

**AN EVALUATION OF VOLUNTARY DISCLOSURE IN THE
ANNUAL REPORTS OF COMMERCIAL BANKS:
EMPIRICAL EVIDENCE FROM LIBYA**

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**Submitted in Partial Fulfilment of the Requirements
of the Degree of Doctor of Philosophy, January 2014**

Dedication

This thesis is dedicated to my late father (AL Mahdy Mohammed Abdul Latif), my dearest brother (Mohammed), and lovely nephew (AL Mahdy) who I miss every day, every hour, and every minute. They will never be erased from my memory; I will love them forever. It is also dedicated to my darling mother (Fatimah Wess), who has prayed for my success and who sacrificed herself for me so that I could complete this work. To my sisters, my brother, my children, and my nephews for their endless love, sacrifice, support and encouragement. Last but not least, to my wife, whose patience and attention helped me to complete my study.

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Acknowledgements

I thank Almighty Allah whose help has enabled me to complete this thesis. Sincerely without his help and blessings, this thesis would never have been completed. Thanking Allah requires me to thank those who have given me support and advice in completion of this thesis. First and foremost, I would like to extend my thanks and appreciation to my supervisor Professor Les Ruddock who has spared no effort in supporting, offering constructive comments and advising me throughout my studies; thanksgiving alone is not enough in rewarding him for what he has done for me to reach this stage.

I also extend my thanks and appreciation to the staff at the University of Salford, as well as to the staff of School of the Built Environment, especially in their support and assistance in the administrative requirements of the research process during my studies at the university. I would also like to gratefully acknowledge and thank the managers of accounting departments in those Libyan commercial banks who gave me the opportunity to interview them, and for providing me with all documents needed for this study. My sincere thanks are due also to my colleague, Mr Rajab Adress, who facilitated and helped me to conduct the interviews.

A special thanks to my dearest mother, Fatimah Wess; I hope that Allah prolongs her life. She was sure of my success in my studies; she was patient, she sacrificed, struggled and suffered for me until I reached this level of education. I hope that Allah forgives me for being away from her all these years because of this study.

Lastly, but not least, I am truly and deeply indebted to my family, my brother and his sons, and my sisters for their unlimited support and encouragement not only throughout my studies but also for my entire life. I owe a special thanks to my wife for her patience in supporting me during my PhD work. I am also forever indebted to my children, who created the perfect atmosphere for me to complete this thesis.

Declaration

I hereby certify that this work has not previously been submitted for the degree of Doctor of Philosophy or other academic qualification at the University of Salford or any other university. Except where otherwise indicated, this thesis is the outcomes of my own work.

List of Abbreviation

Adj R ²	Adjusted R Squared
AfDB	African Development Bank
AFM	Amman Financial Market
AGE	Age of Commercial Bank
ASU	General National Congress of Arab Socialist Union
ASE	Athens Stock Exchange
AVDS	Actual Voluntary Disclosure Score
BIM	Banking Institute of Malaysia
BCBS	Basel Committee on Bank Supervision
CAL	Commercial Activity Law
CBL	Central Bank of Libya
CFA	Certified Financial Accountants
CPA	Certified Public Accountant
EU	European Union
FAF	Financial Analysts Federation
FASB	Financial Accounting Standard Board (in US)
FOWN	Foreign Ownership
GAAP	Generally Accepted Accounting Principles
GDP	Gross Domestic Product
GNC	General National Conference
GOVR	Government Ownership
GPC	General People's Congress
IASB	International Accounting Standards Board
IAS	Interactional Accounting Standard
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
IREB	Industrial and Real Estate Bank
ITL	Income Tax Law
ITNC	Interim Transitional National Council
KLSE	Kuala Lumpur Stock Exchange
LAIP	Libyan Africa Investment Portfolio
LCL	Libyan Commercial Law
LCC	Libyan Currency Committee
LD	Libyan Dinar
LFB	Libyan Foreign Bank
LFIB	Libyan Foreign Investment Board
LIA	Libyan Investment Authority
LISTS	Listing Status
LNOC	Libyan National Oil Corporation
LSE	London Stock Exchange
LSM	Libyan Stock Market
LPR	Libyan Popular Revolution
LQDP	Liquidity Position
LUAA	Libyan Union of Accountants and Auditors
MCB	Malaysia Central Bank

MNCs	Multinational Corporations
MVDS	Maximum Voluntary Disclosure Score
NAB	National Agricultural Bank
NBL	National Bank of Libya
NZSE	New Zealand Stock Exchange
OLS	Ordinary Least Square
OPEC	Organization of Petroleum Exporting Countries
PRFT	Profitability
RCC	Revolutionary Command Council
RLFD	Regulation of Listing and Follow-up Disclosure
ROE	Return on Equity
ROCE	Return on Capital Employed
SREIB	Saving and Real Estate Investment Bank
SDRs	Special Drawing Rights
SEC	Supreme Election Commission
SIZE	Commercial Bank Size
SMA	Stock Market Authority
SML	Stock Market Law
SSM	Saudi Stock Market
TSE	Tehran Stock Exchange
TVDIS	Total Voluntary Disclosure Score
UNGA	United Nations General Assembly
UN	United Nations
US	United States
WB	World Bank
WHO	World Health Organisation

Abstract

The purpose of this research project is to help develop the disclosure literature in relation to the banking sector, which is currently sparse due to the limited empirical research studies on the extent of banking disclosure and its relationship with corporate-specific attributes. Specifically, this study seeks to accomplish four main objectives. One of the main objectives is to measure the extent of voluntary disclosure provided in the annual reports of Libyan commercial banks, over the period 2006 to 2011.

The second objective is to examine if there has been any significant improvement in the levels of voluntary information disclosure provided in the annual reports. Thirdly, the study investigates whether there is any significant association between seven commercial bank-specific attributes (i.e. age of bank, size of bank, bank liquidity position, profitability, government ownership, foreign ownership, and listing status) and the extent of voluntary disclosure. Finally, this study explores the views and perceptions of Libyan commercial banks' annual report preparers related to the current mandatory financial reporting and voluntary disclosure practice issues.

This study uses a self-constructed, un-weighted disclosure index, comprising of 63 information items, to measure the extent of voluntary disclosure in 54 annual reports of listed and unlisted commercial banks, over a six-year reporting period. The research data were analysed using content, descriptive and multiple regression analyses.

Overall, the results show that the extent of voluntary disclosure in the Libyan commercial banks' annual reports is low, with an average of 38%, however there was an improvement in the general level of voluntary disclosure and its categories over a six-year period. The multiple regression results indicate that commercial bank size and listing status are significant independent variables in explaining variation in annual voluntary disclosure, while other independent variables are found to be insignificantly associated with the extent of voluntary disclosure.

Chapter One

Introduction to the Research

1.1 Introduction

The issue of corporate reporting disclosure behaviour is influenced not only by environmental factors, but also by corporate-specific attributes (e.g. firm age, firm size, profitability, liquidity, government ownership, foreign ownership, and listing status); this has attracted many academic researchers in several countries to investigate the impact of corporate attributes on the extent of different disclosure levels (i.e. mandatory, voluntary or aggregate disclosure).

A recent review of the academic disclosure literature has revealed that accounting researchers in both developing and developed countries have conducted a large number of empirical studies on the subject of voluntary disclosure practices and its association with corporate characteristics, but the majority of these studies have focused on non-financial companies. To date, less attention has been paid by academic researchers to voluntary disclosure practices by financial institutions in general, and banking disclosure practices in particular, despite the fact that the banking sector plays a major role in economic growth in a country.

Moreover, there is very little empirical evidence about the impact of commercial bank-specific characteristics such as size, age, listing status, profitability, liquidity position, foreign ownership and government ownership, on the extent of annual information voluntarily disclosed.

Providing inadequate information in the annual reports has many consequences, the main one of which is to reduce the confidence of public users in the commercial banking system, and make them less willing to invest in the development of a country. Thus, the purpose of this study is to help develop the disclosure literature in relation to the commercial banking sector, which is currently sparse, due to the limited empirical research on the extent of banking disclosure. The intention is to examine the extent of the current voluntary disclosure practices by listed and unlisted commercial banking

organisations and their association with the bank characteristics, and to do this with particular reference to Libya, as a developing country.

The remainder of this chapter is organised as follows: Section 1.2 provides the research aim and objectives. Section 1.3 presents the research questions. Section 1.4 outlines the background and motivation for the research. Section 1.5 explains the scope of the research and definition of terms. Section 1.6 discusses the importance and contribution of the research. Section 1.7 presents a brief outline of the research methodology and methods. Finally, Section 1.8 indicates how the study is to be organised.

1.2 Research Aim and Objectives

The principal aim of this research is to evaluate to what extent the Libyan listed and unlisted commercial banks have provided voluntary information disclosure in their annual reports. The research is also intended to determine whether the extent of voluntary information disclosure is associated with commercial bank-specific characteristics. In order to achieve this principal aim the following objectives have been set:

Objective 1: To measure the extent of voluntary disclosure provided in the annual reports of Libyan listed and unlisted commercial banks over the period of time from 2006 to 2011.

Objective 2: To examine whether there has been any significant improvement in the levels of voluntary disclosure provided in the annual reports of Libyan listed and unlisted commercial banks over the period of the study.

Objective 3: To investigate whether there is any significant association between seven commercial bank-specific attributes (i.e. age of bank, size of bank, bank liquidity position, profitability, government ownership, foreign ownership, and listing status) and the extent of voluntary disclosure in the annual reports over the period of the study.

Objective 4: To explore the views and perceptions of Libyan commercial banks' annual reports preparers related to the current mandatory financial reporting and voluntary disclosure issues.

1.3 Research Questions

In particular, this study seeks to provide answers to the following research questions:

1. To what extent have Libyan listed and unlisted commercial banks voluntarily disclosed information in their annual reports during the period between 2006 and 2011?
2. Has there been any significant improvement in the extent of overall voluntary information disclosures in the published annual reports of Libyan listed and unlisted commercial banks over the period of the study?
3. Is there any association between the extent of voluntary information disclosure by Libyan listed and unlisted commercial banks and each of the bank attributes (age of bank, size of bank, bank liquidity position, profitability, government ownership, foreign ownership, and listing status)?
4. What are the views and perceptions of Libyan commercial banks' annual reports preparers related to the current mandatory financial reporting and voluntary disclosure issues?

1.4 The Background and Motivation for the Research

In today's globalised world, financial and non-financial information disclosure is increasing in importance for many businesses, since their international and national stakeholders use such information as a basis on which to make economic decisions. Financial accounting theory has identified that the main objective of corporate financial reports is to provide material and useful information to a wide range of users for use in decision-making processes (Harahap, 2003).

The corporate annual report has been found to be the most important source of financial and non-financial information for many interested parties such as shareholders, creditors, suppliers, financial analysts, management, employees and government agencies (e.g. see Abu-Nasser and Rutherford, 1996; Al-Razeen and Karbhari, 2004). Financial reporting in banking, in particular, has been accorded greater importance by many international organisations, such as the International Accounting Standards Board (IASB), which has established unique accounting standards for banks. For example, IAS 30 "*Disclosure in the Financial Statements of Banks and Similar Financial*

Institutions”, IAS 32 “*Financial Instruments: Disclosure and Presentation*”, and IAS 39 “*Financial Instruments: Recognition and Measurement*” (superseded by IFRS 7 “*Financial Instruments: Disclosure*” on 18th August 2005, effective 1 January 2007).

Additionally, the Basel Committee on Bank Supervision (Basel Committee) has issued a number of papers and guidance notes concerning disclosures in the banking sector. For example, in September 1998, it published a report entitled “*Enhancing Bank Transparency*”, which gives general guidance to banking supervisors and regulators on regulatory frameworks for public disclosure and supervisory reporting, and to the banking sector on core disclosures that have to be provided to the public.

The Basel Committee’s paper also recommends that banks provide sufficient information in their financial reports to the public in order to facilitate market participants’ assessment of them. Further, the paper identifies six broad categories of information that are required as means of providing users of the financial statements with a basic understanding of a bank’s activities and the risks it faces. These categories are:

- Financial performance;
- Financial position (including capital, solvency and liquidity);
- Risk management strategies and practices;
- Risk exposures (including credit risk, market risk, liquidity risk, and operational, legal and other risks);
- Accounting policies; and
- Basic business, management and corporate governance information.

Also in June 1999, the Committee released a consultative paper entitled “*A New Capital Adequacy Framework*”, which emphasised the need for banks to disclose information on their accounting policies, including policies for valuation of assets and liabilities, their risk management policies, their risk profiles and their capital components. This information is crucial in enabling financial statements users to assess and compare the characteristics and adequacy of an institution’s capital (Basel Committee on Banking Supervision, 2000).

In the context of the banking disclosures, the Basel Committee issued a further paper in July 1999, called “*Sound Practices for Loan Accounting and Disclosure*”. This paper

provides guidance on accounting and disclosure practices for banks. Additionally, in July 1999, the Committee published a consultative paper entitled “*Best Practices for Credit Risk Disclosure*”, which offers guidance on best practices for public disclosure of credit risk in the banking sector and discusses related supervisory needs. Basically, the objective of the paper was to encourage the banking industry to provide market participants and the interested public with the information they need to make meaningful assessments of a bank’s credit risk profile.

The paper also identified five broad areas in which banks should provide more detailed disclosures, these being: accounting policies and practices, credit risk management, credit exposures, credit quality, and earnings. Furthermore, the Basel Committee released qualitative and quantitative disclosures in the areas of the structure of capital, risk exposures, and capital adequacy that should be made by the banking industry in order to advance the role of market discipline in promoting bank capital adequacy (see the Basel Committee on Banking Supervision, 2000).

In addition to the above, the amount of information disclosed by banks has become a more serious issue in recent times for international financial institutions, such as the World Bank (WB) and the International Monetary Fund (IMF). These international organisations have recommended the banking sector operations in developed and developing countries to expand the extent of their information disclosures further than required by statute.

The main reason for requiring banks to provide sufficient information in their published annual reports is to enable market participants to evaluate the banks’ activities and risk management practices. “Disclosure is particularly important in the banking industry, since banks are generally viewed as being opaque to outsiders” (Hirtle, 2007, p. 24).

The annual report published by a commercial bank is considered an important means of communicating financial and non-financial information between the bank and external parties. Therefore, the provision of accurate qualitative and quantitative information in the commercial banks’ annual reports about their financial position and performance to financial market participants and other interested users will help such recipients to make wise economic decisions. More precisely, Tadesse (2006) emphasises that commercial banking systems become less vulnerable to crisis if they are supported by financial

reporting regimes characterised by (i) more comprehensive disclosure (ii) more timely financial reporting (iii) more informative reporting, and (iv) more credible financial information disclosure.

The disclosure practices in the corporate annual reports, both mandatory and voluntary, may appear similar from country to country, but there are in fact differences among countries, caused by a variety of political and legal circumstances such as culture, accounting systems, economic systems, tax regulations, accounting professionals, and the nature of the individual countries' capital markets (IASB, 2004; Alexander et al., 2005; Nobes and Parker, 2006).

Different corporate financial reporting and disclosure practices often come from the different social, economic and legal systems that prevail within countries (Cairns, 1988; Kettunen, 1993). Furthermore, different countries have in mind the information needs of external users when setting national disclosure requirements (IASB, 2004).

The issue of corporate reporting disclosure behaviour is influenced not only by environmental factors but also by corporate attributes (e.g. firm age, firm size, profitability, liquidity, listing status, auditor-types, government ownership, and foreign ownership), and accounting researchers in several countries have been interested in investigating the influence of corporate attributes on the disclosure levels. However, to date, the number of academic studies exploring financial reporting and disclosure practices by banking sector, in both advanced and developing countries, remains low compared with other industry sectors.

A few of the studies that have been undertaken in this area have concentrated on commercial banks' voluntary disclosure practices and their determinants (Kahl and Belkaoui, 1981; Hossain and Taylor, 2007; Hossain and Reaz, 2007; Hooi, 2007). In fact, most of these research studies have only considered commercial banking voluntary disclosure practices for one year (cross-sectional), and as far as the researcher is aware, no longitudinal study has been conducted to examine the development of listed and unlisted commercial banking voluntary disclosure practices over a period of time.

Most prior empirical studies have focused on voluntary disclosure practices by listed banking companies. Furthermore, the influential factors that are expected to determine the amount of information disclosure in the annual reports of listed and unlisted

commercial banks have not been adequately addressed in the academic disclosure literature. Accordingly, it is believed that the outcome of this research will help fill this gap in the academic disclosure literature. The study considers the voluntary disclosure practices by listed and unlisted commercial banks in Libya and their associations with commercial banks' characteristics, a dimension that has not been explored in studies to date.

Libya, as a developing country with a socialist-oriented economy, has started to privatise a number of state-owned enterprises, commercial banks included, which have been under state control since the 1970s. However, since the suspension of the United Nations (UN) and the United States (US) sanctions in 2003 and 2004 respectively, the Libyan privatisation programme has gained momentum, and a number of reforms aimed at the opening the country's economy and attracting foreign investors have been introduced by the authorities. These reforms include: structural economic reforms, regulatory reforms, monetary policy reforms, and financial and banking sector reforms (African Development Bank, 2009).

In recent years, the Central Bank of Libya (CBL) has taken significant measures to attract greater foreign direct investment into the banking sector and to open up the sector to international banks. The CBL has enacted legislation permitting foreign banks to establish branches in Libya and allowing them to hold up to 50% of the shares of some domestic banks. Furthermore, the CBL has also authorised the establishment of private domestic commercial banks. As a result of the implementation of the privatisation policy in the banking sector, banks have tended to provide additional or voluntary disclosure.

In 2006, the establishment of the Libyan Stock Market (LSM) was announced and operations on the LSM began in June of that year - an event that had happened for the first time in the history of Libya. Clearly, the efficiency of any stock market depends upon the availability of appropriate and accurate information to current investors at low transaction costs. In this respect, Aljifri (2008) notes that adequate disclosure by corporations helps to ensure the efficiency of capital markets.

The establishment of the LSM and the continual growth in the private sector are generating much public interest in financial disclosure and in the need to increase market transparency. Furthermore, changes and developments in the Libyan economic

system and business environment are affecting the types of information needed for economic decision-making. At present, after the public revolution during 2011, the business environment and the investment climate are changing, and will become more attractive for local and foreign investments in the financial services sector and other sectors.

1.5 Scope of the Research and Definition of Terms

The scope of this study is confined to an evaluation of the voluntary information disclosure in the annual reports published by listed and unlisted Libyan commercial banks. The study confines itself to the annual reports published in the period from 2006 to 2011. It includes the whole annual report, which normally includes financial statements, the board of bank directors' report, and other financial and non-financial information published by listed and unlisted Libyan commercial banks during that period. Additionally, the study evaluates the impact of seven commercial bank-specific characteristics on the level of voluntary information disclosure.

According to Article of 65 of the Banking Law No.1, 2005, the notion of the “*commercial bank*” is that “any company that ordinarily accepts deposits in current demand accounts or time deposits, grants loans and credit facilities and engages in other such banking activities according to the provisions of paragraph (II) of this article shall be considered a commercial bank”. A paragraph (II) specifies the activities in which a commercial bank engages, as follows:

1. The cashing of cheques made out to and by customers.
2. Services relating to documentary credits, documents for collection, and letters of credit.
3. Issuance and management of instruments of payment including monetary drawings, financial transfers, payment and credit cards, traveler's cheques, etc.
4. Sale and purchase transactions involving monetary market instruments and capital market instruments to the credit of the bank or its customers.
5. The purchase and sale of debt, without or without the right of recourse.
6. Lease financing operations.
7. Foreign exchange transactions in spot and forward exchange markets.
8. The management, coverage, distribution, and transaction of banknote issues.
9. The cashing of cheques made out to and by customers.

10. Services relating to documentary credits, documents for collection, and letters of credit.
11. The provision of investment and other services for investment portfolios, and the provision of investment trustee services, including the management and investment of funds for a third party.
12. Management and safekeeping of securities and valuables.
13. Provision of trustee or financial investor services.
14. Any other banking activities approved by the Central Bank of Libya.

Article 65 in Law No.1 of 2005 states: “a specialised bank whose main purpose is to finance and grant credit for specific activities, and whose basic activities do not include the acceptance of demand deposits, shall not be considered a commercial bank”. Therefore, specialised banks are considered to be outside the scope of this study due to the unique nature of their operations.

The term “*voluntary disclosure*” has been given more than one definition by previous researchers. For example, voluntary disclosure was defined by Meek et al., (1995, p. 555) thus: “disclosures in excess of requirements-represent free choices on the part of company managements to provide accounting and other information deemed relevant to the decision needs of users of their annual reports. For the purposes of their study in Kenya, Barako et al, (2006, p. 114) have defined it as “the discretionary release of financial and non-financial information through annual reports and above the mandatory requirements”.

In context of banking voluntary disclosure, Hossain and Taylor (2007, p. 111), conducting a study in Bangladesh, have defined voluntary disclosure as “the information prepared and released to the public, by firms, which is beyond the level of disclosure required to comply with the firms’ legal reporting requirement”. In addition, Maingot and Zeghal (2008, p. 231) have given a clear and simple definition as to what voluntary disclosure by banks means: “voluntary disclosure is information provided by the banks that they are not obliged to reveal under some type of regulation”.

