those periods are factors, which might influence market base studies. They argued that individually based experiment where the focus will be on the person who is actually investing the funds might be a better option.

The Implications for Using This Methodology

The implication of the proposed methodology is that it will be positivist in epistemological orientation as it will adopt the natural science method of theory testing, that is observation, precision, control and measurement, while the ontological consideration will be objectivism as the personal feelings of the researcher will not be allowed to influence the investigation. The limitations of adopting positivist or scientific approach in social research as well as necessary steps taken to mitigate the limitations in this research in particular are discussed as follows:

As with all social science research the use of experiment may pose some limitation since the experiment is involving human subjects, the use of control groups may necessitate the imposition of some constraints on the subjects and hence put some subjects at a disadvantage position therefore raising ethical issues (Black 1999, p.68).

To mitigate this limitation the Wilcoxon Signed Rank test or its parametric equivalent – the paired sample *t* test, will be used in performing the test hence the experiment will be conducted with each group having the same set of instrument and under the same scenario in other to remove bias and also improve the validity of the result. Furthermore to ensure a valid and reliable result all the instruments to be used will be standardised and operational definitions provided for all variables (Black, 1999 p.215-217).

Having identified the limitation of low response rate and data inaccuracy as is the case with survey research (Black, 1999 p. 72-77), care has been taken in the selection of the population from which samples will be drawn for this research. The use of professionals in a decision-usefulness experiment study of this sort has been found to mitigate inaccurate data (Acland 1976, Belkaoui, 1980, Chan and Milne, 1999). This is because the population from which sample is drawn will greatly influence the outcome of the study. Take Hendricks (1976) and Belkaoui (1980) studies for instance, Hendricks used students subjects and concluded that his subjects found the inclusion of human resource information in the financial statement useful in making investment decision. On the other hand Belkaoui in his study used both professionals and students and indeed concluded that the students' subject did not perceive the importance of including environmental information in the financial statement at all as against the professionals. One can conclude that students are inexperienced and their use may be seen as a major limitation in Hendricks study and hence should not have been used in a decision experiment of this sort.

In conclusion the argument put forward in this paper is that CID in the annual report is capable of influencing the users of such report and hence motivates ethical investment. However, it is admitted that the level of influence will vary depending on the presentation of the information as different languages will motivate different behaviours. In effect, this research intends to investigate whether investment decision will be made differently with the introduction of CII in the annual report and explores which of the disclosure format will be more informative.

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