

Understandability, Credibility and Sufficiency of Corporate Social and Environmental Disclosures: Perceptions of NGOs in Malaysia

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ABSTRACT

The extant literature has acknowledged the existence of multiple groups of stakeholders and their demand for Corporate Social and Environmental Disclosures (CSED). Business organizations have responded to these demands and begun providing CSED in an array of reporting media. However, research shows that CSED have been provided to primarily tailor to the needs of the shareholders and marginalize the interest of other pertinent external stakeholders. Being aware of the fact, this study attempts to investigate the perception of a user group, non-governmental organizations (NGOs) in particular with regard to CSED in Malaysia. The premise of the stakeholder theory suggests that this group of users form parts of significant stakeholders, and can potentially exert some influence on an organization's social and environmental reporting practices. The investigation covers the qualitative aspects of reporting that relate to the understandability, credibility and sufficiency of CSED to the NGOs. Data are gathered by using a self-administered questionnaire survey to a sample of 50 organizations which identified as social and environmental NGOs. Overall, the findings suggest that NGOs form a part of user groups of CSED in the Malaysian context. However, due to a few constraints, their power and influence are not to the extent of pressure groups as those in developed countries. Moreover, due to the low respondent rate, the findings fail to reject the null hypotheses. It indicates that no conclusive assertions can be made as to whether the current CSED are understandable, credible and sufficient from the perspectives of the NGOs.

KEYWORDS: Social and Environmental Reporting, Qualitative Characteristics, Non-Governmental Organizations, Perceptions, Developing Country.

INTRODUCTION

Of late, organizations established from popular mobilizations such as the non-governmental organizations (NGOs) are proliferating and increasingly acknowledged as a powerful stakeholder group [1]. Therefore, business organizations need to put serious attention on the disclosures of information that are warranted by these NGOs. According to [2], NGOs are claimed to be one of the major drivers that imparts significant influence on business organizations to supply Corporate Social and Environmental Disclosures (CSED). The power and influence of the prevailing NGOs on social and environmental issues are ubiquitously evident in the United States, Australia, the Western Europe and other developed nations [3-5]. Their power and influence are expressed in terms of direct or indirect action against the business organizations, for example through lobbying for mandatory disclosure or product boycotts.

However, in the case of Malaysia, evidence concerning the NGOs' demand for CSED appears to be scarce. In fact, there are very limited studies on external stakeholders' demand for CSED. Much of prior evidence emphasized more on the disclosure content in annual reports and management opinions with regard to CSED. This, therefore, results in a literature gap and the paper intends to contribute to the existing body of knowledge by examining the perceptions of NGOs as an external party on CSED in a developing country's perspective. The research attempts to examine social and environmental reporting practices in the developing countries which supported by [6]. They believe that developing countries are arguably at most risk in the environmental area due to the relevant publics in these countries being less demanding. It is hoped that the study is able to provide some useful insights that could highlight the extent of awareness of the NGOs on CSED and their perceptions relating to CSED in Malaysia. It is including whether the NGOs have any prominent influence on the development of CSED in Malaysia.

The remaining parts of the paper are structured as follows. In the next section, the background of the paper is presented. Then, a discussion on the theoretical lens of the paper proceeds. The paper adopts stakeholder theory to be the theoretical platform that could explain the extent of power that the NGOs have on the development of CSED in Malaysia. Afterwards, a brief discussion of NGOs in Malaysia is presented and this is followed by a discussion of the qualitative characteristics of CSED. These qualitative characteristics are understandable, credibility and sufficiency. Next, several testable research hypotheses are developed and followed by a brief discussion of the research method. Then, the paper proceeds with the findings and discussion of the survey results and continued with the results of the hypothesis testing. A conclusion ends the paper.

BACKGROUND OF THE STUDY

Globalization and the rapid changes in information and communication technology have brought tremendous growth in economic prosperity and changed the business environment and social life of the public. However, growth and changes without

proper plans and regulations could result in some price to pay. The notable experience of industrialized nations suggests that unregulated economic growth has the potential of causing undesirable consequences such as deterioration in the quality of the natural environment, water, safety, and health which in turn affects the quality of life [7]. Consequently, societies are beginning to be more aware of the adverse impact of economic activities on their well-being. Business organizations are continually pressured to be responsible and undertake appropriate corrective measures and disclose on their efforts in an array of reporting media. Moreover, the business organizations are also demanded to take into account the impact of their policies and strategies including the possible feedbacks from a wider group of stakeholders of CSED in business decisions [4].