From the above discussion, it appears that there is no one definition of the voluntary disclosure that can be adopted in the current study; most prior disclosure studies used their own definition of the term “*voluntary disclosure*”, based on the purpose of their

studies and the surrounding disclosure environment. Accordingly, “*voluntary disclosure*” in this study is used to refer to those items of information that are disclosed in the annual reports of Libyan commercial banks and are not assigned in the Banking Law N. 1, 2005 or the LSM Law and its regulation.

1.6 Importance of the Study

The primary importance of this study lies in its ability to help fill a gap in the financial reporting and disclosure literature. This is one of the few empirical studies that attempts to test the significance of the relationship between commercial bank-specific characteristics and the extent of voluntary information disclosure. It adds to the international accounting literature by providing further insight into the relationship between certain corporate characteristics and the extent of voluntary disclosure in annual reports.

The empirical findings from this study will provide further insight into factors influencing banking voluntary disclosure practices. The current study is also expected to will shed light on the commercial banks’ management motivations behind released voluntarily information in their annual reports, which still not have been fully exposed. Although the existing academic accounting literature confirms that numerous studies have been undertaken on the financial reporting and disclosure practices in both developed and developing countries, very few empirical studies have concentrated on reporting and disclosure practices in the banking sector.

In addition, the influential factors that are expected to determine the extent of information disclosure in the annual reports of listed and unlisted commercial banks have not been adequately addressed in the academic disclosure literature.

The disclosure literature reveals that the vast majority of previous disclosure studies have focused on the disclosure practices in annual reports of non-financial companies (Abdul Hamid, 2004; Linsley et al., 2006); the banking sector and other financial institutions are excluded from their samples because of the different regulations and specific disclosure requirements applied to financial companies when compared with non-financial companies, which, in all probability, lead to biased results (Choi; 1973, Cooke, 1989b; Raffournier, 1995; Wallace and Naser, 1995; Hossain et al., 1995).

Furthermore, almost all financial companies such as commercial banks and insurance companies have different business activities, financial characteristics and natures, which make them, in practice, not fully comparable with other companies (Hossain et al., 1995; Hossain and Taylor, 2007; Hassan et al., 2009). Consequently, this provides the motivation to expand the body of knowledge in this area of research.

Specifically, to date, there is very little supporting empirical evidence about the impact of commercial bank specific-attributes such as size, age, listing status, profitability, liquidity position, government ownership, and foreign ownership on the extent of annual voluntary disclosure. However, the empirical evidence from previous studies was conflicting and not conclusive. Some of the bank-specific attributes examined in the prior studies were found to be significantly associated with the extent of voluntary disclosure in one study, while in other studies these were found not to have a significant impact on the voluntary disclosure level.

This study will therefore provide up to date empirical evidence and address the dearth of academic literature in the area of banking industry disclosure. Furthermore, in order to externally validate the findings of previous empirical studies on the relationship between corporate specific-characteristics and the extent of voluntary disclosure levels, more empirical studies conducted in different industries are needed, particularly in the banking industry (Malone et al., 1993). Hence, empirical findings of the current study are expected to have comparative benefits for studies conducted in other sectors.

In addition, the empirical findings of this updated study will provide significant information for commercial banking management, banking regulators, the Central Banks, international institutions, government agencies, financial analysts, researchers, and potential local and foreign investors, to help them to assess the transparency level and the amount of information available from Libyan commercial banks for their decision-making processes, especially since there are no enforced accounting and auditing standards in the country.

Also importantly, the findings from this study can make a prevailing contribution to improve transparency in the banking sector in developing countries in particular, especially those with limited information or lack of financial transparency.

Finally, to the best of the researcher's knowledge, there is no published empirical study that attempted to measure the extent of voluntary disclosure by listed and unlisted commercial banks longitudinally to determine whether the level of annual voluntary disclosure has improved over the period of time. A study of voluntary disclosure practices in the Libyan commercial banking sector over a six-year period will, therefore, it goes beyond the previous literature pursuing to provide an understanding of the development of voluntary disclosure practices in one of the Arabic and North African countries.

1.7 Overview of the Research Methodology and Methods

A mixed-methods research methodology is adopted in the current study (i.e. quantitative and qualitative methods); each research method is considered suitable for application to the particular type of research question. By combining both research techniques within the current study, it will help the study provide stronger evidence for a conclusion through convergence and validation of results. Choosing an appropriate research approach is critical to the success of any research project, and should be driven by the research question and the status of knowledge in the field being researched (Elliott and Elliott, 2007).

Given the second objective of this particular study, and the intention to gather data across a number of years, a longitudinal research strategy is also adopted, since, as noted by Collis and Hussey (2003), such a study enables the researcher to examine change processes within a social, economic and political background. The main research methods selected to be applied in this study are summarised below.

1.7.1 Data collection methods

The scope of this study is confined to an evaluation of the voluntary information disclosure in the annual reports published by listed and unlisted Libyan commercial banks. The study confines itself to the annual reports published in the period from 2006 to 2011. The sample covers the annual reports of seven listed and two unlisted Libyan commercial banks, whose annual reports were available for the six-year period 2006-2011. A copy of the six annual reports for the years 2006, 2007, 2008, 2009, 2010 and 2011 was collected from each commercial bank. Finally, the total of annual reports analysed were 54.

The second phase of data collection in the current study (qualitative data) involved conducting a semi-structured, face-to-face interview designed to meet the fourth research objective. A semi-structured, face-to-face interview was conducted with the annual reports preparers from four Libyan listed and two unlisted commercial banks (mainly the directors of the accounting departments or representatives) who are involved directly in the preparation of annual reports. The principal purpose of the interviews was to obtain accurate and more detailed information from the participants about the current mandatory financial reporting and disclosure practices.

1.7.2 Research method to measure the extent of voluntary disclosure

Measuring the level of voluntary information disclosure in the annual reports of each individual commercial bank for each year involves a two-step process. A brief explanation of each step is given below.

1.7.2.1 Construction of the voluntary disclosure index

The first step is to construct a disclosure index in order to assess the voluntary disclosure level. It is demonstrated in the disclosure literature that a self-constructed disclosure index is a widely-used method of collecting data to assess the extent of information disclosure in corporate annual reports (e.g. Singhvi and Desai, 1971; Buzby, 1975; Barrett, 1976; Kahl and Belkaoui, 1981; Chow and Wong-Boren, 1987; Cooke, 1989a, 1991; Raffournier, 1995; Inchausti, 1997; Hossain and Taylor, 2007; Hossain, 2008). A major step in the construction of the voluntary disclosure index is the selection of information items that could be disclosed by commercial banks in their annual reports and which are relevant to the Libyan environment.

In this study, the selection of items included in the index was based on voluntarily disclosed items recommended for banking disclosure by the IASB and Basel Committee, and items included in earlier relevant empirical voluntary disclosure studies (i.e. Kahl and Belkaoui, 1981; Abdul Hamid, 2004; Hossain and Taylor, 2007; Hossain and Reaz, 2007; Hooi, 2007; Hossain, 2008; Barako and Brown, 2008, Maingot and Zeghal, 2008).

A total of 63 items of information was identified as relevant to Libyan commercial banking disclosure; those items of information were not assigned in the Banking Law N. 1, 2005 or the LSM Law and its regulation. These 63 items were then classified into

five categories: (a) Background about the commercial bank/ general information; (b) Social responsibility information; (c) Financial ratios and other statistics information; (d) Accounting policies and (e) Corporate governance information.

1.7.2.2 Scoring the voluntary information disclosure items

Two main approaches were found to be widely used by earlier studies to develop a scoring scheme to determine the level of disclosure, these being the weighted scoring approach, and the un-weighted scoring approach (dichotomous scoring approach). The scoring approach used in this study is un-weighted; it assumes all information items are considered equally important to all user groups of commercial bank's annual reports. An item scores one if it is disclosed and zero if it is not disclosed. The main reason for adopting this approach in the current study is to avoid the subjectivity inherent in using any weighted scoring approach. In order to measure the extent of overall voluntary disclosure for every commercial bank in the sample for each year, a scoring sheet was designed including all the voluntary disclosure index items.

The total voluntary disclosure index score (TVDIS) for each of the 54 annual reports from the commercial banks in the sample was then calculated as the ratio of the actual voluntary disclosure score (AVDS), which is awarded to a commercial bank, divided by the maximum voluntary disclosure score (MVDS), which that particular commercial bank is expected to earn.

1.7.3 Interview structure and process

A semi-structured, face-to-face interview was conducted with those preparing the annual reports from four Libyan listed and two unlisted commercial banks (mainly the directors of the accounting departments or representatives) who are involved directly in the preparation of annual reports. The interview technique was adopted as the most effective technique for obtaining deeper information from professionals and experts.

Semi-structured questions were used in order to allow interviewees to answer questions in their own words and encourage them to elaborate on their responses. Concerning the interview questions, the original interview questions were first written in the Arabic language, since all interviews were conducted in Arabic and later translated into the English language by the researcher.

1.7.4 Statistical analysis techniques

Univariate and multivariate analysis techniques have been widely used by accounting researchers in previous disclosure studies to test the relationship between the extent of information disclosure in the annual reports and the corporate specific-characteristics (see e.g., Cooke, 1989a; Akhtaruddin, 2005; Owusu-Ansah, 1998; Owusu-Ansah, 2005). Both univariate and multivariate techniques was employed in this study as statistical analysis methods.

The multivariate OLS regression model was applied to examine the association between the extent of voluntary disclosure and a number of commercial bank-specific characteristics. In addition, univariate statistical analysis such as average, minimum, maximum, standard deviation, coefficient of determination, and correlation analysis (Spearman correlation coefficient) was conducted to analyse and interpret the quantitative data. Qualitative analysis technique (content analysis) also was utilised in this study to analyse the interview transcripts (qualitative data).

1.8 Organisation of the Study

This study is organised into nine chapters (as represented in Figure 1.1), which are outlined below.

Chapter One: Introduction to the Study

This chapter provides an introduction to the current study. It presents the aim and objectives and the research questions. Additionally, it discusses the background and motivation to the study, highlights the scope of the study and provides a definition of terms. It also explains the importance of the study, and gives a brief summary of the research methodology and methods employed. An indication of how the current study is organised is also provided.

Chapter Two: Review of the Relevant Literature

This chapter reviews previous empirical voluntary disclosure studies that measured the extent of overall voluntary disclosure in the corporate annual reports, and examines its association with a number of corporate characteristics. Studies conducted in both developed and developing countries are featured in this survey. Prior empirical voluntary disclosure studies have been reviewed in two sections. The first section

reviews empirical studies that have examined the extent of overall voluntary information disclosure of non-banking companies, while the second section reviews the empirical studies that have investigated the extent of different voluntary disclosure levels of banking companies.

Chapter Three: Theoretical Framework for Corporate Voluntary Disclosure

This chapter presents a brief discussion of the most common academic theories used in previous research to explain voluntary disclosure practices, these theories being: Agency theory, Signalling theory, Capital Need theory, and Legitimacy theory. These four prominent theories in the voluntary disclosure literature have been postulated as the most dominant explanatory theories attempting to explain companies' incentives to disclose additional information voluntarily. This chapter concludes with an outline of the theoretical framework adopted by the current study.

Chapter Four: Libya Background and Banking Sector

This chapter aims to provide an overview of the Libyan general background, which includes the geographical, historical, political, and economic background. The chapter also explores the Libya banking sector, its historical and recent developments, and then reviews the Libyan Stock Market (LSM).

Chapter Five: Regulation of Financial Accounting and Reporting in Libya

This chapter presents and discusses in detail a number of governmental laws and regulations that may have influenced corporate financial reporting and disclosure practices in Libya. This chapter also provides an overview of the accounting profession in Libya.

Chapter Six: Research Methodology, Methods and Formulation of Hypotheses

This chapter discusses the research methodology and methods employed in the current study, covering issues concerning the selection of the study sample, the collection of data (qualitative and quantitative data), the construction of the voluntary disclosure index, and the method of scoring the voluntary disclosure items. It also presents the research philosophy, approach and strategy used to address the research aim and objectives, including justifying the reasons for the choices for the current study. In addition, the chapter also discusses the development and formulation of the research

hypotheses. Finally, this chapter presents the data analysis techniques employed in this study.

Chapter Seven: Views and Perceptions of Commercial Banks' Annual Reports Preparers Related to Financial Reporting and Voluntary Disclosure Issues

This chapter explores views and perceptions of Libyan commercial banks' annual reports preparers related to current mandatory financial reporting and voluntary disclosure issues. It focuses on the report and discussion of the results of the semi-structured, face-to-face interviews with six directors of accounting departments in Libyan commercial banks, who are involved directly in the preparation of their banks' annual reports.

Chapter Eight: The Extent of Voluntary Disclosure and its Relationship with Commercial Bank-Specific Attributes: Analysis and Findings

This chapter measures the extent of total voluntary disclosure in the annual reports of Libyan listed and unlisted commercial banks during six-year period from 2006 to 2011. In addition, it analyses the level of voluntary disclosure by type of information (i.e. background about the bank/general information, social responsibility information, financial ratios and other statistical information, accounting policies, and corporate governance information). It also discusses and reports on the empirical findings of the univariate and the multivariate analyses of the testable hypotheses for research question three.

Chapter Nine: Summary, Conclusions, Implications, Contributions, Limitations and Suggestions for Further Research

The last chapter of the thesis is devoted to giving a brief a summary of the research, including, the research methodology and methods, main conclusions of the current research, and indicates its contributions, implications, and limitations. Suggestions for further research are also provided in this chapter.

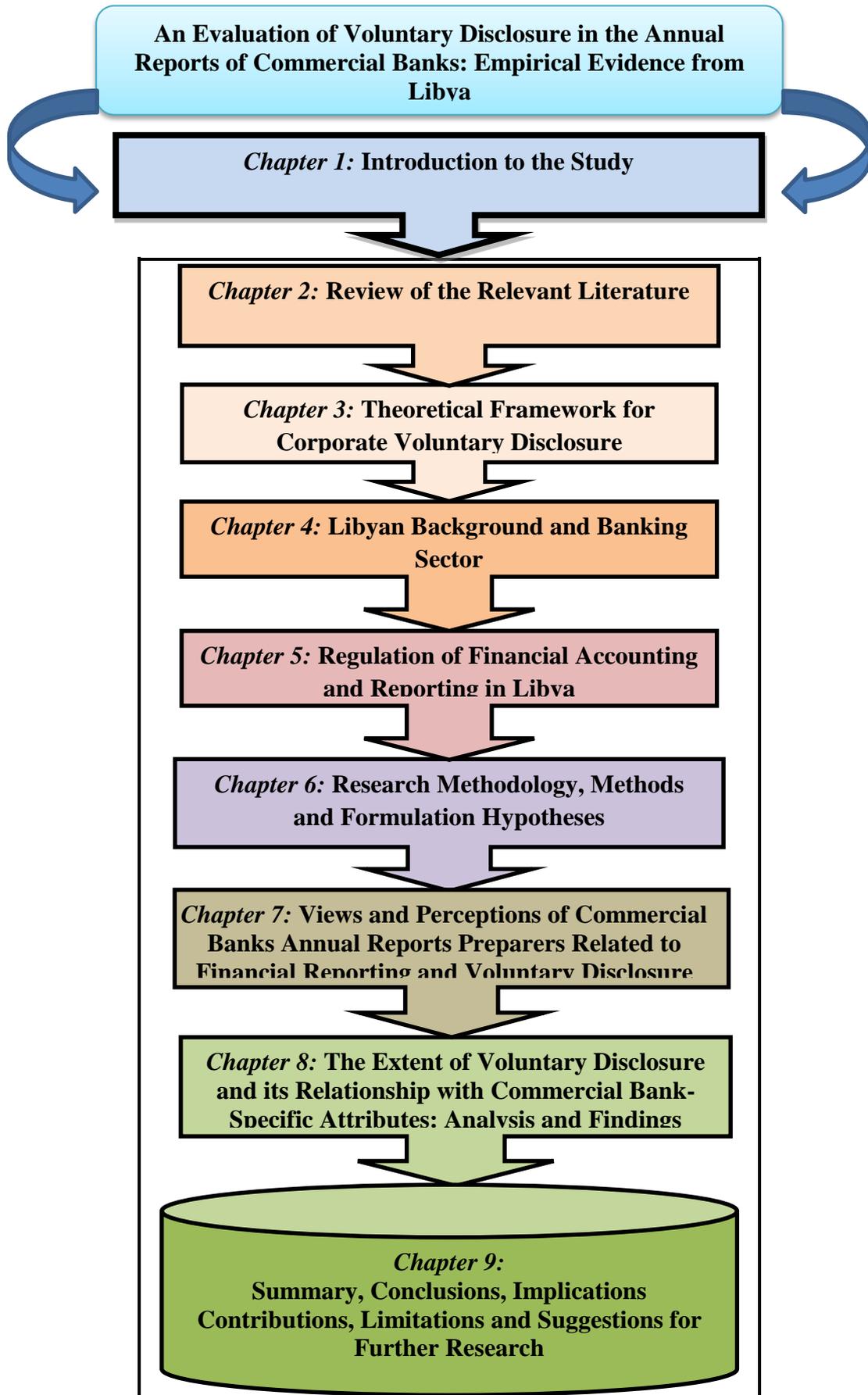


Figure 1.1: Organisation of the study

Chapter Two

Review of the Relevant Literature

2.1 Introduction

This chapter represents a review of previous empirical voluntary disclosure studies that have been undertaken in both developed and developing countries to measure the general level of voluntary disclosure in corporate annual reports, and examines its relationship with corporate specific-characteristics. In line with the focus of the present study, the prior voluntary disclosure studies have been divided into two groups. Group one includes empirical studies, carried out to measure the general level of voluntary disclosure in the annual reports of non-banking sector companies, and group two includes previous empirical studies that measured the general level of voluntary disclosure in the annual reports of banking sector companies.

The rest of the chapter is structured as follows: Section 2.2 reviews prior empirical studies on measuring the extent of voluntary disclosure in the annual reports of non-
e extent of voluntary disclosure in the annual reports of banking sector companies. Finally, a summary of the literature review and conclusion will be provided in section 2.4.

2.2 Empirical Studies on Measuring the Extent of Voluntary Disclosure in the Annual Reports of Non-Banking Companies

This section is devoted to reviewing previous empirical disclosure studies that attempted to measure the level of voluntary disclosure in the annual reports of non-banking sector companies in both developing and developed countries, focusing on research instruments adopted by earlier researchers to measure the extent of corporate voluntary disclosure, number of independent variables tested (corporate attributes), the statistical techniques used and findings of studies. The review of the relevant earliest studies that measured the general level of voluntary disclosure in the annual reports of companies in the non-banking industry is essential to get the basis for this present study. Besides this, it also provides a theoretical background to the current study.

A detailed review of the earlier voluntary disclosure studies that have been conducted in non-banking sector companies also helps in supporting the research methods to be used in the present study, refining the research methodology, forming a structure for the study, in the development of the research hypotheses, and assists in the interpretation of the present study findings.

One of the earliest studies was conducted by Singhvi and Desai (1971) it examined empirically the relationship between six selected firm-specific characteristics and the extent of information disclosure by United States industrial corporations. Six firm-specific characteristics were examined: assets size (was measured by total assets), number of stockholders, listing status, CPA firm size, rate of return (ratio of net profit/net worth), and earnings margin (ratio of net profit/net sales).

A total of 155 listed and unlisted firms' annual reports were surveyed. 100 annual reports were selected from the listed firms, whereas 55 annual reports were selected from the unlisted firms. They constructed a disclosure index containing 34 information items to examine the relationship between the firm's characteristics and the quality of corporate disclosure. The significance of the relationship between the quality of disclosure in annual reports and six characteristics of the firm was tested by a multivariate linear regression model. The results of a multivariate regression show there is a positive relationship between six independent variables and the extent of disclosure in the annual reports. In this study, no differentiation is made between mandatory and voluntary disclosure.

Another empirical study, Buzby (1975) attempted to measure the extent of information disclosed in annual reports of a sample of 44 listed, and a matched number of unlisted, American manufacturing companies. Financial companies were eliminated from the study sample. He also investigated the association between the extent of disclosure and two company characteristics: listing status and company size (measured by total asset). A rating worksheet was developed in order to measure the extent of disclosure of the 39 items of information in the sample of 88 annual reports.

One worksheet was filled out for each annual report in the sample. The worksheet consisted of a listing of the items of information. The items fell into three groups: group one represented the items which were self-contained, group two consisted of the

items that could be disclosed in varying degrees of specificity, and group three represented items of information which could be expressed in terms of sub elements of information. In order to measure the extent of disclosure, three scores were calculated for each annual report. One score measured the maximum amount of information that could be presented by a given company as defined by the items of information applicable to the company.

The second score measured the amount of information present in the annual report. These two scores were used to form the third, a relative measure of disclosure, by expressing the amount of information present in the annual report as a percentage of the maximum amount that could have been presented. The relative measure of disclosure served as the dependent variable in this study.

Buzby (1975) used a Wilcoxon matched pairs, signed ranks test to assess the impact of listing status on the extent of disclosure and the Kendall's tau used to test the effect of the size on the extent of disclosure for both two samples (listed and unlisted). The findings of this study showed that the extent of information disclosure in companies' annual reports is positively associated with company size. In contrast, the study found no significant association between the extent of disclosure and listing status.

In the United States of America, Stanga (1976) conducted a study to measure the extent of information disclosure by 80 large industrial firms in the U.S, and examined the influence of firm size (measured by net sales) and industry variables on the extent of disclosure. A questionnaire containing 79 items of information was distributed to financial analysts, they were asked to weight each information item on a five-point scale, 0 if unimportant to 5 if essential. Then, a weighted disclosure-scoring sheet was developed to evaluate the extent of information disclosure in companies' annual reports based on replies received from financial analysts.

To test the influence of company size and industry type on the extent of disclosure, the linear regression model was constructed. The results revealed that a firm's size did not appear to play a major role in explaining the differences in annual report disclosure among large industrial firms. In addition, the results show that industry type was significant in explaining the variations in the extent of annual disclosure among large industrial firms.

In the United Kingdom, Firth (1979) undertook an examination of the association between the extent of voluntary disclosure and three company attributes, namely, company size (was measured by terms of sales turnover and capital employed), listing status, and type of auditor. He selected randomly manufacturing companies: 40 unlisted companies, 40 matched listed companies on the UK Stock Exchange (in terms of size and industry group), and 100 stock exchange listed manufacturing companies. To measure the level of voluntary disclosure for each company, a weighted disclosure index comprising of 48 voluntary disclosure items was applied. A voluntary disclosure index items was selected based on review of relevant literature, recent company annual reports and discussions with various users.

The study used the t-test and Wilcoxon matched-pairs signed rank tests to assess the impact of three independent variables on the extent of voluntary disclosure level. The statistical results showed a significant positive association between listing status, the company size and the extent of voluntary disclosure. In addition the results of the study revealed that there was no significant relationship between the extent of disclosure and auditor types.

In New Zealand, McNally et al. (1982) have undertaken empirical research to examine the association between the level of voluntary disclosure practices by 103 manufacturing companies listed on the New Zealand Stock Exchange and a number of the firm's characteristics: company size, rate of return, growth, size of auditing firm and industry groups. They constructed a weight disclosure index containing 41 items of financial and non-financial information that companies may voluntarily disclose.

A questionnaire containing index items was sent to a number of financial editors and Stock Exchange members as two important groups of professional users in New Zealand. Two professional groups were asked to identify the relative importance of disclosing each of the 41 items on a scale of 1 to 5, 5 being very important. A Spearman's rho analysis and one-way variance analysis were conducted. The results of this study revealed that the two groups attribute different importance to the disclosure of specific information items, few of these differences were statistically significant. In addition, the study found only company size to be significantly positive associated with the level of voluntary disclosure.

In Mexico, Chow and Wong-Boren (1987) conducted an empirical study to investigate the association between the three company attributes and the extent of voluntary disclosure published by 52 listed Mexican manufacturing companies. The three company attributes examined were: company size (measured by the market value of equity plus the book value of debt), financial leverage (measured by the book value of debt divided by size), and proportion of assets in place (computed by dividing net fixed assets by total assets).

Chow and Wong-Boren (1987) constructed a disclosure index consisting of 24 voluntary items to evaluate the extent of annual voluntary disclosure. These items were selected based on the Mexican accounting texts, and previous studies. They employed both weighted and un-weighted scoring approaches. Using a multiple regression technique, the researchers found a significant positive association between the voluntary disclosure level and firm size. On the other hand, they found no significant association between financial leverage and assets in place, and the voluntary disclosure level.

In Sweden, Cooke (1989b) examined empirically the relationship between the extent of voluntary disclosure and a number of firm-specific characteristics of Swedish companies. The firm characteristics were: quotation status, company size (measured by annual sales, total assets, and number of shareholders), parent company relationship, and industry type. This study sample consisted of 90 Swedish companies including 38 unlisted and 52 listed on the Swedish Stock Exchange. Banks and insurance companies were excluded from the sample population, due to their specialised nature of financial transactions.

The researcher constructed an index of disclosure content of 146 items of voluntary information to measure the extent of voluntary disclosure provided by a company. A dichotomous procedure was adopted to score index items, one if an item is disclosed or zero if it is not. The voluntary disclosure score for each company was calculated as a ratio of the actual scores awarded to a company to the scores which that company is expected to earn. Using multiple regression analysis, Cooke (1989b) found that the amount of voluntary disclosure in annual reports associated significantly with quotation status, industry type, and three measures of company size. On the other hand, the parent company relationship was found as not significant in explaining voluntary corporate

disclosure in annual reports. The result of this study also showed that the single most important independent variable in explaining the variability in voluntary disclosure in corporate annual reports was quotation status. It was also found that trading companies disclosed less voluntary information than other industry types.

Lutfi (1989) conducted an empirical study to investigate the voluntary financial disclosure practices in the UK by 122 companies in the Unlisted Securities Market (USM). Further, this study also tested the hypotheses of the possible determinants of voluntary disclosure that derived from the agency theory, theories of the firm, and the informational risk theory literature. To test the hypotheses, a variety of financial measures was used as proxies for the explanatory variables. The measures were chosen after consulting the disclosure literature. The explanatory variables selected to be tested were: firm size, foreign operations, gearing, profitability, diversification, directors' share of equity, existence of executive share option schemes, existence of non-executives on the Board of Directors, tax status, industry sector and the auditing firm.

To measure voluntary financial disclosure, un-weighted disclosure index containing 53 voluntary information items was developed. The index information items were classified into six groups: future plans and prospects, segmental information, research and development information, foreign operations, assets descriptions, and other information. The study used regression statistical technique, the results of the test revealed that the probability of USM companies disclosing information voluntarily increased with firm's size, percentage of foreign turnover, gearing, and the existence of executive share option schemes.

In addition, the study shows that the probability of USM companies disclosing information voluntarily decreased with the percentage of directors' equity. The industrial sector, however, showed mixed results concerning the possibility of the relationship. Besides, according to the cross-industry analysis, the probability of USM companies disclosing information voluntarily decreased with the firm's profitability.

Overall, the study results lend no support to the proposed relationship between levels of voluntary disclosure and the auditing firm, number of the non-executives on the Board of Directors, tax status, and the number of substantial shareholders. A further empirical study by Cooke (1991) also attempted to investigate the extent of voluntary disclosure

in 48 Japanese companies' annual reports for the year 1988. Further, the study examined the relationship between the extent of voluntary disclosure and some corporate characteristics, namely firm size (measured by number of shareholders, total assets and turnover), stock market listing, and industry type. Cook (1991) constructed a voluntary disclosure contained 106 items; the selection of items was based on items included in previous disclosure studies.

An un-weighted disclosure approach was used in which an item was awarded one if disclosed and zero if not disclosed. The study used a regression model to test the relationship between the extent of voluntary disclosure and independent variables, the test showed that the level of voluntary disclosure was positively associated with all size measures and the stock market listing. In addition, the type of industry was significantly associated with the extent of voluntary disclosure. Manufacturing companies were also found to disclose more voluntary information than other industry types.

Malone et al. (1993) measured the extent of financial disclosure in corporate annual reports of 125 oil and gas companies. Using a weighted disclosure index consisting of 129 information items to measure the extent of financial disclosure. The items of information were weighted by oil and gas financial analysts according to the importance of each disclosure in an investment decision. The extent of financial disclosure for each firm in the sample was calculated as the ratio of a firm's total disclosure score to the firm's total possible disclosure.

They also investigated whether there was an association between the extent of financial disclosure and selected firm characteristics. The characteristics selected for this study were: the ratio of debt to total equity, number of shareholders, firm size (total assets), inter-industry diversification, rate of return on net worth, earnings margin, audit firm size, listing status, foreign operations, and proportion of outside directors.

The researchers used stepwise regression analysis, they found only three of the firm characteristics (exchange listing status, debt-to-total-equity ratio, and number of shareholders) to be statistically significant in explaining the extent of financial disclosure. On the other hand, they found the other seven firm characteristics: total assets, audit firm size, rate of return on net worth, inter-industry diversification,

earnings margin, foreign operations, and proportion of outside directors were not statistically significant.

In Malaysia, Hossain et al. (1994) conducted an empirical study to examine the effect of six firm-specific characteristics on the general level of voluntary disclosure in the annual reports of 67 firms listed on the Kuala Lumpur Stock Exchange (KLSE) of Malaysia. The study sample was randomly selected from the 279 non-financial companies on the KLSE on December 31, 1991. Twelve of the 67 companies were also listed on the London Stock Exchange (LSE). The researchers eliminated the banking sector and other financial services companies from the sample population because they have different financial reporting regulation from other non-financial companies.

The six characteristics were firm size, ownership structure, leverage, assets-in-place, size of audit firm, and foreign listing status. The six firm attributes used in this study were measured as follows:

- Firm size was measured by the natural log of market capitalisation;
- Ownership structure was measured as the number of shares held by the top 10 shareholders as a proportion of the total number of shares issued;
- Leverage was the ratio of the book value of long-term debt to the book value of owners' equity;
- Proportion of assets-in-place was represented by the ratio of book value of fixed assets (net of depreciation) to the book value of total assets;
- The auditor was represented by a dummy variable of one if the firm was audited by one of the Big Six audit firms, and zero otherwise, and
- Foreign listing status was measured by a dummy variable, given one for firms listed on KLSE, plus at least one foreign stock exchange listing, and zero for firms listed only on the KLSE.

To evaluate the extent of voluntary disclosure in companies' annual reports, they created a disclosure index containing 78 voluntary information items based on the previous literature. Using an un-weighted approach to capture a voluntary disclosure score for each company, given a score one if the item is disclosed or zero if not disclosed. A disclosure index for each company was computed as the ratio of the actual score awarded to the maximum possible score appropriate for the company.

Both univariate and multivariate statistical tests were employed, the analysis of results showed that that firm size, ownership structure and foreign investment were significantly related to the level of information voluntarily disclosed by Malaysian companies in their annual reports. On the other hand, leverage, assets-in-place, and size of audit firm did not appear to be important factors in explaining voluntary disclosure by firms.

Meek et al. (1995) conducted an empirical study to examine the association between the extent of voluntary disclosure in the annual reports of multinational corporations (MNCs) from the U.S., U.K. and Continental Europe and some firm characteristics namely, company size, country/region of origin, industry, leverage, multinationality, profitability, and international listing status. The study sample consist of 116 U.S., 64 U.K., and 46 continental European MNCs (France 16, Germany 12, and Netherlands 18). A disclosure checklist, containing 85 voluntary disclosure items was developed.

The items included in the checklist were divided into three major groups of information types: (a) strategic information, (b) nonfinancial information, and (c) financial information. In order to measure the extent of voluntary disclosure, the 1989 annual reports were obtained for the samples of companies. Then the contents of each annual report were compared to the items on the checklist and coded one if the annual report contained the disclosure item or zero if it was not contained.

An un-weighted voluntary disclosure index for each company was calculated as the ratio of the actual score awarded to the company divided by the maximum potential score applicable to that company. Using multiple linear regression, they found that company size, country/region, and international listing status were the three most important variables explaining the voluntary disclosures of the sample of companies.

On the other hand, they found the other independent variables did not appear to be significant in explaining voluntary annual reports disclosure for the samples of firms. Overall, the results were statistically significant on the overall basis and by information type. However, the amount of explained variation in disclosure ranges from 14% for financial information to 46% for nonfinancial information, with strategic information in between at 33%. The adjusted R^2 for voluntary disclosures overall was 35%.

In Switzerland, Raffournier (1995) attempted to evaluate the level of voluntary disclosure in annual reports of 161 Swiss listed companies. The researcher excluded banks and insurance companies from the sample population because they are subject to specific disclosure requirements and their financial characteristics. This study also examined the relationship between the extent of voluntary disclosure and a number of firms' characteristics, namely firm size, profitability (measured by net income/net worth ratio), ownership structure (represented by the percentage of share not held by known shareholders), leverage, the percentage of fixed assets, size of auditing firm, internationality (represented by the ratio of exports to total sales), and industry type.

Raffournier (1995) used a disclosure index containing 30 voluntary information items. These information items were derived from the Fourth and Seventh European Union Directives, despite Switzerland not being a member of the European Union. The researcher adopted a similar methodology used by Cooke (1989, 1992) in scoring the disclosure items. An information item scores one if it is disclosed in the annual reports and zero if it is not disclosed.

The relationship between the extent of voluntary disclosure and selected firms' characteristics was tested by both univariate analysis and multiple regression. The researcher found that firm size (measured by the logarithm of sales) and internationality level were associated significantly with the level of voluntary disclosure. Inversely, no significant relationship was found for percentage of fixed assets, size of auditing firms, industry type, profitability, leverage and ownership diffusion. Hossain et al. (1995) examined empirically the relationship between five firm-specific characteristics and extent of voluntary disclosure in annual reports of 55 New Zealand owned quoted companies.

This sample included 15 companies listed in both in New Zealand and Overseas Stock Exchange and 40 companies randomly selected from the other companies listed only on New Zealand Stock Exchange (NZSE). All banks and insurance companies were excluded from the study sample because their business activities are not quite comparable with other companies. The five firm-specific characteristics were derived from agency theory: firm size, leverage, assets-in-place, type of auditor, and foreign listing status. To assess the extent of voluntary disclosure by companies, they used an un-weighted disclosure index comprising of 95 voluntary information items. Hossain et

al. (1995) tested the impact of five firm-specific characteristics on the level of voluntary disclosures. Using regression analysis, their empirical study results showed that firm size, leverage and foreign listing status were statistically related to the level of information voluntarily disclosed by companies, while the type of auditor and assets-in-place have no significant impact on the level of voluntary disclosure.

Gray et al. (1995) investigated the impact of international capital market pressures on the extent of voluntary disclosure by 116 U.S. and 64 U.K. multinational companies (MNCs). A total of 180 companies' annual reports were obtained for the year 1989. In order to measure the voluntary disclosure level, a checklist comprising of 128 voluntary items, categorized into 12 categories: general corporate characteristics, corporate strategy, acquisitions and disposals, research and development, future prospects information, information about directors, employee information, social responsibility and value added disclosures, segment information, financial review information, foreign currency information, and stock price information was constructed.

The information items on the checklist were then compared to the contents of the companies' annual reports and awarded a code one if the annual report contained the information items item, and code zero if not present, depending on the applicability of the item concerned. The voluntary disclosure index for each company was calculated as a proportion of the actual score awarded to a company compared to the maximum potential score applicable to that company.

Using analysis of variance (ANOVA), they concluded that US internationally listed MNCs voluntarily disclosed significantly more strategic and non-financial (but not financial) information than U.S. domestic listed MNCs. They also revealed that there was no difference in the overall level of voluntary disclosures between international listed status and domestic listed U.K companies.

In Spain, Inchausti (1997) studied the influence of seven variables on the level of information disclosure by Spanish listed companies. The extent of information disclosure was measured by using a disclosure index containing 50 information items (including both voluntary and compulsory items). Inchausti (1997) selected 138 listed companies: 49 companies in 1998, 47 companies in 1990, and 42 in 1991. The researcher excluded financial institutions, insurance companies and investment funds

from the sample. Seven independent variables were used to examine their influence on the level of information disclosure. The seven independent variables were: firm size, stock exchange cross listing, profitability, leverage, auditing, industry type and dividend pay-out. The association between the level of disclosure and the seven independent variables was examined by using stepwise regression analysis and panel data analysis.

In this study, only three independent variables, namely firm size, auditing, and stock exchange were found to influence the level of annual disclosure. Finally, it was concluded that although positive theory can be used to provide an explanation of the attitudes of Spanish companies towards information disclosure, it is necessary to recognise the effects of legislation.

In France, Depoers' (2000) study attempted to assess empirically the extent of voluntary information disclosure in the annual reports of 102 French listed non-financial companies and its association with company-specific characteristics. A sample of companies was randomly selected from the entire population of companies listed on the Paris Stock Exchange in 1995. Banks and insurance companies were excluded because of their specific disclosure requirements and financial characteristics. The company-specific characteristics were: firm size (was measured by log of sales), foreign activity (was measured as exports on sales ratio), proprietary costs (was measured as gross fixed assets), labour pressure, leverage, auditor size, and ownership structure.

The researcher developed a disclosure index comprising 65 voluntary information items to measure the extent of disclosure, using an un-weighted approach to capture a voluntary disclosure score for each company, given a score one if the item is disclosed or zero otherwise. The level of disclosure for each company was calculated as the ratio of the score obtained to the maximum possible score relevant for that company. The findings of this study revealed that the level of voluntary disclosure was statistically associated with firm size, foreign activity, proprietary costs, and labour pressure. Results from this study also showed that leverage, auditor size, and ownership structure were insignificant.

In Jordan, Naser et al. (2002) studied empirically the association between a company's characteristics and the level of information disclosure in the annual reports of 84 non-financial companies listed on the Amman Financial Market (AFM) for the year 1998,

and operating in both the manufacturing and services sector. The banking, finance and insurance sector were excluded from the study due to them having to follow specific disclosure requirements and therefore not having the same comparable characteristics. They divided the company's characteristics into four main categories as follows:

Market related variables:

- (1) Company Size:
 - Assets Size
 - Number of Employees
 - Net Sales
 - Market Capitalisation
- (2) Audit Firm Status
- (3) Industry Type

Performance variables:

- (1) Profitability:
 - Profit Margin
 - Return on Equity
- (2) Liquidity Ratio

Ownership structure variables:

- (1) Number of Shareholders
- (2) Government Ownership (ratio)
- (3) Individual Ownership (ratio)
- (4) Foreign Ownership (ratio)
- (5) Arab Ownership (ratio)

Capital structure variables:

- (1) Gearing Ratio

A disclosure index consisting 104 items of information was constructed to measure the extent of information disclosure in the companies' annual reports for the year 1998. An un-weighted approach was applied for scoring the items, one point was awarded to a disclosed item and zero to an undisclosed item. To test the association between the depth of information disclosure and selected company characteristics, the multiple regression analysis was employed.

The findings of the study indicated that six out of the fifteen variables applied in this study demonstrate a statistically (negative or positive) significant association with the extent of annual disclosure by Jordan's listed companies. One of these variables, the liquidity ratio, reported a negative significant association, leading to the rejection of the hypotheses concerned. On the other hand, market capitalisation, audit firm status, gearing ratio, sales, and profit margin reported a positive and significant association, resulting in the acceptance of the hypotheses concerned.

Haniffa and Cook (2002) carried out a study to examine the relationship between a number of independent variables and the extent of voluntary disclosure in the annual reports of Malaysian listed companies. The independent variables were categorised into three groups: corporate governance variables, cultural variables, and firm-specific characteristics variables (firm size, assets-in-place, industry type, listing age, complexity of business, level of diversification, foreign activities, and gearing).

The sample covered 167 non-financial companies that published their annual reports at the end of December 1995. Selection of companies was based on a stratified random sample from the *Annual Companies Handbook*, published by the Kuala Lumpur Stock Exchange in 1995. Banks, insurance and unit trust companies were excluded due to their different statutory requirements. The sample of companies were asked to send the English version of their 1995 annual reports. The rate of responses was 83 per cent.

They used a disclosure index consisting of 65 voluntary disclosure items, the selection of the items in the construction of the disclosure index were based on the relevant literature and applicability to the Malaysian environment. Haniffa and Cook (2002) employed an un-weighted approach for scoring disclosure index items, an item scores one if it disclosed and zero if it was not. The results, based on the full regression model, indicated that two corporate governance variables (family members sitting on board and non-executive chairman), and group firm-specific characteristics were significantly associated with the extent of voluntary disclosure. On the other hand, cultural variables were found not significant associated with the extent of voluntary disclosure.

Chau and Gray (2002) examined the association of ownership structure with the extent of voluntary disclosures in annual reports of listed companies in Hong Kong and Singapore. To ensure that samples selected from Hong Kong and Singapore were

homogeneous, they selected only industrial companies for their study. These companies fall into industrial sectors: food and beverages; shipping and transportation; publishing and printing; electronics and technology; building materials and construction. A sample of 60 listed industrial companies was selected randomly from Hong Kong for this study, representing about 32% of the total population.

A similar procedure was carried out for Singapore companies, 62 listed industrial companies out of the total population of 133 were selected (representing 47% of the total population). Annual Reports for 1997 were obtained for each of the companies in the sample. These annual reports represented the most recent source of data available at the time of the study. A disclosure checklist was developed to measure the extent of voluntary disclosure of 113 index items. Items of information included in the index were selected based on the relevant research studies and comprehensive international surveys of accounting and reporting.

The items of information on the checklist were checked against the mandatory disclosure requirements of Hong Kong and Singapore in order to arrive at the voluntary disclosure checklist applicable to the sample companies. The items on the checklist were categorized into three information types. Category (1) Strategic Information (including General Corporate Information, Corporate Strategy, Acquisitions and Disposals, Research and Development, Future Prospects). Category (2) Nonfinancial Information, (including Information about Directors, Employee Information, Social Policy and Value Added Information). Category (3) Financial Information (including Segmental information, Financial Review, Foreign Currency Information, and Stock Price Information).