Due to the dynamic changes in the business environment, CSED have been used as a means to respond to social and environmental issues concerning the impact of economic activities on the well-being of the society [8]. Such disclosure serves a useful tool to minimize the likelihood of negative actions (for example massive strikes, product boycotts, introduction of new legislation or amendment of existing laws) against the business organizations [9] from a multitude group of stakeholders. Of all the stakeholder groups, pressure groups particularly from the NGOs have been recognized as one of the most influential user groups of accounting information [2]. However, there is only anecdotal evidence and very little attention has been given to the needs and requirements of this group. In fact, many researchers have largely ignored the influence of pressure groups on the reporting process since the predominant focus is placed on examining the interest of the shareholders as the primary stakeholder group [3].

In an attempt to fill in the current research vacuum, the paper examines the influence of the external pressure groups on CSED in the Malaysian perspective. Specifically, it attempts to investigate the perceptions of the NGOs on the current CSED in the annual reports. Consistent with a study conducted by [3], three aspects of qualitative disclosure characteristics such as sufficiency, ease of understanding, and credibility of CSED are empirically examined. A paucity of empirical evidence on these aspects is observed in the literature. Although there are some prior studies that have been carried out to examine the issues, they are mainly from developed nations. The danger of generalizing the results of developed countries to developing countries has been warned by [10] as serious incomparability might exist due to the fact that the level of social and environmental reporting practices are very much country-specific [11]. In overseeing this constraint, the paper puts forth its emphasis primarily on studying the perceptions of the Malaysian NGOs on CSED. As [12] suggests in which significant attempts to produce systematic social and environmental accounts which are basically derived from the influences, initiatives and supports numerous organizations including the NGOs.

STAKEHOLDER THEORY

Although the extant literature documents the vast amount of evidence on CSED, an absence of a general theoretical framework often makes corporate social and environmental reporting research lacks of substantive and systematic conclusions [13]. According to [14], socio-political theories (notably stakeholder, legitimacy and political economy theory) are often adopted in CSED research. These theories, which are according to some have a very thin distinctive line and are quite often overlapping with one another [15]. The premise of stakeholder theory is adopted to provide the theoretical lens of the paper. As observed by [16], stakeholder theory falls in two varying perspectives, normative focus and managerial focus. The former explains that all stakeholders of an organization either with or without monetary interest deserved to be treated fairly and with justice. This is where the organization owes the duty to be accountable to all stakeholders. Hence, it is implied that business organizations that stand on this position are likely to supply various forms of information through a variety of mediums, and attempt to discharge their accountability to all stakeholders. The latter point of view regards stakeholders which based on the degree of importance to the organizations. In this sense, organizations are likely to respond to the needs of the stakeholders which according to the extent of pressure that the stakeholders can exert on them [17]. The pressure constitutes a daily challenge for managers to satisfy the needs of the stakeholders.

A stakeholder theory is closely related to the concept of multiple groups of stakeholders. According to [18], a stakeholder is defined as any group or individual who can affect or is affected by the achievement of the business organization's objectives. Therefore, multiple stakeholders can be any party who has an explicit contractual relationship with the corporation. These groups include governments, local community, owners, consumer advocates, customers, competitors, media, employees, special interest groups, environmentalist, and suppliers [17, 19, 20]. Similarly, in [21] list eight groups of company stakeholders and environmental report target groups which include academia, employees, environmental NGOs, financial community, local community, regulators, shareholders and trade and industry. They added that all of these groups are considered as target user groups, where they demonstrate continuous interest in the environmental reports and performance.

Meanwhile, in [22] further opine that there are four critical groups of stakeholders of environmental accounting information, i.e. regulatory, organizational, community and media. Regulatory stakeholders are the parties who make regulatory approach, particularly the government. Other groups of regulatory stakeholders may include trade association, competitors, etc. which may influence the government to standardize the environmental practice among the business organizations. On the other hand, organizational stakeholders can be those who are directly related to an organization like customers, suppliers, employees who have an impact on the bottom line. Most importantly, community stakeholders' groups such as consumer associations, environmentalists and other potential lobbying groups are believed to be powerful in mobilizing public opinion for the survival of a corporation. The last stakeholder's group could be the media which plays a part in conveying information to the public. In certain circumstances, for example in the case of an environmental crisis, a combination of these stakeholder groups (especially community stakeholder and media) might pose significant influence on the society's perceptions on such issues.