The voluntary disclosure index for each company was calculated as a proportion of the maximum voluntary disclosure possible. The voluntary disclosure index was compiled based on the addition, and un-weighted scoring approach, of the disclosure items. This approach was based on the assumption that each item of information disclosure is of equal importance in the corporate information users' decision-making process. A linear multiple regression analysis was used to test the association between the extent of voluntary disclosure (dependent variable) and the independent variable of ownership structure.

The results of the test indicated that there is a positive association between wider ownership and the extent of voluntary disclosure by Hong Kong and Singapore listed companies. Moreover, the empirical findings also highlighted the importance of the contextual characteristics of Hong Kong and Singapore. Chau and Gray (2002) concluded that insider and family-controlled companies have little motivation to disclose information in excess of mandatory requirements because the demand for public information disclosure was relatively weak in comparison with that of companies with wider share ownership.

Leventis and Weetman (2004) attempted to investigate the association between seven company-specific variables and the extent of voluntary disclosure of 87 non-financial publicly traded companies listed on the Athens Stock Exchange (ASE) for the year 1997. Financial and banking companies were excluded from the sample due to different regulations affecting their financial reporting practices. Seven company-specific variables were classified into following groups:

- (a) Structure-related variables: firm size (market capitalization) and gearing (long term debt to equity);
- (b) Performance-related variables: profitability (return on equity) and liquidity (current ratio); and
- (c) Market-related variables: share return, industry (consumer products, industrial products and services), and listing status (parallel market, main market).

A voluntary disclosure index was developed, containing 72 voluntary disclosure items relevant to the Greek market. The voluntary items included in the index, divided into three categories (namely, corporate environment, social responsibility and finance-related disclosures). To measure the extent of disclosure, an un-weighted approach was applied, scoring awards one if a company disclosed a certain item and zero if it is not disclosed. The disclosure score for each company was measured by the ratio of actual items disclosed, divided by the maximum possible items that could have been disclosed. Using linear regression analysis, the findings indicated that the level of overall disclosure in the sample of companies was relatively low at 37.57%.

Moreover, the level of voluntary disclosure varies materially across the three categories ranging from 58.7% for corporate environment to 14.8% for social responsibility

information. It was also evident that sample companies vary considerably in both the dependent and the independent variables. The adjusted *R* squared (*Adj R*²) suggests that 35.6% of the overall disclosure variation was explained by the independent variables.

The results also indicated that most significant variable overall was firm size measured by market capitalization. Other significant variables were listing status and share return. The remaining independent variables were found not statistically significant. The results also showed that the amount of explained variation in information categories ranges from 29.3% for financial information to 22.3% for corporate environment information and 15.4% for social responsibility information. Further, the independent variables had different levels of association with the three separate categories of voluntary information. Leventis and Weetman (2004) suggested that the explanatory power of each factor depends on the particular nature of each disclosure area.

Gul and Leung (2004) conducted a study to examine the relationship between board leadership structure namely CEO duality (CEOs who jointly serve as board chairs), the proportion of expert outside directors on the board (PENEDs) and the extent of voluntary disclosure by 385 Hong Kong non-financial listed companies for 1996. Firms in the financial sector (banks, insurance and other financial firms) were excluded from the sample subject to different disclosure requirements.

A disclosure index containing 44 discretionary items was developed in order to measure the extent of voluntary disclosure. The information items included in the disclosure index, was classified into three groups: background information, financial performance information and non- financial performance information. The background information group includes matters that cover corporate goals, competition, products and markets. The performance information group includes items such as changes in sales, gross profits and R&D expenditures. The non-financial information group includes number of employees, staff training, product segment analysis and Y2K issues.

They used the un-weighted approach to compute the voluntary disclosure score; a company received a score of one if it voluntarily disclosed information on the item and zero if the item was not disclosed. A total voluntary disclosure score for each company was calculated as the sum of the scores awarded for each item in the disclosure index.

Using multiple regression analysis, the results of the analysis showed that CEO duality was associated with lower voluntary disclosures. Results of the study also showed that firms with a higher proportion of ENEDs were associated with lower voluntary disclosures. More interestingly, they found that the negative association between CEO duality and corporate disclosures was weaker when the firm has a higher proportion of ENEDs. Finally, their study suggested that CEOs with valuable secrets who are also chairmen might limit disclosures and keep real outsiders off the board.

In a Saudi Arabian study, Alsaeed (2006) examined the hypothesised impact of several characteristics of the firm on the level of voluntary disclosure in the annual reports, using a sample of 40 non-financial companies that were listed on the Saudi Stock Market, for the year 2003. Alsaeed (2005) classified the firms' characteristics (independent variables) into three sets: (1) structure-related variables (firm size, debt, ownership dispersion, and firm age), (2) market-related variables (industry type and audit firm size) and (3) performance-related variables (profit margin, return on equity, and liquidity). A disclosure index consisting of 20 information items was used as a yardstick to measure the level of voluntary disclosure in the annual reports of 40 listed firms. The construction of the disclosure index was based on the items of information that companies supply in their annual financial reports to shareholders.

The un-weighted approach was employed to calculate the voluntary disclosure score for each company, coded one if the information item was disclosed or zero if not. A disclosure index for each company was computed as the ratio of the actual score given to the company divided by the maximum score. The association between the level of voluntary disclosure and firm characteristics was examined using multiple linear regression analysis. The results that are found by Alsaeed (2006) revealed that there is a significantly positively association between firm size and the level of voluntary disclosure. On the other hand, he found that the remaining characteristics do not have a significant relationship.

In China, Huafang and Jianguo's (2007) study attempted to examine the impact of ownership structure (blockholder ownership, managerial ownership, state ownership, legal-person ownership, and foreign listing/shares ownership) and board composition (was measured by the proportion of independent directors (IND) and CEO duality) on voluntary disclosure of 559 listed companies in China. The banking sector, insurance,

and other financial companies were excluded from the sample population due to their different disclosure requirements from other non-financial companies.

The researchers adopted the level of voluntary disclosure of the sample firms as a measure of their voluntary disclosures in annual reports for three reasons. First, annual report disclosure levels were positively correlated with the amount of disclosure provided via other media. Second, financial analysts and investors regarded disclosures in corporate annual reports as the most important source of information for firms. Finally, corporate disclosure of management forecasts (earnings forecasts) was rare in China.

They developed a disclosure index in order to measure the extent of voluntary disclosure by companies in the 2002 annual reports. The final-disclosure index containing 30 items was developed to measure the extent of voluntary disclosure by companies in the 2002 annual reports. The items in the disclosure index were classified into four main types of voluntary information. These were background information, business information, financial information and non-financial information. The background information includes corporate goals, strategy and competition. Business information includes items such as changes in sales, changes in costs of goods, and profit forecast. Financial information includes gearing ratio, liquidity ratio, inventory turnover, and turnover of receivables.

Non-financial information includes staff training, ISO issues, and corporate culture. The un-weighted scoring approach was used to score each item in the voluntary disclosure index; a company receives a score of one if it voluntarily discloses information on the item and a zero otherwise. The voluntary disclosure score for each company was the sum of scores awarded for each item in the disclosure index. A linear-multiple regression analysis was used to test the association between the dependent variable of voluntary disclosure and the independent variables of ownership structure and board composition.

The results of statistics analysis showed that two aspects of ownership namely, blockholder ownership and foreign listing/shares ownership were significant, associated with increased voluntary disclosure (at the 0.05 level). However, the other three aspects of ownership: managerial ownership, state ownership, and legal-person ownership were

not significant related to voluntary disclosure. The results also showed that the board composition (the percentage of Independent director (IND) on board and CEO duality) was significant at the 0.05 level related to voluntary disclosure.

Agca and Önder (2007) investigated the relationship between certain independent variables and the voluntary disclosure levels for Turkish firms listed on the Istanbul Stock Exchange in 2003. The study sample contains 51 firms from various sectors, banking and insurance were excluded from the sample. The independent variables investigated were: firm size, leverage, auditing firm, ownership structure, profitability and multi-national firm.

A voluntary disclosure checklist contained 87 items was utilized to assess the voluntary disclosure levels. The voluntary disclosure checklist was divided into three main categories: strategic information, non-financial information and financial information. A dichotomous procedure (un-weighted) was applied for scoring the index items, if the information item in the annual reports matched the information item in the voluntary disclosure checklist, the allocated code is one if the information item did not match, then the allocated code is zero. The researchers applied a multi-regression model to investigate the degree of the effect of independent variables on the extent of voluntary disclosure, their results revealed that auditing firm, profitability, and firm size variables were significant for the overall disclosure.

Yuen et al. (2009) investigated the impact of ownership features, corporate governance mechanisms, and firm-specific characteristics on the voluntary disclosure practices by 200 publicly-listed industrial companies on the Shanghai Stock Exchange in China. The financial and insurance sectors were excluded from the study sample because these companies have different capital structures. The ownership structure features and corporate governance mechanisms include (1) concentration of ownership; (2) ownership by state and state-related institutions; (3) individual ownership; (4) the chief executive officer is also the chairman of the board of directors; (5) board independence, and (6) the existence of an audit committee.

The firm-specific characteristics are (1) firm size; (2) leverage; (3) profitability, and; (4) type of industry. In order to measure the extent of voluntary disclosure, a relative disclosure index was developed contained 34 voluntary disclosure items. The relative

disclosure index of each sample company was computed as the ratio of the absolute disclosure score to the maximum possible disclosure score. A regression model was utilised to test the relation between independent variables and the extent of voluntary disclosure, the regression results revealed that individual ownership, the existence of an audit committee, firm size, and leverage were significantly related to the extent of voluntary disclosure.

Jiang and Habib (2009) attempted to examine the impact of different types of ownership concentration on corporate voluntary disclosure practices by 116 listed non-financial companies on the New Zealand Stock Exchange from 2001 to 2005. Financial institutions and overseas companies listed on New Zealand stock markets were excluded from the sample. An un-weighted disclosure index comprising 39 items was constructed based on the disclosure index used in earlier studies. The items in disclosure index were checked against the mandatory annual report disclosure requirements in New Zealand in order to ensure that the disclosure index reflected only voluntary disclosure items.

To measure the extent of voluntary disclosure, a checklist of 39 items was used. The voluntary disclosure items on the checklist were classified into five information categories:

- (1) Background information.
- (2) A summary of historical results.
- (3) Key non-financial statistics.
- (4) Projected information.
- (5) Management discussion and analysis.

A voluntary disclosure index items were scored according to the checklist, and scaled by the maximum disclosure score. Firm-year observation is given one point if the company annual report has disclosed the relevant items on the checklist, and an additional point is awarded if the disclosed items have been found to be quantified either as a point or range estimate. The regression model was designed to estimate the impact of ownership concentration on the extent of voluntary disclosures. The results revealed that the relationship between ownership concentration and the extent of voluntary disclosure practices had a non-linear pattern.

Akhtaruddin et al. (2009) investigated empirically the association between five governance variables and the extent of voluntary disclosure by 105 non-financial listed firms in Malaysia. The governance variables examined were board size, proportion of independent non-executive directors (INDs) on board, outside share ownership, family control, and percentage of audit committee members to total members on the board. To measure the level of voluntary disclosure of the sample firms, a disclosure index containing 74 information items was developed in consultation with the disclosure checklist used by similar studies.

An un-weighted disclosure approach was applied, the items of information were numerically scored on a dichotomous basis. A firm is scored one for an item disclosed in the annual report and zero if it is not disclosed. The total voluntary disclosure index was then computed for each sample firm as a ratio of the total disclosure score to the maximum possible disclosure by the firm.

They applied the regression model to examine the relationship between explanatory variables and the extent of voluntary disclosure, they found a positive association between board size, proportion of INDs, outside share ownership and the extent of voluntary information. On the other hand, their findings indicated that the extent of voluntary disclosure was negatively related to family control and the ratio of audit committee members to total members on the board.

In a recent study in a developing country, Rouf (2010) empirically examined the association between corporate characteristics, governance attributes and the extent of voluntary disclosure in the annual reports of 120 Bangladeshi listed non-financial companies. The main criteria used for sampling the firms were: (i) annual reports must be available at the stock exchange and (ii) the firm must have been listed for the entire period of the study 2008. The corporate characteristics were: firm size and profitability, corporate governance attributes were, independent non-executive directors, audit committee, board leadership structure, board size, and ownership structure.

A disclosure index containing 68 voluntary items was developed. The index items were classified into thirteen categories: general corporate information, corporate strategic information, corporate governance information, financial information, financial review information, foreign currency information, segmental information, employee

information, research and development information, future forecast information, share price information, social responsibility information and graphical information.

An un-weighted relative disclosure index was employed to measure the level of voluntary disclosure of each company. The items of information were numerically scored on a dichotomous basis; a company was scored one for an item disclosed in the annual report and zero if it was not disclosed. The total voluntary disclosure index for each company was computed as a ratio of the total disclosure score to the maximum possible disclosure by the firm.

The researcher used the ordinary least squares regression model to examine the relationship between independent variables and the level of voluntary disclosure, the empirical results indicated that there was a positive association between board size, board leadership structure, audit committee and the extent of voluntary disclosure. In contrast, the extent of voluntary disclosure was found negatively related to proportion of independent nonexecutive directors, ownership structure and net profitability. The results also indicated that the level of average voluntary disclosure in the sample companies was 47.74%, the highest score achieved by a firm was 72% and the lowest score was 18%.

In Iran, Khodadadi et al. (2010) assess empirically the relationship between a number of corporate governance attributes and the extent of voluntary disclosure practices by 106 listed non-financial companies on Tehran Stock Exchange over the period 2001-2005. The banking sector, investment and other financial companies were omitted from the sample of this study due to their nature of operation and different financial reporting practices. The corporate governance attributes examined were: the percentage of independent directors on the board, the existence of dominant personalities (CEO/Chairman duality) and the percentage of institutional investors.

In this study, the firm size and the type of audit institute (audit organization or other institutes) were used as control variables. In order to measure the extent of voluntary disclosure, an un-weighted disclosure index containing 31 items was developed based on voluntary disclosure items used in similar prior studies. Regression analysis was applied to test the relation between independent variables and the extent of voluntary disclosure, the results indicated that that there was no significant relationship between

percentage of independent directors on the board, CEO/Chairman duality and the extent of voluntary disclosure. In addition, the research results show a significant relationship between the percentage of institutional investors and the extent of voluntary disclosure. Finally, the coefficient of the control variable of firm size was significant at 5% level, and auditor type was also significant at 10% level.

2.3 Empirical studies on measuring the extent of voluntary disclosure in the annual reports of banking companies

In general, up to date there has been little academic research related specifically to banking sector disclosures. Earlier research has focused on non-financial companies' annual disclosures and their association with company attributes. Very few empirical disclosure studies have sought to measure the extent of voluntary disclosure and its relationship with commercial bank-specific characteristics in particular. For this reason, this section, therefore, will review the previous empirical studies that measured the extent of voluntary disclosure (including social responsibility disclosure and aggregate disclosure), in order to identify a potential gap in the relevant academic literature and how this current study can be extended in an attempt to fill this gap.

The first empirical study that attempted to measure the extent of commercial banking disclosure was conducted by Kahl and Belkaoui (1981). They measured the overall extent of disclosure adequacy by 70 commercial banks selected from 18 countries located in the non-communist world (US 16, Sweden 3, Holland 1, Finland 1, Norway 1, UK 11, Germany 3, Singapore 1, Denmark 2, Australia 2, France 2, Switzerland 3, Austria 1, Italy 1, Canada 10, Japan 10, Spain 1 and Brazil 1). The main criterion for selection of the commercial banks sample was the provision of English language version annual reports available for the year 1975.

The commercial banking disclosure level was measured through a weighted disclosure index, consisting of 30 items of information by asking fifteen business administration professors of the Faculty of Administration of the University of Ottawa, knowledgeable in international financial reporting practices, to score the relative importance of disclosing each item in a disclosure index on a scale of zero to four, with higher scores indicating greater importance.

Disclosure index information items were selected based on investment, financial and accounting literature, and the researcher's perceptions of information items that had relevance for the bank stock investors' decision-making. Kahl and Belkaoui thought that their sample of professors might not be an adequate proxy for users of bank annual reports internationally, so they sent the same questionnaire to 50 of bank financial analysts holding the professional designation Certified Financial Accountants who were listed in the 1975 Directory of the Financial Analysts Federation.

The number of responses to the mail survey was ten and their scoring of items was identical to that of the early respondents (professors) with some slight but not statistically significant difference in the weights. Then the annual reports of the 70 banks were evaluated on the basis of the response score assigned to each of the information items in the disclosure index. The researchers also measured the degree of association between the extent of disclosure and the commercial bank size (measured by total assets).

Using the Spearman's rank correlation test, they found a positive correlation between the size of commercial bank and the extent of disclosure. Additionally, their results revealed that the level of information disclosure in the annual reports of commercial banks differs from country to country.

Abdul Hamid (2004) investigates empirically the association between a number of corporate characteristics and the level of social information disclosed by 48 banks and finance companies in Malaysia. The corporate characteristics examined were: firm size, financial performance (was measured by return on equity (ROE) and return on assets (ROA)), age of business, listing status, and company profile. A sample of annual reports for the year 1999, were drawn from the three sites in Malaysia, namely Malaysia Central Bank, Banking Institute of Malaysia, and Kuala Lumpur Stock Exchange.

The total of disclosure index was measured by pages to the nearest of hundredth of a page. To assess the effect of each independent variable on the level of disclosure, he used multiple regression models. The results of the study showed that the level of social information disclosure was significant and positive association with firm size, listing status and age of business. In addition, the study shows that insignificant relationship

between profitability variables and the disclosures of social information. Finally, for the company profiles the results showed an insignificant and negative association.

Hooi (2007) empirically investigated the impact of national culture on the extent of information disclosure in the 2004 annual reports of 37 listed domestic commercial banks. The commercial banks sample was selected from 17 developed and developing countries. The selection of countries was determined by the data availability of the five culture values, namely individualism, masculinity, power distance, uncertainty avoidance, and long-term orientation.

In order to measure the extent of information disclosure in the annual reports of commercial banks, he used the 2001 Basel survey checklist, containing 104 voluntary and mandatory items. The 104 information items were categorized into twelve types of information namely, capital structure (14), capital adequacy (7), market risk internal modeling (16), internal and external ratings (4), credit risk modeling (5), security activities (8), asset quality (13), credit derivatives and other credit enhancements (6), derivatives (other than credit derivatives) (9), geographic and business line diversification (10), accounting and presentation policies (7), and other risks (5).

Using multiple regression analysis, Hooi (2007) found that the only significant cultural dimension for commercial banking disclosure was uncertainty avoidance. He also found that the banking disclosure level across all countries was a moderate 48%. In addition, this study recommended that long-term orientation value should not be used as part of the cultural framework for disclosures due to biased data. Finally, the researcher concluded that the used of disclosure rate tends to yield slightly better results in terms of explanatory power compared to disclosure band.

Much more recently, Hossain and Taylor (2007) investigated empirically the relationship between a number of commercial bank attributes and the extent of voluntary disclosure in the annual reports of 20 domestic private banks in Bangladesh. The commercial bank attributes examined were: commercial bank size (log of assets), audit firm link, and profitability.

To select of the voluntary items of information included in the disclosure index, the researchers considered the research that used the disclosure indices as a methodology, disclosure for financial institutions as required the IAS-30, and the items of information having considered potential interest to the user groups (shareholders, financial analysts, government authorities, and professional accountants). A total of 45 voluntary disclosure items were identified as relevant and could be expected to disclose voluntarily in the annual reports of the banking companies in Bangladesh.

The un-weighted disclosure method was employed in order to measure the voluntary disclosure score for each bank, in which an item scores one if disclosed and zero if not disclosed. A multiple regression model was applied to investigate the relationship between the extent of voluntary disclosure (dependent variable) and bank attributes (independent variable). The multiple regression model was significant ($P < 0.005$). The adjusted coefficient of determination (R squared) indicated that 24% of the variation in the dependent variable was explained by variations in the independents variables. The study findings also revealed that bank size and audit firm link to be significant in determining the disclosure levels of the banks (at a 5% level).

In contrast, no statistically significant relationship was found between the extent of voluntary disclosure and the profitability variable. Findings of this study suggested that the extent of voluntary disclosure by banking companies in Bangladesh systematically differ depending upon the bank size and characteristics of its audit market (whether it is audited by Big Five audit firms or not).

In another contemporary study, Hossain and Reaz (2007) investigated empirically the extent of voluntary disclosure by 38 listed banking companies in India, also examining the association between six bank-specific characteristics and the extent of voluntary disclosure of the sample companies. The bank characteristics investigated were: bank size (measured by log of assets), age, multiple listing, complexity of business, board composition and assets-in-place. A disclosure index was constructed consisting of 65 items of voluntary information.

A disclosure index for each bank was calculated using a dichotomous approach (un-weighted), in which an item scores one if disclosed and zero if not disclosed. The Ordinary Least Square (OLS) regression model was used to assess the effect of each

bank characteristics on the extent of voluntary disclosure. Their results indicated that Indian banks were disclosing a considerable amount of voluntary information.