In addition, in [23] acknowledges the existence of pressure groups in his four-dimensional stakeholder model. He opines that the first level of the model is called as "systematic or macro environmental". It consists of a wide range of audiences, including the entire businesses and social systems. He considers institutions (such as pressure groups, environmentalist), forces (economic, legal, political, natural and media) and society as primary stakeholders. The second level of the stakeholders' group (microenvironments) consists of exchange relationship partners like suppliers, customers, local and financial community. The third level comprises of persons within the business organizations such as supervisor, subordinates, labor union, etc. The last level includes the other significant business decision influencers who comprise of peers, family and friends who provide moral support to the business.

The foregoing discussion indicates that there is a consensus to include pressure group such as NGOs as the primary stakeholders. However, as stakeholders are identified by management of concerns [14], they largely depend on the management perspectives to decide as to which of the user groups need to be supplied with more information in order to continue their success. Given a wide range of multiple stakeholders, priority is only given to the stakeholder groups that are perceived to be “powerful and influential” to the interest of the business organizations [24-25]. Conflict of interest among stakeholder groups then resulted in business organizations to attempt to disclose more information to the favored groups [26]. In viewing the discussion made, the paper considers social and environmental NGOs as one of the pressure groups. Therefore, stakeholder theory is utilized to further examine the extent to which the current available CSED meets the needs and preference of NGOs.

NGOS IN MALAYSIA

In Malaysia, most of the NGOs are either established as community based organizations or for the purpose of defending or promoting specific issues, i.e. environmental damages or social problems. With regard to funding issues, many Malaysian NGOs rely on the government and foreign funds to aid their operation. However, most of the time, such monetary aid is very much limited. According to [1], the NGOs in developing countries often work with a number of burdening constraints. Specifically on the environmental protection agenda, NGOs are increasingly found to suffer from the shortage of financial resources and infrastructure. Due to these limitations, they are often ignored at the policy making level. Therefore, donations from private sectors and individuals are very much sought after. Consequently, every NGO is required to submit yearly reports to the Registrar of Societies (ROS) which containing the audited financial reports, constitutional amendments and other important documents.

Social and environmental NGOs emerged in Malaysia in the 1970s with the establishment of a few organizations such as the Malaysia Nature Society (MNS) in 1970, Federation of Malaysian Consumers Association (FOMCA) in 1973, Environmental Protection Society of Malaysia (EPSM) in 1974, and Sahabat Alam Malaysia (Friends of the Earth-SAM) in 1977 [27]. The emergence of these NGOs may be attributed to the fact that the ruling government at that time had a development policy that did not take social and environmental aspects of sustainable development into much consideration. There is also a claim that the government dealt with these NGOs aggressively. As argued by [29], the regulatory environment is the most significant factor that inhibits the development of advocacy NGOs in Malaysia. Popular examples include the demonstrations organized by the Consumers’ Association of Penang (CAP) and SAM on the dumping of sewage effluents into the rivers of Juru and Kedah in the 1970s and 1980s which have been condemned as unlawful anti-government incitements [28].

Similar tension is lamented by [30] as the NGOs in Malaysia are being repeatedly perceived as a threat to governmental interest. Because of that, they have often been subjected to the administrative control through the amendment and introduction of new legislations that restrict the movement of the activists which then causes an adverse impact on their activities. Despite being labelled “anti-development” and facing the threat of legal action, Malaysian NGOs often have exploited other practical means of highlighting their concerns about environmental and social issues. Some of the actions include raising public awareness and objections, letters and petitions to Members of Parliament, participating in dialogues, negotiations with government and project proponents. Eventually, these efforts by the NGOs and their consequent effects in raising media attention have raised significant changes in government regulations as expressed by [28]: “Nonetheless, environmental pressure groups have managed to convince the government to adopt environmental standards particularly from the 1990s, albeit selective enforcement has undermined its credibility”.

UNDERSTANDIBILITY, SUFFICIENCY AND CREDIBILITY OF INFORMATION

Disclosure of information is considered necessary to provide an opportunity for stakeholders make better and sound decisions or to take appropriate actions concerning organizational behavior. The main argument in disclosure as contended by [31] is related to “the issue of accountability is about whether stakeholders have sufficient, accurate, understandable and timely information on which to act”. Therefore, for a disclosure to be able discharge its social accountability function, it must have the qualitative aspects of understandable, sufficient and credible. These characteristics are the much needed criteria in annual reports, which being the statutory reports for providing the main source of business and accounting information [32]. This contention is further supported by [33] who opine that the effectiveness of annual reports is restricted to the three main factors namely (i) delay in publishing annual reports (timeliness), (ii) lack of trust in information (credibility) and (ii) lack of adequate information (sufficiency). In addition, in [34] assert that in order to ensure that the information is useful, it should be presented in an understandable manner and to encourage users’ understandability. The information should be documented in an easy form and should be clearly stated. Moreover, in [34] argue that both users and preparers of the annual report influence the level of understanding of the information presented. Hence, in preparing the reports, the preparers should place some important consideration regarding the information’s intended users in ensuring that the information can convey its meaning in the most understandable manner.

Sufficiency is another qualitative trait in the reporting process of accounting information. Adequate levels of information, particularly in the annual reports are required to facilitate users in arriving at better rational decisions [35]. It is argued that sufficiency criterion can be objectively measured according to the volume and nature of the information. In a similar vein, credibility is viewed as an important characteristic of corporate information. According to [36], credibility refers to the “believability of an entity’s intentions at a particular moment in time, the trustworthiness or the extent of confidence in the source’s actually carrying out its intentions”. This suggests that information is said to be highly credible if the user is confident that the reported information is congruent with the action taken by the business organization. They further added that credibility is considered as paramount. If a business organization loses its credibility, a high price may have to be paid to rebuild the reputation and regain public trust. A suggestion by [21] indicates that to ensure environmental reports are more credible, the documents should remain relevant, reliable, comprehensible and comparable. This implicitly suggests that any disclosure made in the annual report should have contained the said qualitative traits, as the report is often used as credible communication with

the corporate stakeholders and external users [37]. Independent verification is seen as the best means to demonstrate the confidence that the report is reliable and credible to the users [21].

HYPOTHESES DEVELOPMENT

Table 1 presents three variables in the construction of the hypotheses related to the usefulness of CSED (sufficiency, credibility and understandability) in the annual reports. These hypotheses are mainly adapted from [3] study and consistent with the argument she made that "... the observed ranks are (statistically) significantly different due to a chance distribution then some assertions can be made about the direction of this difference".

Table 1: Research hypotheses

Research Objective	Hypotheses
To ascertain how Malaysian NGOs view current CSED in the annual reports	H ₀₁ = There is no difference between the distribution of observed ranks for sufficiency of CSED and the expected ranks if distributed by chance
	H ₀₂ = There is no difference between the distribution of observed ranks for the credibility of CSED and the expected ranks if distributed by chance
	H ₀₃ = There is no difference between the distribution of observed ranks for understandability of CSED and the expected ranks if distributed by chance

RESEARCH METHOD

A mail survey is employed to gain research data. The method is preferred as it is considered to be the best method of collecting primary data on perceptions and opinions [38]. Moreover, by using a questionnaire, mail survey can be conducted within a scattered geographical area at minimal cost [39]. This is important since the sample selection includes NGOs from all over Malaysia. In relation to sample selection, a list of NGOs' names and addresses are obtained with cooperation from the ROS. However, there is no specific category for social and environmental groups registered with the ROS. Therefore, 200 names and addresses of NGOs are randomly selected from a range of categories such as social and recreation, welfare, education, commerce, consumer, welfare/orphanage, social and recreation and environment. The size of the sample is limited to just 200 samples due to time and financial constraints.

In addition to that method, Internet sources are also used to obtain the related names of NGOs. The Malaysian Environmental NGOs' website is used as a reference to identify currently active NGOs, bringing the total sample size to 216. The total sample then is thoroughly reviewed in two stages. In the first stage, the selection is made based on the Articles of Association (AOA) of each organization. It is found that out of the 216 organizations, only 133 mentioned social or environmental issues in the AOA. In the second stage, further selection is made based on the nature and function of these NGOs. It results in another 83 organizations being eliminated as they are only involved with charitable and welfare activities namely old folks' homes, orphanages, and other charitable organizations which in the researchers' point of view would not be actively seeking CSED. This two-tiered screening process finally reduced the sample to 50 organizations, which are identified as currently active and function as social and environmental organizations in Malaysia. These organizations are mainly from two categories such as consumer [11] and environment [39].