Additionally, it was shown that bank size and assets-in-place are statistically significant in explaining the level of disclosure. However, the bank age, diversification, board composition, multiple exchange listing and complexity of business were found to be insignificant in explaining the extent of voluntary disclosure in annual reports. Hossain and Reaz found that 55% was the highest disclosure score and 20% was the lowest. Moreover, the study found that Indian banks published 35% of voluntary items of information on average.

It was found also that public sector banks disclosed more voluntary information (38.66%) than private sector banks (31.15%). The researchers concluded that this study was quite interesting and different from other studies because it was focused on banking institutions, also there has been little research in the banking institutions on voluntary disclosure and also the developing country perspective. However, this study was limited to single fiscal year and single country.

In a recent study of banking disclosure, Hossain (2008) conducted an empirical study to investigate the extent of mandatory and voluntary information disclosed in the annual reports of 38 listed banking companies in India. He also examined the association between the extent of disclosure and company-specific attributes; namely, age, bank size, profitability, complexity of business, assets-in place, board composition, and market discipline with the level of disclosure.

Disclosure indexes used by Hossain show a total of 184 items of information containing 101 mandatory items and 83 voluntary items that might be disclosed in an annual report. The selection of mandatory items was based on the following criteria: (1) banking companies act, 1949 (2) company act, 1956, (3) listing rules-clause 49, (4) company act, 1956 and (5) RBI guidelines. The selection of voluntary items was based on previous disclosure studies and BASEL.

The un-weighted disclosure index methodology was used in the study, an item of information scoring one if disclosed, and zero if not disclosed. The Ordinary Least Square (OLS) regression model was employed to assess the effect each banking

company attributes on the level of disclosure. Hossain (2008) found a significant positive relationship between the aggregate disclosure levels and bank size, profitability, board composition, and market discipline. The results also showed that bank age, assets-in-place, and complexity of business were negatively associated with the extent of total disclosure. Overall, on average, India banks published 60% of the total disclosure of which 88% were mandatory and 25% were voluntary items.

This study can be criticised on several points. First, it was limited to a single year period. Secondly, the researcher did not include the unlisted banking companies in their sample population. It would have been more meaningful if the research had included unlisted banking companies in order to determine whether there is a significant difference between disclosure in the annual reports of listed banks and disclosure in the annual reports of unlisted banks.

In another study, Maingot and Zeghal (2008) investigated the corporate governance disclosure practices of 8 Canadian banks. The sample of banks was selected based on the following three criteria: (1) the bank is a widely held bank with no single shareholders can own more than 10% of the total of the bank, (2) the bank is traded on a stock market, and (3) the bank must be chartered in Canada. A coding sheet containing 54 elements of disclosure, was developed to evaluate the corporate governance disclosure of in the 2003 annual reports of Canadian banks. Selecting the elements of disclosure were based the previous literature and Toronto Stock Exchange Corporate Governance Guidelines. The coding mechanism was used, if the bank discloses the element a score one will be given, if the bank not disclose the element a score zero is given.

The researchers also examined the effect of the bank size (measured by total assets) on the disclosure of corporate governance information. The results of the study showed that the large banks disclose more information on the governance section of their web pages. The findings also indicated that the smaller banks disclose a large amount of their information in both the annual reports and in the proxy circulars. Matingot and Zeghal (2008) found that the size of the bank has a positive impact on the volume of disclosure information related to corporate governance.

In Kenya, Barako and Brown (2008) examine empirically the influence of three corporate governance attributes on the level of social information disclosed in 40 Kenyan banks annual report. The corporate governance variables examined in this study were: board composition (independence of board), gender representation on board, and foreign nationals on board. To measure the extent of voluntary disclosure, a disclosure index comprising 22 social disclosure items was developed. The list of the disclosure items were drawn from prior corporate social disclosure studies. The un-weighted disclosure scoring approach was applied, with a score of one if an item is disclosed and zero if not.

Multiple regression analysis was used to examine the relationship between the level of disclosure of social information (dependent variable) and the three corporate governance variables. The results of the regression analysis indicated that the board composition variable was significantly associated with the extent of social information disclosed annual reports of banks. In addition, the results also showed that the board gender diversity variable was statistically significant. However, the proportion of foreign national on the board of banks was found not significantly associated with the level of voluntary disclosure.

Overall, the level of disclosure of social information disclosed by Kenyan banks was very low with a mean of 15%. In particular, banks did not disclose important information relating to recruitments, employment of special groups, assistance to retiring employees, employees productivity and turnover. In addition, very few banks, 12.50% and 0.03% respectively disclose information relating to environment policy and environmental activities they undertake, while only three banks contribute to the national AIDS campaign.

In a Libyan context study, Kribat (2009) conducted an empirical study to measure the degree of mandatory and the overall information disclosures made by Libyan banks during the period from 2000 to 2006. The analysis proceeds to examine the relationship between four bank-specific characteristics (i.e. bank size, age of bank, profitability and ownership structure) and the extent of aggregate information disclosure. To measure the disclosures levels, this study develop a checklist included 126 information items that

measures both mandatory and voluntary disclosures in the annual reports of a sample of 11 private and government owned banks.

In this study, banks established after 2000 only were measured, and the annual reports for the shorter time periods were collected. Only 8 banks out of 11 banks collected their annual reports for seven years, some banks only had one annual financial report collected over the period of seven years studied (i.e. Aman Bank for Commerce and Investment and Alejmaa Alarabi Bank). Further, the researcher included the Commercial Arab Bank, in fact this bank was licensed as a commercial bank in 2007 as stated in the CBL, Annual Reports of 2007, on page No. 72.

Kribat (2009) claimed that the mandatory disclosure checklist was constructed based on relevant Libyan laws, namely Commercial Law, Income Tax Law and Banking Law. There was no information given about these mentioned laws-either the year or the issue number, and the researcher did not specify information items resources such as number of Articles and the total of required items stated by each Law. Surprisingly, Kribat, (2009, p. 26) has stated that “Libyan companies are not required by the Libyan Commercial Law to provide the information included in the annual reports to the public”.

This clearly implies that there is no mandatory disclosure requirement at all. Surprisingly, later he concluded that Libyan banks failed to comply fully with mandatory disclosure requirements in any of the sample years (2000-2006). In fact, no information items were queried by stated laws to be published to external stakeholders and the items in the Libyan’s annual reports were disclosed voluntarily. In particular, there is no Libyan banking law that specified any list of information items must be disclosed in the Libyan banks’ financial annual reports, the sole Libyan banking law which imposed on the all banks to publish their financial statements to general public was the Banking Law No 1 which was issued in 2005 (Article 84), however no specific information items were required by this Law to be disclosed.

Kribat (2009) used a multivariate panel regression analysis to test the association between the overall information disclosure and the banks’ attributes. The results of the study revealed that that both profit and age appear to have a positive influence on the

overall financial disclosure level while size of the bank has a negative influence. The similar variables were also tested by the researchers to investigate their influence on the extent of banking disclosure level, and they found that the size of the bank has a positive impact on the extent of disclosure (e.g. Kahl and Belkaoui, 1981; Hossain and Reaz, 2007; Hossain and Taylor, 2007; Matingot and Zeghal, 2008; Hossain, 2008). While, age of the bank was found by similar studies is insignificant in explaining the level of disclosure (e.g. Hossain and Taylor, 2007; Hossain and Reaz, 2007; Hossain, 2008). Finally, the reliability of the Kribat (2009) empirical results is questionable, since there was no disclosure requirement imposed in the Libyan's commercial bank at that time of the study. Also, the sample is not homogeneous in relation to the number of annual reports obtained from each bank.

Another empirical study by Menassa (2010) attempted to investigate the extent of social disclosures by 24 Lebanese commercial banks and examined the relationship between a number of bank characteristics, namely, bank size, financial performance, listing status, and overseas presence and the extent of social disclosure. This study employed the sentence count as the main unit of analysis to locate and analyse the type and quantity of social disclosure provided in the annual reports for the year 2006. The findings provide evidence of the widespread use of this phenomenon by these banks as a means to communicate with their stakeholders.

Moreover, the study results revealed that banks attribute a greater importance to human resource and product and customers disclosures, whereas the availability and extent of environmental disclosure was still weak. In addition, a strong association was found between the extent of social disclosures and bank size and financial performance variables. In contrast, found no significant statistical relation with the bank age. Finally, findings of this study suggested no difference in social disclosure behaviour between listed banks and banks with an overseas presence, and non-listed banks and those operating only in Lebanon.

More recently, Agyei-Mensah (2012) conducted an empirical study to investigate the influence of firm-specific characteristics (i.e. bank size, profitability, debt equity ratio, liquidity and audit firm size) on the extent of voluntary disclosure in annual reports for the year 2009, of 21 rural banks in the Ashanti region of Ghana. To assess the level of

voluntary disclosure the researcher adopted 27 information items from the checklist developed by other researchers. A dichotomous scoring method was used whereby an item is scored 1 if it is disclosed and 0 if otherwise. Using regression analysis to test the association between selected bank attributes and the voluntary disclosure level, the study results indicate that profitability represented by Return on Capital Employed (ROCE) is positively associated with the disclosure level, while debt equity ratio, liquidity (measured by current ratio), bank size (represented by value of net assets) and audit firm size were insignificantly associated to the extent of disclosure.

2.4 Summary and Conclusions

This chapter has reviewed relevant empirical disclosure studies that have measured the extent of voluntary disclosure in the corporate annual reports and investigated its association with certain corporate specific-characteristics, classified as those applied to non-banking sector companies and those applied to banking sector companies specifically. The review shows that there were numerous empirical studies which investigated the extent of corporate voluntary disclosure and its relationship with certain corporate attributes in a variety of different countries, which include both the developed and developing countries. However, the vast majority of these studies have focused primary on voluntary information disclosures in non-banking company's annual reports in those countries.

Remarkably, all of the empirical disclosure studies reviewed in the section (2.2) have suggested to exclude the banking sector and other financial institutions from the sample due to their different reporting requirements and disclosure regulations and their business activities being unique from other economic sectors.

Overall, all the prior empirical disclosure studies reviewed in this chapter employed a disclosure index as an appropriate research method to measure the extent of voluntary disclosure in corporate annual reports, with the exception of the studies which have examined social disclosure practices (i.e. Menassa, 2010; Abdul Hamid, 2004). The number of voluntary information items selected to form a disclosure index varies among prior disclosure studies. Most previous academic researchers who have measured the level of voluntary information disclosed in the annual reports have constructed a list of

information items based either on review of the relevant accounting literature or on their own perceptions.

In these empirical disclosure studies, both weighted indices and un-weighted indices have been widely used by most previous researchers to determine the level of voluntary information disclosure in annual reports. A large number of reviewed studies measured the voluntary disclosure practices for a single country and a single year, while a very small number of these studies attempted to measure the level of voluntary disclosure practices cross nationally.

Previous researchers who have attempted to measure the extent of voluntary disclosure in the annual reports have also sought to investigate its association with certain company attributes such as age, company size, listing status, profitability, liquidity, author type, industry type, ownership structure, and so on.

As can be seen from sections 2.2 and 2.3, the number and types of company characteristics (independents variables) used to test their possible impact on the extent of voluntary disclosure in the annual reports varied from one study to another. The review of literature has also shown the majority of prior research found a relationship (positive/or negative) between certain corporate specific-characteristics and the extent of voluntary disclosure of various types of information.

The majority of empirical voluntary disclosure studies reviewed in this chapter have used multiple linear regression method to test the relationship between the extent of voluntary disclosure practices (dependent variable) and corporate attributes. However, prior empirical studies have provided mixed findings in different countries in such relationships.

In particular, as seen in section 2.3, there is a very small number of empirical studies that investigate the overall extent of voluntary disclosure and its relationship with certain commercial bank attributes. In addition, the empirical evidence from those studies was conflicting and not conclusive, some of bank-specific attributes examined in the reviewed studies were found to be significantly associated with the extent of disclosure in one study while in other studies these were found not to have a significant impact on the disclosure level.

For example, Hossain (2008) found a significant statistical relationship between profitability and the extent of voluntary disclosure practices in Indian banks, whilst similarly a study by Hossain and Taylor (2007) found no significant association between profitability and voluntary disclosure practices in Bangladeshi banks. In addition, there are other additional bank attributes that are likely to influence the extent of voluntary disclosures which remain unexplored (e.g. bank liquidity position, listing status and government ownership structure).

Further, the present empirical evidence on the determinants of overall of voluntary disclosure in the annual reports of banking sector companies is very limited as compared to evidence from non-financial companies. Therefore, there is a need for more empirical evidence from different countries about the influence of bank attributes on the extent of voluntary disclosure to enhance a better understanding of the relationship between these attributes and banking disclosure. Also, much empirical study is still required in this area to confirm or disprove the prior findings.

In addition, none of the studies have examined the extent of voluntary disclosure in annual reports of listed and unlisted commercial banks longitudinally, and examined the trends of voluntary disclosure practices over time from one year to the next. In particular, a review of the literature of previous research shows that no empirical studies have documented the extent of voluntary disclosure practices in the annual reports of Libyan listed and unlisted commercial banks.

Consequently, the current research attempts to fill the existing gap in the disclosure studies literature and contribute to ongoing research addressing voluntary disclosure through a longitudinal examination of the extent of voluntary disclosure in the annual reports of Libyan listed and unlisted commercial banks, and also to examine the influence of seven commercial bank-specific attributes on the overall level of voluntary disclosure.

Chapter Three

Theoretical Framework for Corporate Voluntary Disclosure

3.1 Introduction

The main purpose of this chapter is to discuss the theoretical framework of corporate voluntary disclosure practice. The corporate voluntary disclosure literature has proposed that several academic theories may provide an explanation of voluntary disclosure practices by companies. The most common academic theories that have been used by accounting researchers to explain corporate voluntary disclosure phenomena are: Agency theory, Signalling theory, Capital Need theory and Legitimacy theory.

These four prominent theories in the voluntary disclosure literature have been postulated as the most dominant explanatory theories attempting to explain companies' incentives to disclose additional information voluntarily, and these will be reviewed in this chapter. However, some scholars, for example, Khlifi and Bouri (2010, p. 62) have concluded that: "After discussing different theoretical explanations of corporate disclosure, we conclude that there is not a definite theory conceived to explain the reasons that stimulate voluntary disclosure".

The remainder of this chapter is organised as follows: Section 3.2 discusses agency theory, while Sections 3.3, 3.4 and 3.5 represent the signalling theory, capital need theory and legitimacy theory respectively. Finally, a summary and conclusion are presented in section 3.6.

3.2. Agency Theory

Agency theory, as an economic theory, was developed by Jensen and Meckling in 1976. In particular, this theory has been widely used by accounting researchers to explain and understand voluntary disclosure phenomena in many countries with a different social, political and economic background (e.g. Chow and Wong-Boren, 1987; Cooke, 1989a, 1991 and 1993; Hossain et al., 1994; Hossain et al., 1995; Meek et al., 1995; Raffournier, 1995; Inchausti, 1997; Depoers, 2000; Haniffa and Cooke, 2002; Ferguson

et al., 2002; Hossain and Taylor, 2007; Chen et al., 2008; Akhtaruddin and Hossain, 2008).

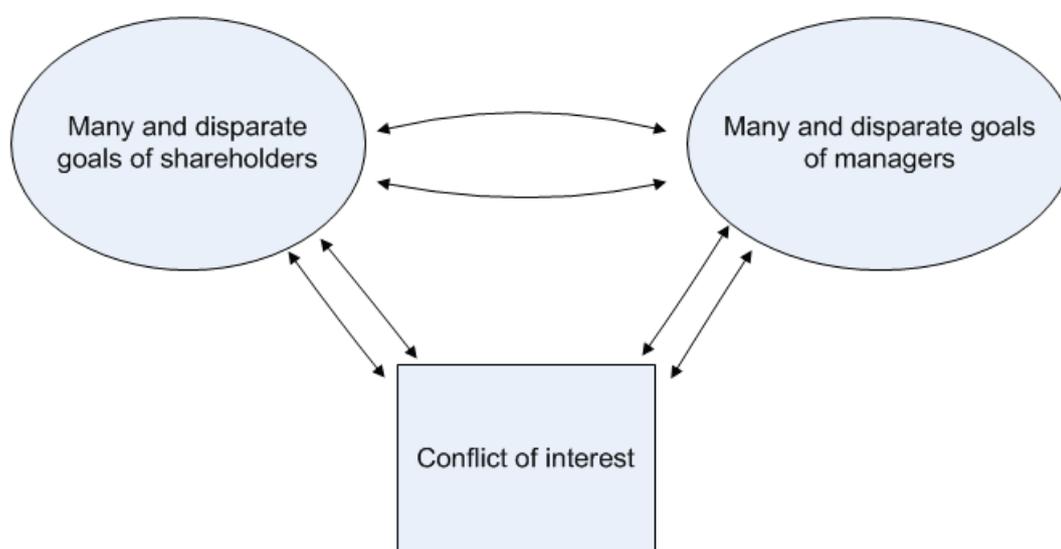
As highlighted by Bricker and Chandar (1998, p. 487), “current mainstream accounting research is based extensively on economic models of agency that represent the operating company (firm) manager as “agent” and the individual investor as “principal”. From a theoretical perspective, agency theory is mainly concerned with the principal-agent relationship between the principals (for example, owners) and agents (for example, the corporate managers).

An agency relationship is defined as: “a contract under which one or more persons (the principal(s)) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent” (Jensen and Meekling, 1976, p. 308). According to Baiman (1990), an agency relationship will exist after one or more principals employ others as their agents in order to delegate responsibilities to them. In particular, agency theory is founded on the premise of maximisation of individual advantage, it therefore assumes that the principal and agent are opportunistic and systematically seek their own self-interest and preferences (Lacoste et al., 2010).

Clearly, this theory would suggest that the interests of principals and agents differ mainly due to their different utility functions. In this context, the agency theory attempted to explain how shareholders, as principals, and companies’ managers as agents, arrange the relationship to protect their own interests. It also tries to predict the conflicts of the parties within the companies (i.e. conflicts of interest between companies’ managers and shareholders, as can be seen in Figure 3.1), because their goals are not in perfect agreement (Depoers, 2000).

The conflict of interest is described as “a situation where an individual or an organisation (an agent) has multiple interests and of those interests one could possibly corrupt the motivation for an act in the other” (Ittonen, 2010, p. 15).

Figure 3.1: Conflict of interest between shareholders and managers



Source: Adapted from Ittonen (2010) which has been adapted from Soltani (2007)

Lambert (2001) pointed out that there are four distinctive reasons for conflicts of interest between principals and agents comprising: (i) effort aversion by the agent, (ii) the agent can divert resources for his own consumption, (iii) divergence of time horizons, and (iv) differential risk aversion on the part of the agent. However, Lacoste et al. (2010) suggest that the conflict of interest (agency conflict), can be reduced or eliminated by two means: monitoring of the agent by the principal and alignment of the agent's interests with that of the principal's.

According to agency theory perspective, the principal can limit or reduce any potential conflict with the agent by founding appropriate incentives for the agent and by incurring monitoring costs designed to limit opportunistic action by the agent (Jensen and Meckling, 1976; Hill and Jones, 1992).

Agency theory is concerned with solving two problems arising in the agency relationships: firstly an agency problem arises when the desires of the principal and agent conflict and it is difficult or costly for the principal to confirm how the agent is actually behaving, the problem here is that the principal cannot prove that the agent has

acted improperly, and secondly a problem of risk sharing, which arises when the agent and the principal have diverse attitudes toward risk, the problem here is that the principal and the agent may tend to select opposing actions when the risk happens (Eisenhardt, 1989).

Three common solutions have been suggested by Healy and Palepu (2001) to principal-agent problems. The first solution to the agency problem is generating optimal contracts between corporate insiders, as agents and outside shareholders, as principals, provide for corporate insiders to share in the outcome of their actions, which also encourages disclosure and support to align the actions and choice of management with the interests of stakeholders (e.g. compensation agreements and debt contracts). In their view, such contracts regularly necessitate corporate managers to disclose appropriate information to enable company stakeholders to observe the companies' managers' compliance with contractual agreements, and to assess whether the management have managed the company's resources in the shareholders' interests.

Another important mechanism to alleviate the principal-agent problem, is the board of directors, who have the ability to control and discipline management on behalf of shareholders. Specifically, the board of directors are responsible for monitoring managerial performance in general, and financial disclosures in particular. A final, effective way of overcoming the agency problem is intermediaries (e.g. financial analysts, rating agencies and industry experts), involved in private information searches to discover managerial misapplication of company resources. As stated by Hossain et al. (1995) where there is a separation of ownership and control of a firm, the 'agency costs' are inevitable because of the conflicts of self-interest inherent between owners and management.

In line with this view, Raffournier (1995) asserts that the separation of ownership and control of a firm generates 'agency costs' resulting from conflicting interests between owners and management of a firm. As Watts and Zimmerman (1979) pointed out, the agency costs arise because the company managers (as the agents) interests do not necessarily agree with the interests of shareholders (as the principals). Also, agency costs arise in any situation involving a cooperative by two or more persons even though

there is no clear cut principal-agent relationship (Jensen and Meckling, 1976). Agency costs comprise monitoring costs, bonding costs and residual loss.

Monitoring costs refer to the expenditure that the principals are agreeable to pay to facilitate the monitoring of agents' actions, such as audit costs; bonding costs are the costs incurred by the agents to guarantee that they will not take certain actions to harm the principal's interests, or that they will compensate the principal if he does take such action, for example, the cost of internal audit or appointing outside members to the board of directors; residual loss refers to the expenses that principals have to incur due to poor managerial decisions (Jensen and Meekling, 1976; Hill and Jones, 1992).

It has been suggested that one of the possible ways to decrease agency costs is to disclose more information concerning the management activities and the economic reality of the firm and through such information, stakeholders and other investors can monitor management more appropriately (Álvarez et al., 2008).

In this regard, Akhtaruddin and Hossian (2008) affirm that information disclosure is motivated by the wish of the managers to efficiently treat the potential conflicts between companies' managers and stakeholders. Consistent with this view, Gray et al. (1995, pp. 46-47) claim that "accounting information is a mechanism for conflict resolution between various stakeholders for both explicit and implied contracts".

From the agency theory point of view, both parties to a contract (the principal and the agent) often do not have the same information and this situation is called "asymmetric information" (Noreen, 1988). Typically, information asymmetry between the principal and the agent occurs when the agent has more information than the principal.

More importantly, information asymmetry gives rise to moral hazard or adverse selection problems. Moral hazard problems arise because of the principal's inability to detect the agent's action choice and when the preference rankings of the principal and the agent over the set of alternative actions diverge (Walker, 1989). Adverse selection is a problem that occurs when the agent has access to information preceding his action choice which cannot be noticed by the principal (Walker, 1989). However, moral hazard and the adverse selection problems can be overcome by disclosing improved public information (Walker, 1989).

In the context of the firm, the information asymmetry problem arises because outsiders to the economic entity (i.e. stakeholders and other investors) have limited access to information about the current and likely future operations of an economic entity. In other words, information asymmetry arises where the company managers have the competitive benefit of information within the company over that of the shareholders and other investors (Arnold and Lange, 2004). In addition, the separation of management and ownership awards company managers with superior information regarding companies' current activities, financial position and future prospects (Asquith and Mullins, 1986).

Consequently, firms' managers have superior information compared to external owners and other investors about the firms' current performance and future prospects. As Akhtaruddin and Hossain (2008, p. 30) among others, affirmed: "it is well known that managers have better access to private information than outside shareholders". Hill and Jones (1992) stated that company managers are in a position to filter or distort the information that they disclose to stakeholders and managers' control over critical information complicates the agency problem. It is, therefore, problematic for stakeholders to identify if managers are performing in their interests. A company manager could mitigate the information asymmetry problem by increasing the amount of information they voluntarily provide to the outsiders of a company (Hossain et al. 2005).

It can be argued that the degree of information asymmetry between corporate managers and external users of financial information is particularly high in a country where financial reporting standards and corporate reporting requirements offer less disclosure (Young and Guenther, 2003). In other words, in a country with high quality accounting and financial reporting standards, the corporate annual reports external users may face fewer information asymmetry problems than a country with a low quality of accounting and financial reporting standards.

Generally, due to the potential of the information asymmetry problem, management of the firms would simply utilise the annual reports of firms to provide additional information and other useful private information to outside stakeholders. As Healy and Palepu (2001) assert, increased demand for financial reporting and disclosure arises

from an information asymmetry problem and the agency conflicts between company insiders and outsiders.

Moreover, companies' managers know that stakeholders seek to control their behaviour through bonding and monitoring activities, therefore they will have more incentive to increase the level of disclosure to convince stakeholders that they are acting optimally (Watson et al., 2002). In this regard, Inchausti (1997) highlights the fact that increased financial and non-financial information disclosure in corporate annual reports may be used to reduce both agency costs and information asymmetries between managers and outsiders. In this respect, Gray et al. (1995, p. 46) explain that clearly "the firm is viewed as a 'nexus of contracts,' and accounting information is demanded by outside owner-shareholders as a means of monitoring contracts with managers".

Accordingly, external owners and other investors require timely and reliable financial and non-financial information about the company in order to be able to monitor the activities and effectiveness of management, and to make investment decisions. Hence, from the corporate annual reports, external users must be able to obtain information they need in a timely manner in the situation where they are in a position to make or anticipate a decision (Mustafa et al., 2007). With this regard, Imam (2000, p. 133) highlighted the primary focus of corporate financial reporting as follows:

Financial reporting is the communication of information about an entity's resources, obligations, earnings, expenditures, and revenues to users. Financial reporting is concerned with the communication of information to those users who have limited authority, ability or resources to obtain the needed information. It communicates information about an economic entity to the users.

It was recognised that the corporate financial reporting and disclosures are potentially important means for managers to communicate company performance and governance to stakeholders (Healy and Palepu, 2001) and stakeholders such as creditors, employees, suppliers, customers, competitors, financial analysts, and regulatory authorities are dependent on the information disclosed in the companies' annual reports in making economic decisions and reviewing the companies' performance. This view was supported by ArabSalehi and Velashani (2009) who affirm that the users of companies' annual reports, and predominantly investors, require useful financial and non-financial information for their decision making.

Additionally, it has been asserted that a company disclosure is needed to evaluate the timing and uncertainty of present and upcoming cash flows, which will help outside investors to evaluate the company performance or make other economic decisions (Meek and Roberts, 1995). Indeed, corporate financial reporting, managerial statements, and security analysts' reports all supply valuable information to stakeholders and other investors in the markets (Asquith and Mullins, 1986).

As a conclusion, according to agency theory, disclosing additional information by companies' managers on a voluntarily basis tends to reduce the agency costs resulting from conflicts between companies' managers and shareholders. It also considers corporate annual reports disclosure as a mechanism to decrease information asymmetry between the company insiders (as agents) and outsiders' investors (as principals).

As underlined by Raffournier (1995) the principal-agent relationship is likely to play a major role in the corporate disclosure policy since those corporate annual reports can be utilised to reduce monitoring costs. In a similar vein, corporate financial reporting and disclosures play the role of a control mechanism for managers' performance recognitions to which managers are likely to disclose more voluntary information (Khelifi and Bouri, 2010). An overview of agency theory is presented in Table 3.1.

Table 3.1: Agency theory overview

➤ Key Idea	<ul style="list-style-type: none"> • Principal-agent relationships should reflect efficient organisation of information and risk-bearing costs
➤ Unit of Analysis	<ul style="list-style-type: none"> • Contract between principal and agent
➤ Human Assumptions	<ul style="list-style-type: none"> • Self-interest • Bounded rationality • Risk aversion
➤ Organisational Assumptions	<ul style="list-style-type: none"> • Partial goal conflict among participants • Efficiency as the effectiveness criterion • Information asymmetry between principal and agent
➤ Information Assumption	<ul style="list-style-type: none"> • Information as a purchasable commodity
➤ Contracting Problems	<ul style="list-style-type: none"> • Agency (moral hazard and adverse selection) • Risk sharing
➤ Problem Domain	<ul style="list-style-type: none"> • Relationships in which the principal and agent have partly differing goals and risk preferences (e.g., compensation, regulation, leadership, impression management, whistle-blowing, vertical integration, transfer pricing)

Source: Adapted from Eisenhardt, 1989.

3.2. Signalling Theory

Signalling theory was originally developed and used to explain information asymmetry in labour markets (see Spence, 1973). This theory has also been widely used by accounting researchers as a further theory to explain why companies voluntarily disclose additional information in their annual reports (e.g. Raffournier, 1995; Haniffia and Cooke, 2002; Walston et al., 2002; Akhtaruddin and Hossain, 2008). According to Morris (1987) signalling is a common phenomenon relevant in the market with information asymmetry; hence the signalling theory shows how this asymmetry can be reduced by the party with additional information signalling it to others. Moreover, “signalling theory provides an unique, practical, and empirically testable perspective on problems of social selection under conditions of imperfect information” (Connelly et al., 2011, p. 63).

A signal can be a visible action or structure utilised to indicate the sign of quality, typically the sending of a signal is grounded on the premise that it should be positive to the signaller (An et al., 2011). As explained by Morris (1987), in most signalling models, the subsequent steps are likely to occur: essentially, sellers in the market are assumed to own more information about their products than buyers. In this situation, the buyers have no information about particular products but they have some general perceptions. Then the buyers will individually value the sellers' products at the same price which is a weighted average of their overall perceptions.

Under such a scenario, sellers of high average quality products incur an opportunity loss because their products could sell at a higher price if the buyers have been informed about the quality of products, whereas sellers of below average products make a chance gain. Alternatively, sellers of high quality products may have an incentive to withdraw their products from the market.

On the other hand, sellers of superior products may have an incentive to disclose their information (or signal) to the market to distinguish their products from that sold by other sellers who have lower value products (Dye, 2001, p. 217). As illuminated by Erdem and Swait (1998), sellers know better than buyers about the quality of products they are selling in the market (asymmetric information) and buyers cannot easily assess product quality (imperfect information).

Therefore, if the quality of the product cannot be signalled to the buyers, high and low quality products are selling for the same price. As a consequence, high quality products are underestimated and low quality products overestimated. As Akerlof (1970) stresses, the bad products sell at the same price as good products since it is difficult for the buyer to recognise the difference between a good and a bad product; only the seller knows.

There are ways by which the high quality sellers' products can distinguish themselves. One is to disclose information indicating quality then the buyer can verify certain of this information, and such self-verification will give credibility to the rest (Easterbrook and Fischel, 1984). Einhorn (2007) predicted that buyers sensibly interpret nondisclosure information (non-signalling) regarding the seller's products being sold as "bad news".

Therefore, the buyers will discount the price of the product up to a point at which it is in the seller's interest to reveal the information. Kirmani and Rao (2000) argue that

signalling may be mainly operative in the market for comparatively new products or products about which buyers are relatively uninformed. According to signalling theory the information asymmetry between sellers and the prospective buyers can be overcome by the sellers with more detailed information signalling it to buyers (Morris, 1987). As stated in Connelly et al. (2011, p. 39):

Signalling theory is useful for describing behaviour when two parties (individuals or organizations) have access to different information. Typically, one party, the sender, must choose whether and how to communicate (or signal) that information, and the other party, the receiver, must choose how to interpret the signal.

In the corporate disclosure scenario, signalling theory hypothesises that the managers of superior performance companies use corporate disclosure to send signals to shareholders and the capital market. In accordance with this theory, a firm's information disclosure can be considered a signal to capital markets, directed to reduce information asymmetry which often exists between management and stakeholders as well as to increase the firm's value (Álvarez et al., 2008). More precisely, voluntarily disclosing information in annual reports can be used by companies' managers as a signal to send specific information to the market participants (Khlifi and Bouri, 2010).

Based on the signalling theory viewpoint, companies' managers are interested in disclosing 'good news' to the market participants in order to avoid the undervaluation of their shares (Inchausti, 1997). Additionally, managers of companies who are more interested to disclose additional information voluntarily bear in mind that this guarantees a good signal about their companies' performance and weakens information asymmetry (Khlifi and Bouri, 2010). Specifically, the signalling theory mainly has stressed the deliberate communication of positive information in an effort to express positive managerial attributes (Connelly et al., 2011).

From theoretical predictions in signalling theory, the management of high performance companies will choose accounting policies which allow their higher performance to be disclosed, whereas management of lower performance companies will choose accounting policies which attempt to hide their poor performance (Morris, 1987). For example, Cai et al. (2007) state that the management of higher quality companies may voluntarily adopt segment reporting to disclose the superior risk-return profile of its

activities, whereas management of low quality companies would not (see Morris, 1987). Furthermore, management of higher quality companies are capable of closing the asymmetric information gap via using costly signals of quality, but management of poor quality companies are not capable of mimicking.

Besides, signalling theory's prediction is that managers of companies released additional financial as well as non-financial information to signal that their performance is for the best interest of stakeholders (Akhtaruddin and Hossian, 2008). Therefore, companies' managers will have an incentive to disclose all positive distinguishing qualities in order to maximise their own self-interest (Campbell et al., 2001). For instance, Easterbrook and Fischel (1984) point out that a company with a good project, seeking to discriminate itself from a company with an average project, will disclose greater information.

It has also been argued that management of a firm often attempts to adopt the same disclosure level as other firms within the same business. In this case, if a firm does not maintain the same disclosure level as others then stakeholders may be interpreted that the firm is hiding bad news (Victoria et al., 2009).

Moreover, managers would voluntarily reveal additional information to stakeholders and other investors than required by law or any specific regulations if they perceive welfare from doing so (Gray et al., 1995). For example, managers of firms may attempt to signal that they are superior to others by revealing certain environmental or social disclosure in their firms' annual reports. However, if companies' management expect that an obligation to disclose more information at present might be used to hold them further responsible for any following poor performance and therefore they possibly will not desire to increase the level of disclosure in a period of poor performance (Healy and Palepu, 2001).

Signalling is recognised as a feasible strategy when two situations hold: (i) for the management of a high-quality company, the benefits from signalling outweigh the benefits of any other strategy; (ii) for the management of a low-quality company, a non-signalling strategy supplies a superior payoff than does signalling (Kirmani and Rao, 2000). For management companies to signal their quality successfully, the signal must

be credible and the credibility is achieved as eventually the true quality of the company will be confirmed. If the companies' management misleadingly attempt to signal that they are of high quality, while they are in fact low quality, once this has been discovered the upcoming disclosures will not be considered credible (Watson et al., 2002).

Undoubtedly, managers have incentives to make self-serving voluntary disclosures; it is therefore unclear whether managers' voluntary disclosures are credible. It has been argued by Easterbrook and Fischel (1984) that truthful information is essential to guarantee that money moves to managers who can utilise it most efficiently and that shareholders make ideal selections about the contents of their portfolios. Thus "a world without adequate truthful information, is a world with too little investment, and in the wrong things to boot" (Easterbrook and Fischel, 1984, P. 673).

Healy and Palepu (2001) suggest two feasible mechanisms for enhancing the credibility of corporate voluntary disclosures. First, third-party intermediaries (e.g. auditors and financial analysts) can provide guarantees about the quality of voluntary disclosures made by companies. Second, preceding corporate voluntary disclosures can be validated via the required financial reporting itself. However, disclosing certain information might harm the company's competitive position and consequences in higher costs of disclosure, which mirrors the proprietary nature of some information (Diamond, 1985).

As Darrough (1993) asserts, public information disclosure in annual reports can influence a disclosing company negatively if market participants have a plan to utilise the information to their benefit. Further, it is believed that information disclosed by an economic entity regularly benefits competitors because competitors will enhance their skill to learn from informative disclosure and that would aid to maximise competitive disadvantage for the disclosing firm (Elliott and Jacobson, 1994). Inchausti (1997) also indicates that managers of firms have a disincentive to disclose certain sorts of information for competitive causes.

For example, Cormier and Magnan (1999) illustrate that there may be a cost from information disclosure when the information is utilised by external users against the company's benefit. A firm's management will choose not to provide certain voluntary disclosures when it believes that the hazard of competitive hurt outweighs the

predictable advantage from revealing the voluntary disclosure of information (FASB, 2001). In this respect, Craswell and Taylor (1992) point out that regardless of whether information disclosure has a positive or negative influence on the company value, costs will be enforced on the company if competitors, dissident stockholders or employees can utilise the information in a way that damages the company's prospects.

For instance, disseminating detailed information regarding oil and gas reserves may lessen their proprietary value to the disclosing firms, since competitors employ the information to plan their exploration and production strategies (see Craswell and Taylor, 1992). Elliott and Jacobson (1994) identified three categories of information that might generate a competitive disadvantage for the company, these are: (i) information about technological and managerial innovation, (ii) strategies, plans, and tactics, and (iii) information about operations.

In summary, signalling theory suggests that voluntary information disclosure in corporate annual reports can be used as a signal in order to improve the corporate image/reputation, attract new investors, lower capital costs and also help to improve its relationships with the relevant stakeholders. This theory would also suggest that superior performance economic entities should signal their benefits to the markets. Under this theory, companies' managers tend to make voluntary disclosure decisions over nondisclosure decisions.

In this sense, signalling theory conceives voluntary disclosure as a signalling mechanism adopted by companies' managers to distinguish themselves from others on achievements. As has been asserted by Álvarez et al., (2008) voluntary information disclosures can be considered a signal to capital markets, directed to reduce the asymmetry of information that often exists between insiders and outsiders of a company, and to enhance corporate value.

3.3. Capital Need Theory

The capital need theory can also help to explain the reasons behind the disclosure of voluntary information made by companies. This theory implies that companies' managers have an incentive to disclose additional information that enables them to raise capital on the best available terms (Gray et al., 1995). As pointed out by Healy and Palepu (2001) firms' managers who are intending to make capital market transactions

have motivations to disclose information voluntarily to decrease the information asymmetry problem and thus decrease the external financing cost.

The capital need theory predicts that increased voluntary disclosure of information by the company's managers will enable them to lower the company's cost of capital through reducing investor uncertainty (Schuster and O'Connell, 2006). In this respect, Botosan (1997) added that additional information disclosure enhances stock market liquidity thereby decreasing costs of equity capital either through reduced transactions cost or increased demand for a company's shares. Thus, more voluntary information disclosure is preferable to less, in order to decrease the uncertainty surrounding a company's future performance and to assist trading in shares (Hassan et al., 2011).

According to this theory, revealing greater information in annual reports helps to attract new investors thereby helping to maintain a healthy demand for the company's shares and a share price in the market will more accurately reflect its intrinsic value (Cooke, 1989b). At the same time, companies with a higher level of disclosure should reasonably tend to gain higher stock prices over the long run (Stanga, 1976). The argument is that enhanced corporate disclosure is expected to lead to improvements in investors' capital-allocation decisions as well as investors' assessment of the return from a firm's share (Schuster and O'Connell, 2006).

As has been emphasised by Craven and Marston (1999, p. 323-24), there are several motivations that can motivate companies' managers to get involved in voluntary disclosure decisions:

One incentive for voluntary disclosure is the need to raise capital at the lowest possible cost. Companies might increase their voluntary disclosure in order to raise capital more cheaply on the markets. This will increase transparency and reduce information asymmetries between the company management and market participants. Additional disclosures may help the listed companies to attract new shareholders, thus enabling companies to maintain a healthy demand for shares with a liquid market.

According to Firth (1980), managers of the firms will still be influenced to release more information to their annual reports users, particularly at the period of raising new funds in the stock market. This hypothesis was based on three basic assumptions: (a) managers of firms aspiration to raise the capital as cheaply as possible, (b) greater

voluntarily disclosed information may lead to a reduction in agency costs and therefore new capital may be raised by a firm more cheaply, and (c) providing additional disclosure by managers of firms helps to decrease the perceived level of investors' uncertainty about the firms' future earnings and hence investors have an incentive to reduce the rate of return.

There are also suggestions that disclosing more information in annual reports by company managers could lead to increased stock liquidity through decreased transaction costs and raised demand for a firm's securities, and also lessening the uncertainty surrounding the valuation of share returns (Hassan et al., 2009). In this regard, Diamond and Verrecchia (1991) assert that disclosing more information will improve upcoming liquidity of the company's shares and this can help to reduce the company's cost of equity. Additionally, disclosing more meaningful financial and non-financial information by the company management on a voluntary basis will considerably improve its credibility among market participants (Schuster and O'Connell, 2006).

It has also been argued that greater information disclosure in corporate annual reports tends to reduce the fluctuation of a company share price. For example, Singhvi and Desai (1971) demonstrate empirically that poor disclosure in corporate annual reports probably extends fluctuations in share prices in the market, which leads to inefficient allocation of capital resources in the economy. As explained in Einhorn (2007, p. 246): "Corporate voluntary disclosure is commonly viewed in the literature as being motivated by the wish of the firm's management to inflate the investors' expectations about the value of the firm and thereby maximize the price at which the firm's stocks are traded in the capital market" (Einhorn, 2007, p. 246).

More specifically, Soltani (2000) claims that a company's voluntary information disclosure can yield three types of capital market effects, which include improved liquidity for their shares in the stock market; decreases in their cost of capital; and increases in financial analysts following the firm. In particular, companies' information disclosures to capital markets will help stakeholders evaluate the companies more correctly and in turn can benefit managers learning of the capital market value, thereafter improving the company's strategic and operational decisions (Dye, 2001, p. 228).

A substantial amount of empirical disclosure research has shown that there is a negative relationship between the cost of equity capital and the levels of disclosure in corporate annual reports. For instance, Botosan (1997) found a negative relationship between a self-constructed measure of voluntary disclosure level and the cost of equity capital for firms with low analyst following. Empirical evidence of Sengupta (1998) also provides theoretical evidence that shows that companies having higher disclosure ratings from financial analysts experienced lower cost of equity capital and lower cost of debt.

Additionally, Botosan and Plumlee (2000) also found a significant negative association between cost of equity capital and analyst rankings of companies' disclosure levels. In a related empirical study, Botosan and Plumlee (2002) provide further empirical evidence for a negative relationship between the highest level of disclosure and the cost of equity capital. Similarly, Hail (2002) documents a significant negative relationship between the extent of disclosure in the annual reports and the cost of equity capital.