FINDINGS AND DISCUSSION

A total of only 17 NGOs participated in this survey. Two incomplete questionnaires are eliminated from the data analysis. The final sample for statistical analysis consists of 15 organizations, including three consumer associations and twelve social and environmental NGOs. As the response rate is low, the data are analyzed using only descriptive statistics and Kolmogorov-Smirnov (K-S) to test the hypotheses. In general, the results demonstrate that the majority of NGOs (60%) who have read or seen any kind of CSED information rank annual report as the main medium for CSED. This is followed by advertisement (30%) and product label (10%). These findings are consistent with those in [3, 9] who find that annual report is the major source of information for CSED. This may be attributed to the fact that annual report: (i) is considered to be a major public reference and the most popular document produced by business organisations on regular basis [15, 40], (ii) has significant influence on how shareholders and the public perceive and react to a company [37], (iii) contains information at a high degree of credibility [3, 41], (iv) is highly accessible [32, 42] and (v) is often widely recognised as a form of corporate communication between organizations and their stakeholders in which various informative disclosures can be found [43].

In addition, the majority of the respondents (73%) agrees that CSED should be disclosed in both descriptive and quantitative (monetary and non-monetary) forms. Similarly, half of the respondents (50%) feel that the annual report is the most preferred medium of disclosure. The second preferred medium is media (25%), and lastly separate booklets or leaflets (17%). The "others" medium suggests that information should also be made available on websites, and Ministry of International Trade and Industry (MITI) or Malaysian Industrial Development Authority (MIDA) newsletters. Meanwhile, the descriptive statistics indicate that product labels are regarded as the easiest form of CSED in terms of understandability and are considered to be the most credible to the respondents (mean 4.33 and 3.17 respectively). Advertisements are ranked second for understandability, but the lowest for credibility (mean 4.25 and 2.50 respectively). Surprisingly, the annual report is rated as the medium to be the least understood, but it is considered more credible than other mediums of disclosure (mean 3.00) with the exception of product labels. The results also indicate that the majority of respondents perceive that the current amount of CSED is insufficient (mean is 2.13 with a median and mode of two 2.00). Table 2 summarizes the results.

Table 2: Respondents' views on understandability, credibility, and sufficiency of information

Attributes	N	Mean (Scale 1-5)	Median (Scale 1-5)	Mode (Scale 1-5)	Standard Deviation
Understandability*					
Annual report	9	4.11	4.0	4	0.782
Supplements	8	4.13	4	4	0.641
Advertisement	8	4.25	0	5	0.886
Product label	6	4.33	4.0	4	0.516
Others	2	4.50	4.5	4	0.707
Credibility**					
Annual report	9	3.11	3.0	3	0.782
Supplements	8	2.88	3.0	2	0.835
Advertisement	8	2.50	2.5	2	0.926
Product label	6	3.17	3.0	2	1.329
Others	2	3.5	3.5	3	0.707
Sufficiency***	15	2.13	2.0	2	0.743

Notes:

* Respondents were asked to rate how easy CSED is to understand.

1 signifying "very difficult"; and 5 signifying "very easy"

** Respondents were asked to rate the credibility of CSED.

1 signifying "no credibility"; and 5 signifying "high credibility"

*** Respondents were asked to rate the sufficiency of CSED

1 signifying "extremely insufficient"; and 5 signifying "sufficient"

HYPOTHESES TESTING

All the hypotheses are tested using descriptive statistics and K-S Test. The K-S test is run to determine whether the distributions of frequency for those three elements are significantly skewed in one direction. According to [44], the K-S test is particularly useful in judging how close the observed frequency distribution to the expected frequency distribution. The K-S results as presented in Table 3 demonstrate that the p-values for all three variables are not significant at 0.05 significance level. Therefore, the tests fail to reject all the null hypotheses of no difference between the variables. According to the descriptive statistic, the results indicate that the NGOs perceive the CSED presented in annual reports as understandable. However, when the K-S tests are performed, the findings fail to reject null hypotheses for all variables. It indicates that no conclusive statement can be made as to whether the NGOs perceive current CSED as understandable. The results fail to support the notion that NGOs' perception is reasonable and expected to be similar with other users like investors, financial analysts, bank credit officials and government representatives that the content of the various sections in annual reports (including CSED) is easy to be understood [45-46]. Similarly, the results fail to support the purpose of reporting information which is to convey or communicate important messages to users.