In a recent study, Gietzmann and Ireland (2005) also document evidence that the level of corporate voluntary disclosure was negatively associated with the cost of equity capital. In the context of banking voluntary disclosure, Poshakwalea and Courtis (2005) also document strong evidence that higher levels of voluntary disclosure are associated with a reduction in cost of equity capital. A more recent study by Kristandl and Bontis, (2007) found an expected negative association between the level of voluntary disclosure (forward-oriented information) and cost of equity capital.

Consistent with the results of previous empirical disclosure research, Reverte (2012) also found a significant negative association between the cost of equity capital and the level of voluntary disclosure ratings. Thus, these empirical studies show that greater annual report disclosure could result in lower cost of equity capital. As has been concluded by Dye (2001, p. 224), "most accounting researchers would agree that, by disclosing more information, a firm can lower its cost of capital".

Besides, there is other empirical disclosure research evidence, which shows that increased public disclosure enhances stock market liquidity (e.g. Glosten and Milgrom, 1985; Diamond and Verrecchia, 1991; Welker, 1995; Healy et al., 1999; Zhang and Ding, 2006; Heflin et al., 2005). Diamond and Verrecchia (1991) document empirical evidence that more information disclosed by company managers leads to reduced

information asymmetry, which increases the liquidity of the market for a company's shares.

In another study, Welker (1995) finds a negative relationship between higher analysts' ratings of the corporate disclosure policy and a company's bid-ask spread as a proxy of stock market liquidity. Similarly, Heflin et al. (2005) find evidence that higher quality disclosures are associated with higher liquidity, utilising two measures of liquidity; bid-ask spreads and depth. More recently, Zhang and Ding (2006) provide further empirical evidence that greater disclosure is negatively associated with bid-ask spreads. These empirical disclosure studies provide clear evidence that greater disclosure in corporate annual reports enhances stock market liquidity.

In spite of the apparent benefits from increased disclosed financial and non-financial information in corporate annual reports, which includes enhanced liquidity and a lower cost of capital, some argue that there is an incentive for company managers to withhold information because a shortage of information obstructs the capacity of investors and other users to monitor companies effectively (Karamanou and Vafeas, 2005).

In addition, it assumes that disclosure of information concerning enhanced prospects that are ambiguous and unverifiable at the time of disclosure releases a company to possible legal action, should the final consequence be inauspicious (Kothari, 2000). Furthermore, shareholders and other interested parties might suspect or misinterpret the managers' intentions when they release additional information to the market with no legal obligation to do so (Hassan, et al., 2009).

Overall, from theoretical predictions in capital need theory, it can be seen that greater annual report disclosure can help to reduce the problem of information asymmetry which often exists between the company management and its shareholders, it improves stock liquidity, and lowers the cost of raising finance in the markets for disclosing a company.

Indeed, the existing disclosure literature has provided empirical evidence which supports these theoretical predictions. As Collett and Hrasky (2005 p. 190) affirmed "Consistent with the capital market transactions hypothesis, empirical evidence suggests

that, in general, voluntary disclosure is associated with positive capital market outcomes”.

3.4. Legitimacy Theory

The legitimacy theory is derived from the broader political economy perspective and has also been used as a further academic theory in accounting literature to explain managements’ motivations for particular voluntarily information disclosure. Specifically, this theory has been employed extensively as an explanatory theory by earlier accounting scholars to explain the motivations behind voluntary corporate social and environmental disclosures (e.g. Guthrie and Parker, 1989; Patten, 1991; Gray et al., 1995; Deegan and Gordon, 1996; Brown and Deegan, 1998; Wilmhurst and Frost, 2000; Milne and Patten, 2002; O'Donovan, 2002; O'Dwyer, 2002; Deegan et al., 2000, 2002; Watson et al., 2002; Nik Ahmad and Sulaiman, 2004; Luft Mobus, 2005; Bebbington et al., 2008; Laan, 2009; Cowana and Deegan, 2011).

As Van der Laan (2009, p. 20) noted “from the early 1980s, legitimacy theory has been employed by researchers who sought to examine social and, more particularly, environmental accounting practice”. In line with this view, Deegan et al. (2002) emphasise that legitimacy theory seems to be the most commonly employed theory in social and environmental disclosure research. The term “legitimacy” has been defined and interpreted in many various ways by several authors. Legitimacy is defined by Lindblom (1994, cited in Gray et al., 1995, p. 54) as:

...a condition or status which exists when an entity’s value system is congruent with the value system of the larger social system of which the entity is a part. When a disparity, actual or potential, exists between the two value systems, there is a threat to the entity’s legitimacy.

Suchman (1995, p. 574) also defines legitimacy which is drawn from the concept of organisational legitimacy as “a generalised perception or assumption that the actions of any entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs and definitions”. Legitimacy as described by Scott (1992, p. 305) “is the property of a situation or behaviour that is defined by a set of social norms as correct and appropriate”. According to Tyler (2006), legitimacy is a perceived commitment to social authorities or to present social arrangements.

The concept of “legitimacy” is “loosely referring to socially accepted and expected structures or behaviours” (Mitchell et al., 1997, p. 866). Mitchell et al. (1997) further specified that it is commonly linked implicitly with that of power when individuals try to assess the nature of social relationships. In the same vein, Krapeis and Arnold (1996) point out that, the concept of legitimacy is a complex issue since legitimacy is defined in different ways by various writers. In terms of organisational legitimacy, O’Donovan (2002, p. 347) claimed the following:

The status of a corporation’s legitimacy may be difficult to establish, given that a corporation’s legitimacy is based on social perceptions and values which can and do change over time. In order to manage legitimacy, corporations need to know how legitimacy can be gained, maintained or lost.

Suchman (1995) distinguishes between three broad types of organisational corporate legitimacy; pragmatic legitimacy, moral legitimacy, and cognitive legitimacy. The first type, pragmatic legitimacy, is based on the self-interested calculations of a company’s most immediate stakeholders. The second type, moral legitimacy, is based on judgments about whether the activity is “the right thing to do”, rather than whether the activity benefits a company evaluator (stakeholders).

A third type, cognitive legitimacy, is based on comprehensibility or ‘taken-for-grantedness’, rather than on the stakeholders’ self-interest. Each type of legitimacy utilised an appropriate strategy for gaining, maintaining, and repairing legitimacy (see Table 3.1). In addition, Suchman (1995, p. 577) made the following comment about all three types of organisational corporate legitimacy (pragmatic legitimacy, moral legitimacy, and cognitive legitimacy):

All three types involve a generalized perception or assumption that organizational activities are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions. However, each type of legitimacy rests on a somewhat different behavioral dynamic.

Table 3.2: Legitimation strategies

	Gain	Repair	Maintain
General	<ul style="list-style-type: none"> Conform to environment Select environment Manipulate environment 	<ul style="list-style-type: none"> Perceive change Protect accomplishments <ul style="list-style-type: none"> -Police operations -Communicate subtly -Stockpile legitimacy 	<ul style="list-style-type: none"> Normalize Restructure Don't panic
Pragmatic	<ul style="list-style-type: none"> Conform to demands <ul style="list-style-type: none"> -Respond to needs -Co-opt constituents -Build reputation Select markets <ul style="list-style-type: none"> -Locate friendly audiences -Recruit friendly co-optees Advertise <ul style="list-style-type: none"> -Advertise product -Advertise image 	<ul style="list-style-type: none"> Monitor tastes <ul style="list-style-type: none"> -Consult opinion leaders Protect exchanges <ul style="list-style-type: none"> -Police reliability -Communicate honestly -Stockpile trust 	<ul style="list-style-type: none"> Deny Create monitors
Moral	<ul style="list-style-type: none"> Conform to ideals <ul style="list-style-type: none"> -Produce proper outcomes -Embed in institutions -Offer symbolic displays Select domain <ul style="list-style-type: none"> -Define goals Persuade <ul style="list-style-type: none"> -Demonstrate success -Proselytise 	<ul style="list-style-type: none"> Monitor ethics <ul style="list-style-type: none"> -Consult professions Protect propriety <ul style="list-style-type: none"> -Police responsibility -Communicate authoritatively -Stockpile esteem 	<ul style="list-style-type: none"> Excuse/justify Disassociate <ul style="list-style-type: none"> -Replace personnel -Revise practises -Reconfigure
Cognitive	<ul style="list-style-type: none"> Conform to models <ul style="list-style-type: none"> -Mimic standards -Formalise operations -Professionalise operations Select labels <ul style="list-style-type: none"> -Seek certification Institutionalise <ul style="list-style-type: none"> -Persist -Popularise new models -Standardise new models 	<ul style="list-style-type: none"> Monitor outlooks <ul style="list-style-type: none"> -Consult doubters Protect assumptions <ul style="list-style-type: none"> -Police simplicity -Speak matter-of-factly -Stockpile interconnections 	<ul style="list-style-type: none"> Explain

Source, Suchman, 1995

Legitimacy theory is grounded in the concept that the economic entity operates in society through a “social contract” where it agrees to carry out different socially desired activities in return for approval of its objectives, other rewards and its continued existence (Gurthrie and Parke, 1989; Watson et al., 2002; Deegan, 2002).

The ‘social contract’ represents the multitude of implicit and explicit expectations that society has about how an economic entity should conduct its activities (Newsona and Deegan, 2002; Guthrie et al., 2004). Accordingly, society will allow the economic entity to continue its operations if it complies with the social contract. Under the social contract, managers of firms must carry out their activities within the predictions and norms of the society at large, not only shareholders’ predictions and norms (Davey and Eggleton, 2011).

According to legitimacy theory, companies are expected to carry out their operations within the boundaries of what is deemed satisfactory by the community (Wilmshurst and Frost, 2000). Specifically, the insights provided by legitimacy theory would suggest that economic entities exist in society under social contract which can be either explicit or implicit. Therefore, an economic entity is expected to comply with the terms of this ‘contract’, and these expressed or implied terms are not static (Brown and Deegan, 1998).

In this context, O’Donovan (2002) indicated, in order for organisations to continue operating successfully in the market, they must conduct their operations within the bounds and norms (social contract) of their respective societies. Based on this perspective, failure of a company management to comply with the terms of the ‘social contract’ will bring social sanctions on the company, and may ultimately lead to loss of legitimacy.

In other words, if the company does not seem to operate within the bounds and norms of that behaviour which is considered by the relevant society as right, then society may act to eliminate the company's rights to continue operations. In this view, Brown and Deegan (1998) stressed that companies will be punished if they do not work in a manner consistent with the societal expectations. Moreover, Cowan and Deegan (2011) argued that the fundamental target of legitimating business operations is to gain, maintain or repair legitimacy from the business’s relevant publics.

As stressed by Elsbach and Sutton (1992) the organisational legitimacy is conferred when stakeholders who are affected by organisational outcomes, authorise and support an organisation's goals and activities. In addition, legitimacy is important for any organisation because it eases the access to funds needed for their survival (Ivanova and Castellano, 2010).

It also can improve both the stability and the comprehensibility of the company activities, and these two aspects of a legitimised organisation often enhance each other (Suchman, 1995). However, as pointed out by Suchman (1995) legitimacy varies from industry to industry, from state-owned companies to private companies, from new companies to old companies, or from the commencement of the companies' life cycle to the end. As illustrated by Zimmerman and Zeitz (2002), industries have varying degrees of legitimacy, grounded in a range of activities and significances stemming from the shared action of industry participations.

For instance, the oil industry's reputation has been tarnished by highly observable oil spills, the chemical industry has been criticised in the past by environmental groups, which may have lessened legitimacy, and in contrast, several well-established industries have high levels of legitimacy such as, banking and medicine (see Zimmerman and Zeitz, 2002, p. 421). It could be argued that this is not the case anymore, since the financial crisis, banks have lost legitimacy and credibility.

The legitimacy theory assumes that the growth of public awareness and concern will result in managers of the companies taking procedures to make sure their actions and performance are acceptable to their communities (Wilmshurst and Frost, 2000). So management of companies would voluntarily reveal information on actions when they perceived that the specific actions were expected by the societies in which their companies function (Guthrie et al., 2004).

In addition, the legitimacy theory would suggest that a company's disclosure practices are a tool to establishing or protecting the company's legitimacy in that they may affect both stakeholders decisions and policy (Tilt and Symes, 1999). It seems, therefore, that corporate disclosures can be used to show that the corporate firm is conforming with public expectations, or otherwise, they could be utilised to modify societal expectations (Deegan et al., 2002).

As Singh and Point (2009) state, the objective of corporate disclosures in annual reports such as voluntarily disclosed information would be to communicate the business's values and activities that not only comply with relevant law and regulation but also with societal expectations (Singh and Point, 2009).

Again, this theory advocates that corporate voluntary disclosures are considered as part of a process of legitimation (Van der Laan, 2009). Because of their role in society, economic entities are required to disclose an adequate amount of financial information as well as non-financial information to demonstrate that they are fulfilling their obligations to society.

As Tsang (1998) asserts, a sufficient amount information needs to be disclosed for society to measure how far a company is a good corporate citizen. According to Brown and Deegan (1998) legitimacy theory posits that managers of companies continually attempt to ensure that their activities and performance are within the boundaries and norms of their respective society. In this respect, changes in social norms and values are considered one motivation for corporate change and also one source of pressure for corporate legitimation (O'Donovan, 2002). As has been affirmed by Deegan et al. (2002) expectations of the public will change over time and therefore the management of a company need to provide disclosure to illustrate that it is also changing, since change actions without telling the relevant publics of such changes might be considered to be inadequate.

It has been emphasised that the legitimacy of the company will be threatened when there is a conflict between the relevant community's expectations of the business performance and the business's actual performance; this is referred to as a 'legitimacy gap' (Brown and Deegan, 1998). Consistent with this argument, Van der Laan (2009) point out that a legitimacy gap arises when the organisational performance does not meet the expectations of 'relevant publics' or primary stakeholder groups.

A legitimacy gap is a dynamic concept, since the business performance and social expectations change across time and they respond to environmental change and corporate behaviour (Sethi, 2003). More precisely, Wartick and Mahon (1994, p. 302) indicated that the legitimacy gap occurs as a result of three reasons: (a) corporate

performance changes while societal expectations of corporate performance remain the same, (b) societal expectations of corporate performance change while corporate performance remain the same, and (c) both corporate performance and societal expectations of corporate performance change, but they diverge or move in the same direction with a lead/lag relationship.

A continually widening gap would cause an economic entity to lose its legitimacy and thereby threaten its survival (Sethi, 1979). Most importantly, failure of the management company to close the legitimacy gap outcomes will be withdrawn by certain communities (Eccles et al., 2004). Hence, it is particularly important that company managers must struggle to confine the legitimacy gap. Because narrowing the legitimacy gap will help their companies to appeal to their quota of society's physical and human resources and to uphold the highest discretionary control over its outside transactions as well as its internal decision-making (Sethi, 1979). In accordance with this theory, voluntary disclosures provided in annual reports can be utilised to narrow the legitimacy gap between how the business desires to be perceived and how it actually functions (Campbell, 2000).

Furthermore, legitimacy theory posits that managers of firms require disclosing meaningful information to legitimise their firms' actions and satisfy the information needs of various stakeholders regardless of the economic situations, whether good or bad (Mia and Al- Mamun, 2011). It has also been advocated that providing additional information (financial and non-financial information) will enhance the corporate image, accordingly improving their opportunities to muster community support to overturn political actions (Craswell and Taylor, 1992).

Lindblom (1994, cited in Gray et al., 1995) suggested four broad legitimation strategies that managers of companies may adopt to close a perceived legitimacy gap:

- Managers of companies may seek to educate and inform their "relevant publics" about (actual or planned) changes in the companies' performance and activities.
- Managers of companies may seek to change the perceptions of the relevant publics without changing their actual performance.

- Managers of companies may seek to manipulate perception by deflecting attention from the issue of concern to other related issues through an appeal to, for example, emotive symbols.
- Managers of companies may seek to change external expectations about their performance.

In relation to the managers' legitimising strategies which are suggested by Lindblom (1994), Gray et al. (1995) explain the situations under which each of the four strategies managers may choose to remain legitimate: the first strategy can be chosen in response to a realisation that the "legitimacy gap" arose as a result of failure of performance of the company. The second strategy can be adopted when the management company perceives that the legitimacy gap has arisen due to misperceptions on the part of the relevant publics.

The third strategy can be selected when managers of companies want to manipulate; for example, when a firm with a legitimacy gap concerning its pollution performance selects to ignore the pollution and moves the discourse towards its participation with environmental charities. The fourth strategy can be used when the corporate managers consider that shareholders have unrealistic or incorrect expectations of their accountabilities. In addition, O'Donovan (2002) further identified four steps that must be implemented by an organisation to manage its legitimacy effectively:

- (i) identify its conferring communities;
- (ii) find its conferring communities' social and environmental values and perceptions of the organisation;
- (iii) determine the purpose or intention of any probable organisational reaction to legitimacy threats; and,
- (iv) determine what policies and disclosure choices are available and suitable for managing legitimacy, connected to the purpose of the organisational response.

To sum up, in light of the theoretical arguments discussed above, the legitimacy theory is founded on the notion that there is a social contract between an economic entity and the society in which it operates. This theory suggests that voluntary information disclosures are part of a process of legitimation and used as a device for economic

entities to demonstrate that their activities are in consensus with the bounds and norms of their respective society. Besides, according to the legitimacy based arguments, voluntarily disclosing additional information in corporate annual reports is an effort to alleviate public pressure or legitimate a company's actions.

As predicted by legitimacy theory, managers of firms would voluntarily disclose more information of actions if they perceived that the specific actions were expected by the publics in which their companies operate (Guthrie et al., 2004). Based upon the theoretical perspectives provided by legitimacy theory, it seems this theory may not provide a comprehensive foundation for an explanation of overall voluntary disclosure practices by financial and non-financial companies, however it can partially provide an explanation for managerial motivation to voluntarily disclose social and environmental information.

3.6 Summary and Conclusions

This chapter has discussed the most common academic theories that have attempted to explain why companies voluntarily disclose information in their annual reports, namely agency theory, signalling theory, capital need theory, and legitimacy theory. These theories have been developed and used to provide explanatory insights to voluntary corporate disclosure phenomena. However, there is no single theory offering a satisfactory explanation of the voluntary disclosure behaviour since each of these theories has its own particular assumptions and it explains voluntary corporate disclosure phenomena through a specific theoretical viewpoint. Such a view was supported by Khelifi and Bouri (2010, p. 62) who affirm that “in spite of the need to develop a specific theory of disclosure, there is not a definite one that has been conceived to satisfy this requirement”.

It is obvious that up to now there is no agreement within academic theory, which attempts to provide a theoretical explanation for voluntary disclosure practices by companies. It is supposed that by using theoretical triangulation or more than one theory may help accounting researchers and others to better understand the motivations for corporate voluntary disclosure practices.

It is noteworthy that company disclosure is a complex phenomenon that cannot be explained by using one theory (Cormier et al., 2005). Furthermore, Morris (1987, p. 52) highlighted that: “given the consistency, signalling and agency theories, it is conceivably possible to combine them to yield predictions about accounting choices not obtainable from either theory alone”. Morris (1987) elaborates further that the prediction of accounting (financial reporting) policy choices can at least be enhanced through mixing or adding together the predictions from each theory.

Accordingly, for the purpose of the current study, agency theory and signalling theory will be adopted to form the research expectations and to formulate the testable hypotheses in Chapter Six, and will also be used to interpret the results achieved from empirical investigation in chapters six and seven. By integrating agency theory with aspects of signalling theory in this research study, it will provide a useful theoretical framework for understanding and gaining a better insight into the motivations behind disclosing more information voluntarily in the annual reports of listed and unlisted Libyan commercial banks, rather than using a single theoretical perspective (theory).

The next chapter will give an overview of the background to Libya and its banking sector while the research methodology and the research hypotheses will be discussed in Chapter Six.

Chapter Four

Libyan Background and Banking Sector

4.1 Introduction

Different corporate financial reporting and disclosure practices often come from the different social, historical, political, economic and legal systems that prevail within countries (Nobes, 1983; Cairns, 1988; Gray, 1988; Kettunen, 1993). A common view among accounting researchers is that “Each country’s financial reporting practices follow a set of principles, rules, or conventions that have evolved in the political, legal, economic, and cultural environments of that country” (Qureshi, 1979, cited in Ding et al., 2008, p. 145). As Chand et al. (2008, p. 120) noted, “countries are inclined to adopt a financial reporting system that is aligned with the prevailing financial system in the country”.

Financial reporting and disclosure practices cannot, therefore, be studied in isolation of country specific factors. Certainly, the discussion of environmental factors will help in interpreting the current research findings in ways that help in gaining a better understanding of the Libyan commercial banking voluntary disclosure phenomenon. Hence, this chapter aims to provide an overview of the Libyan environment and its general background, which includes the geographical and population, historical, political, and economic background and current economic development. The chapter also intends to explore the Libyan banking sector, its historical and recent developments; it will then review the Libyan Stock Market (LSM) and its contribution to the national economy.