Table 3: One Sample Kolmogorov-Smirnov Test

Attributes	Kolmogorov –Smirnov Z	Asymp. Sig (2-Tailed)
Understandability		
Annual report	0.670	0.761
Supplements	0.926	0.358
Advertisement	0.852	0.462
Product label	0.998	0.272
Others	0.368	0.999
Credibility		
Annual report	0.670	0.761
Supplements	0.644	0.801
Advertisement	0.581	0.888
Product label	0.759	0.612
Others	0.368	0.999
Sufficiency	0.921	0.360

The descriptive statistic results obtained are consistent with previous studies [3, 47] that currently available information is insufficient or at a very low level. As indicated by [8], despite the growing awareness of social and environmental issues, the extent of CSED is perhaps yet to be adequate. This holds true as [35] asserts that business organizations, for most of the time often provide inadequate information to enable readers to make informed decisions. Furthermore, most of the information provided is in the form of good news and in fact very little coverage about the business organizations' actual social and environmental performance in order to protect and improve their organizational image and status [48]. However, despite the above results, the K-S test fails to reject the null hypothesis. It implies that no conclusive statement can be made, whether the currently provided CSED is sufficient or not.

In terms of credibility feature, the descriptive statistics indicate that the NGOs perceive the currently provided CSED to be low in credibility. This may be attributed to the fact that the currently provided CSED in the annual report lack third party verification. Therefore, it provides support to [49] argument that credibility of existing CSED is questionable since there is no independent verification or validation made by third parties or authoritative bodies. However, since K-S test analyses fail to reject the null hypothesis, no assertions can be made on the NGOs' perceptions with regards to the credibility of currently available CSED. Overall, the statistical results are somewhat unexpected and difficult to explain. Small sample size is speculated to be the main factor in these results.

CONCLUSION

The results indicate that there is a growing awareness about CSED among Malaysian NGOs. Annual reports are considered as the most common medium used to review CSED. The results show that NGOs is a valid stakeholder group, where their demand and need for information should be given priority as well. However, since no conclusive statement can be made on the understandability, credibility and sufficiency of CSED, it is unable to provide evidence on the information asymmetry whether NGOs' needs and preferences are very much heeded or otherwise. Looking at the functions and influences of the NGOs, it can be concluded that an NGO is a user group of CSED in Malaysia. However, their influence may not be to the extent of the NGOs in developed countries like Australia, the United States and the Western Europe. The major reason for this could be due to the fact that social and environmental is still at its infancy stage [50], and the NGOs in Malaysia are more towards adopting an amicable approach and not too extreme compared with the "pressure groups" in the western countries. Besides, social and environmental NGOs in Malaysia do not seem to consider disclosure as the main concern in their organizational activities. One important implication of this study is regarding the role of education in infusing skills and knowledge that are relevant in CSED, so that information supplied to the stakeholders at large is understandable, credible and sufficient. In light of this requirement, universities as the formal education platform for future leaders have an indispensable role to play in providing adequate exposure and on social and environmental issues [51]. Similarly, it implies that there is a need for public accountants or audit firms to upgrade their skills and expertise to enable them to provide better service. As commented by [52] that since there is a heightened awareness of social and environmental issues, accountants should and in fact need to accept, understand and respond to these challenges holistically. This can be seen as an opportunity for the accounting profession to demonstrate the profession's ability to grasp and run with contemporary issues. Nonetheless, due to the small sample size, the paper is unable to solidify the evidence on the NGOs' perceptions of currently provided CSED. In addition, the majority of the responses received mainly come from the environmentalists or environmental organizations. Hence, it is suggested that there appears a possibility of business in the opinions of the NGOs that might favor the environmental issue more than other issues. Future research should consider involving more NGOs that are currently active in social and environmental issues. Perhaps, with the inclusion of a larger sample size, different results could be found.

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