Consequently, the remainder of the chapter is organised as follows: Section 4.2 provides a comprehensive overview of the general background of Libya, which includes geography of Libya (4.2.1) and population of Libya (4.2.2), a brief historical and political background (4.2.3), and overview of Libya’s economy (4.2.4). Section 4.3 presents the Libyan Stock Market (LSM), includes a brief history of the LSM (4.3.1), followed by objectives behind the establishment of the LSM (4.3.2), the general listing

requirements (4.3.3), and special listing requirements (4.3.4). Section 4.4 is devoted to examining the banking sector in Libya, which includes a brief history of the Libyan banking sector (4.4.1), Libya's banking sector reforms (4.4.2), and the structure of the Libyan banking sector (4.4.3). Finally, a summary and conclusions of this chapter are presented in Section 4.6.

4.2 The Libyan Background

This section contains a comprehensive overview of the general background of Libya, which is organised into three subsections: subsection 4.2.1 gives a brief outline of the geographical background, the country's population is represented in subsection 4.2.2, and subsection 4.2.3 deals with the historical and political background of Libya; this is followed by a brief review of the Libyan economic background and current developments which are discussed in subsection 4.2.4.

4.2.1 Geography of Libya

Libya is located in the north-central part of Africa (see Figure 4.1); it is bounded on the north by the Mediterranean Sea, on the south by Niger and Chad, on the east by Egypt, on the southeast by Sudan, on the west by Algeria, and on the northwest by Tunisia (see Figure 4.2). The total area of Libya is about 1,775,500 square kilometres (685,000 square miles), as large as France, Italy, Spain, and Germany combined.

Libya is the fourth country in size among the countries of Africa and the fifteenth among the countries of the world (Metz, 1987, p.46). Almost 45% of the land of Libya is desert, while 19% is arable land, 17% is permanent crops, 20% is pastures, and 4% is forest (Plan Bleu, 2002). Libya has regional sea ranges of about 12 nautical miles and to the Gulf of Sidra closing line of 32° 30' north; it lies on the southern coast of the Mediterranean Sea with a length of about 1,770 kilometres. The Mediterranean coast and the Sahara desert are the country's most noticeable natural geographies.



Figure 4.1



Figure 4.2

Figure 4.1: Location of Libya in the African continent

Source: <http://worldatlas.com/webimage/countrys/africa/ly.htm>

Figure 4.2: Libya and its borders

Source: http://www.africa.upenn.edu/Country_Specific/Libya.html

Libya's location is tropical and semi-tropical with large areas of desert, meaning the temperature in the country does not differ significantly from one region to another. In general, the climate condition in Libya is very hot in the summer except for the coast, Green Mountain and the West Mountain, and it is moderate to cold in the winter months. There is increased temperature range between day and night, summer and winter with the trend towards the south away from the influences of the Mediterranean climate.

The average temperatures in most areas on the country's north sea coast during the summer are about 30°C, but temperatures tend to be higher in the south than the northern regions in summer months; afternoon temperatures are usually recorded at over 48°C. The relative wetness is very high, especially in the summer months, in the coastal regions due to wet winds from the sea, and it is very low in the south of Libya because the surface is barren and far away from marine influences.

Libya is of great geo-strategic importance (see Figure 4.3): it is placed within easy reach of most European countries and links the Arab nations of North Africa with the Middle

Eastern Arab countries. Libya also links the Mediterranean countries and those Sub-Saharan African countries, which facilitates the movement of goods, services, and traveller traffic.

Libya's location in the eastern basin of the Mediterranean Sea against the European coast has also helped to link directly to European countries, making it easy to transport crude oil to European industrial countries at the lowest cost and in the shortest time, making it superior to the Arabian Gulf oil countries. It is widely acknowledged that "the country is geographically ideally positioned to supply the lucrative Western markets. Europe lies a short distance across the Mediterranean Sea, and journey times for tankers to the US are shorter than from the currently volatile Persian Gulf region" (Badcock, 2005, p. 35).

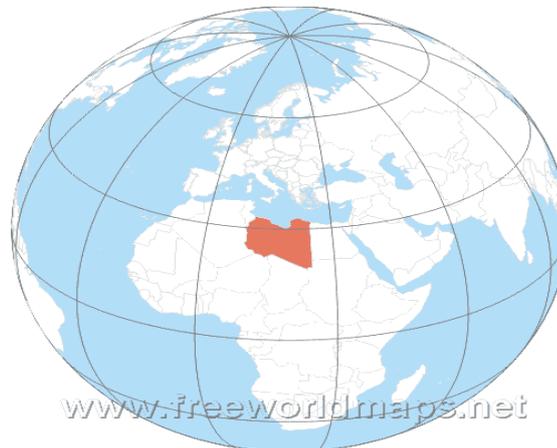


Figure 4.3: Libya's Location on the globe

Source: <http://www.freeworldmaps.net/africa/libya/location.html>

4.2.2 Population of Libya

Libya's population was estimated at approximately 6.423 million in 2011, according to a United Nations (UN) report published that year. This was increased from about 1.029 million inhabitants in 1950. The median age of the country's population in 1950 was 19.0, whereas in 2011 it was 26.0. The population of Libya is expected to reach 7.465 million in 2025 as reported by the UN in 2011. In 2011, about 30.7% of Libyans were estimated to be under the age of fifteen, while a mere 6.7% of them were over sixty years. Life expectancy is 72.7 years for men and 77.9 years for women (UN, 2011). In

spite of significant increases expected in the size of the Libyan population in the near future, however, the Libyan population is still very small compared with its land size. Libyan citizens are Muslims of Arab and North African origin, and the state religion is Islam. The available data indicates that around two-thirds of Libyans live in cities along the Mediterranean coast, with one-third living in the east region and a small portion living in the south. The national and official language of Libya is Arabic, while English, French and Italian are limited to their use in trade and tourism. Most of the Libyan population lives in the northern region with 85% of the population on 10% of the land area (World Health Organization, 2011).

4.2.3 Historical and political background

Before Libya became an independent country in 1951, it has a complex early history dating back to 10,000 years BC, when Neolithic cultures broke cattle and cultivated crops in the coastal region (Ahlbrandt, 2001). Proceeding to its independence, Libya was subject to wave after wave of military invasions and occupation by the Phoenicians, the Carthaginians, the Greeks, the Romans, the Vandals, the Byzantines, the Turks of the Ottoman Empire, the Spanish and finally Italians (Farley, 1971; Fisher, 1985; Ahlbrandt, 2001). The Turks of the Ottoman Empire occupied Libya in the mid-16th century; Libya remained part of their empire (1551-1911) until Italy invaded on 3 October 1911.

Italy's Libyan colonisation separated the country into three counties, Tripolitania in the west, Cyrenaica in the east, and Fezzan in the south. These regions faced miserable conditions throughout the period of Italian colonial rule until 1943. More precisely, the policy of Italian Fascism undertaken in Libya was unique, as has been described by Anderson (1984, p. 346):

In fact, the Italian occupation was to present an attempt to dismantle a regular, extensive political and economic system and to replace it with a second system that had few ties and no precedents in the province and, as it soon became clear, no place for local participation. The jihad was a simple and eloquent way to describe and to rally support for the defense of the new status quo, of the structures by which the province -particularly its notables-had been linked over the previous seventy-six years to the political and economic system of the Ottoman Empire.

However, Libyans did not give in to colonialism and rejected the Italian settlement; Libyans fought many battles across the country against the Italian occupation. Omar al-Mukhtar was the most prominent leader of the jihad against the Italian occupation as the leader of the jihadist movement in the Green Mountain area.

After defeating Italy in World War II, Libya fell under the Allies army occupation from 1943 to 1949, and it divided again: Tripolitania and Cyrenaica were controlled by Britain, while Fezzan was under the administration of the French. On November 21, 1949, the United Nations General Assembly (UNGA) approved a determination which said that the three separate counties (Tripolitania, Cyrenaica and the Fezzan) had to be established as completely self-governing, becoming an independent sovereign state no later than the first of January 1952. On December 24, 1951, Libya gained its independence as the United Libyan Kingdom (the official state name). It became the first African state to achieve independence from European rule and the first and only state created by the General Assembly of the United Nations (Paoletti, 2011).

After the declaration of its independence in December 1951, Libya announced a constitutional and a hereditary monarchy ruled by King Idris Al-Sanussi, with a federal constitutional system. The country was divided into the three provinces of Tripolitania, Cyrenaica and Fezzan based on the constitution promulgated in October 1951. In April 1963, the federal system was replaced by a unified system; the United Kingdom of Libya became the Libyan kingdom thereafter.

A few years later, on September 1st, 1969, a military coup d'état occurred in the city of Benghazi. It was carried out by a small group of army officers, and abruptly ended the hereditary monarchy which had ruled the country for approximately two decades. After that, the official name of Libya (the Libyan kingdom) was immediately changed to the Libyan Arab Republic, and the country was then ruled by the Revolutionary Command Council (RCC).

The RCC disseminated a decree in November 1976 to create the General National Congress of Arab Socialist Union (ASU), which was de facto the only legally permitted party in Libya. "Domestically, the RCC. sought to directly involve the Libyan masses in the programmes of the revolution by organising them into a Nasser- style Arab Socialist Union which was an alliance of working people" (Hajjar, 1980, p. 184).

Shortly afterwards the ASU was officially renamed to be become the General People's Congress (GPC) in 1977, intended to replace the RCC, which had been the uppermost political authority in Libya since the Constitutional Declaration of 1 December 1969. On 2nd March 1977, a new political direction took form in the country, after the GPC adopted the "Declaration of the Establishment of the People's Authority" and proclaimed that Libya was the Socialist People's Libyan Arab Jamahiriya "state of the masses". As stated by (Hajjar, 1980, p. 187)

Political power was transferred to the basic people's congresses, their committees, and the General People's Congress. Also, the traditional form of government, along with the institutions and offices of the Cabinet, Ministers, Directors, etcetera, were abolished in favour of a General Secretariat of the General People's Congress, comprised of a Secretary-General and a number of other Secretaries, each responsible for one of the activities of the state.

Among the RCC members, Muammar Al-Gaddafi turned out to be the leader of the RCC as well as Commander in Chief of the Libyan armed forces and eventually as in fact Head of Libya, practicing unlimited authority for more than four decades until February 17, 2011 when the Libyan revolution took place. The Libyan revolution exploded against the Al-Gaddafi regime's repressive policies. On February 27, 2011, the Libyan rebels proclaimed the creation of an Interim Transitional National Council (ITNC) in the city of Benghazi, which was intended as an interim government instead of the Gaddafi regime.

On August 3, 2011, the ITNC issued a Draft Constitutional Charter for the Transitional Stage. It was intended to address Libyans' concerns about the ITNC's authority as an unelected committee. The Constitutional Declaration was composed of 37 Articles divided into five chapters: (1) general national principles; (2) rights and public freedoms; (3) transition to an interim government; (4) judicial guarantees; and (5) the status of existing laws. In addition, the document confirmed the ITNC as the only legitimate governing power of Libya up to the declaration of liberation.

The UN General Assembly in September 2011 recognised the ITNC as the legitimate governing authority for the Libyan state. The liberation of Libya was formally announced on October 23, 2011, after the overthrow of the Al-Gaddafi regime. The announcement of liberation marked the end of the Libyan people's armed struggle and the formal start of the country's transition to a new political order (Blanchard, 2011).

In November 2011, the ITNC established a transitional government. Afterward, on the 7th February 2012, the ITNC approved the election law and created the Supreme Election Commission (SEC), whose role was to prepare for elections for the General National Conference (GNC), to comprise of 200 elected representatives. On August 8, 2012, the authority of the TNC was transferred to the GNC, which was elected on 7 July 2012 and will continue to manage the general affairs of the country for a year and a half.

4.2.4 Overview of Libya's economy

4.2.4.1 Libya's economy before the discovery of crude oil

Before the discovery of significant crude oil reserves in 1959, Libya was one of the poorest countries in the world, with depressing economic prospects (Wright, 1981; World Bank, 2006). During that time, Libya was basically dependent on foreign financial aid, and the country's economy was based largely on the agriculture sector, which employed more than 70 % of the labour force, contributed about 30 % of the Gross Domestic Product (GDP), and was reliant on climatic conditions (World Bank, 2006). Libyans' economic conditions before crude oil was discovered in the country was described by Higgins (1968, p. 819), an economist who had worked as consultant to Libyan government since the country gained independence in 1951 as follows:

In 1952 Libya seemed to be an almost hopeless case. Its great merit as a case study is as a prototype of a poor country. We need not to construct abstract models of an economy where the bulk of people live on a subsistence level, where per capita income is well below \$50 per year, where there are no sources of power and no mineral resources, where agricultural expansion is severely limited by climatic conditions, where capital formation is zero or less, where there is no skilled labour supply and no indigenous entrepreneurship. When Libya became an independent nation...it fulfils all these conditions. If Libya can be brought to a stage of sustained growth, there is hope for every country in the world.

After Libya gained its independence in 1951, prospects for economic growth were extremely "bleak" and the country's economy was "deficient" to an extraordinary extent (Bait-EI-mal et al. 1973; Mahmud and Russell, 2003). Difficult economic conditions forced the first Libyan government at the time of its independence to seek foreign financial assistance to finance economic and social development from different United Nations organisations and countries such as the United States, the United Kingdom, and

France. The foreign assistance became the main financier of development plans in Libya. In 1959-1960, more than 58% of Libya's state budget came from foreign aid (Hamdan, 1996, p. 86).

Libya's agricultural sector was noticeable during that period because it was primitive in production methods and tools, in addition to other problems which had a negative influence on the agricultural sector, such as tribal ownership for most agricultural land and the shortage of capital and water resources. Furthermore, no modern industrial sector existed in any shape during this period-the industrial activity was confined to some traditional industries such as textiles and handicrafts which are usually carried out by families.

There were other simple industries which relied mostly on local agricultural and livestock production, such as flour, clothing, footwear, and olive oil squeezing. Most of these industries were mainly characterised by their seasonal nature due to their dependence on the agricultural sector, and they participated in the absorption of labour as well as a modest share in the GDP. Overall, the Libyan economy continued to be deeply dependent on external financial aid until the discovery of crude oil in the country in 1959.

4.2.4.2 Libya's economy after the discovery of crude oil

After the discovery of crude oil in commercial quantities in Libya in 1959, and the start of export in 1961, the social and economic conditions in the country witnessed rapidly changed. More precisely, following the discovery of crude oil the Libyan economy dramatically shifted from a deficit economy to a surplus economy; this led to significant changes in the Libyan economic structure and the structure of both exports and imports. As John (2008, p. 76) pointed out "Libya moved from a stagnant to an exploding economy, from a capital-deficit state to a capital-surplus state, from an aid recipient to an aid extender". In addition, Metz (1987, p. 30) also stated that:

The discovery and exploitation of petroleum turned the vast, sparsely populated, impoverished country into an independently wealthy nation with potential for extensive development and thus constituted a major turning point in Libyan history.

In a similar vein, Mahmud and Russell (2003, p. 199) have described how Libyan's economic situation changed following the discovery of crude oil in commercial quantities in 1959. They stated that, "since 1961, when Libyan crude oil was first exported in commercial quantities, annual crude oil revenue, gross domestic product (GDP), and per capital income have increased at an exceptional rate".

By 1969, Libya's crude oil production rose rapidly to more than 3 million barrels a day, making it one of the prevailing members of Organization of Petroleum Exporting Countries (OPEC) at the time (World Bank, 2006). In 1962, Libya became a member of the OPEC. As a result of the oil boom, Libya's economy is no longer dependent on foreign aid or exports for a few simple agricultural goods. By 1965 Libya was the sixth-largest oil exporting country and its population was only 1.6 million (Hagger, 2009, p. 4).

The large petroleum revenues and a small population have given the Libyan state one of the highest GDPs in the African continent. Libya has been classified by the World Bank (WB) as an 'Upper Middle Income Economy', alongside only seven other African countries. Nevertheless, few of these large petroleum resources and incomes flow down to the lower orders of society (World Factbook, 2012). It was reported in 2009 by the CIA that Libya's economy ranked 74th in the world in 2009, and its per capita income ranked 83rd.

According to the IMF report of 2013, over 90% of Libya revenue came from the hydrocarbon sector. Chami et al. (2012) point out that hydrocarbons have long dominated the Libyan economy, accounting for more than 70 % of GDP, more than 95 % of exports, and approximately 90 % of government revenue. Around 2.0% of the world's crude oil was produced by Libya and it was ranked the fourth African country in terms of the capacity of crude oil produced, after Nigeria, Algeria, and Angola (Taib, 2011).

Before 2011, Libya produced around 1.65 million barrels per day (bbl/d) of mostly light, sweet crude oil, as was reported in 2012 by the U.S. Energy Information Administration (EIA). However, crude oil production had sharply fallen to 22,000 barrels per day in July 2011, due to the Libyan revaluation, which started in February

2011 (Chami et al., 2012). It had significantly negative effects on GDP due to a dramatic decline in the exports.

According to the EIA, Libya's proven oil reserves are estimated at the beginning of 2012 to be 48.01 billion barrels, and Libya's petroleum reserves are the biggest on the African continent and amongst the nine largest worldwide. Badcock (2005, p.35) has claimed that "Offshore and onshore, Libya has great untapped reserves, the true extent of which remains unknown, the country has 36bn barrels of proven oil reserves, the world's eighth largest store." Near to 80 % of Libya's proven oil reserves are found in the eastern Sirte basin, which also accounts for most of the country's oil production (EIA, 2012).

Besides this, the Libyan state is considered a main natural gas exporter and has a number of gas liquefaction factories. The Oil and Gas Journal has revealed that the natural gas reserves in Libya are proved at 52.8 trillion cubic feet at the beginning of 2012. However, the EIA estimated Libya's natural gas reserves at about 70 trillion cubic feet. In this regard, ongoing geological discoveries (onshore and offshore) in Libya have demonstrated that Libya has very significant reserves of natural gas.

In addition to crude oil and gas production, which represent the underpinning of Libya's national economy, the country has also a large amount of other natural resources which include iron, petrochemicals, limestone, salt, gypsum, pharmaceuticals, and huge reserves of silica. These resources could help the country to attract both foreign and national investments in the non-oil industrial sector in the future. Although the Libyan state was involved in the past years in some heavy industries such as cement manufacturing, limestone factories, petrochemicals, and steel, nevertheless, the oil and gas sector in Libya will continue to be the lifeblood of the country's economy for at least an additional two decades (Porter and Yergin, 2006).

Overall, Libya's economy is heavily dependent upon revenues from the hydrocarbon sector, which in turn is affected by changes in the worldwide oil market. As noted by Blanchard and Zanotti (2011), the Libyan economy remains extremely dependent on oil revenue and therefore greatly vulnerable to international oil price fluctuations. In addition, Libya seems to be one of the less diversified oil-producing economies in the world (World Bank, 2006).

4.2.4.3 Libya's economy after adopting a socialist-oriented market economy

Since becoming independent in 1951, the economic system in Libya was primarily capitalist and the private sector dominated all aspects of economic activity in the country. From the mid-1970s to the 1980s, the new revolutionary government applied a socialist-oriented economy regime in which public ownership of all of the means of production and services came into state ownership. As reported by the WB in 2006, Libya witnessed a growing government involvement in the economy after a socialist state was established in the early 1970s.

After adopting socialist policies, Libyan's state initiated a number of measures in order to put its socialist rhetoric into practice, the 'socialist market economy'. A number of laws and resolutions were enacted to establish the complete control of the Libyan state over national economic activity. At that time, the private retail, trade, rent, and private business establishments were abolished. In addition to this, a number of general consumers' co-operative societies and public supermarkets were founded to replace the private retail and wholesale trading operations.

In addition, the Libyan state enacted the property bylaw aimed at banning Libyans from owning more than one private house or rented property from a private landlord. The government also gave the Libyan employees who worked in the government-owned and privately-run factories the right to take control of them and to establish self-management. In this context, Ahmad (2004) has pointed out that the state and public ownership structure of businesses taking place in Libya at the beginning of the 1970s gained momentum in the mid-1970s and touched its highest in the 1980s, where most of the businesses turned into public-owned enterprises.

Indeed, implementing the socialism system in Libya was the turning point in the country's economy; the Libyan state created a large number of state-owned enterprises to run economic activities and consequently the role of the private sector in Libya became insignificant and dissolved (Kilani, 1988). Furthermore, John (2008) claims, the running of the Libyan economy was progressively socialist in intent and influence with wealth in housing, capital, and land significantly redistributed, as well as private sector being almost removed and replaced by a centrally planned economy.

The effects of adopting the socialism system in Libya were particularly clear, as described by Vandewalle and Castel (2011). The Libyan state dominated the entire country's manufacturing, agriculture, external and internal retail trade, banking industry, insurance and other services, and publicly owned enterprises were wholly responsible for wholly consumer goods imports.

Undeniably, the Libyan method of socialism became more essential than that established in neighbouring countries (John, 2008). As a consequence, the socialist philosophy has influenced Libya's economy largely in terms of the ownership of a business and monitoring of business goals (Ahmad and Gao, 2004). Certainly, the Libyan government's role in economic activities grew progressively and became directly accountable for all economic sectors and the entirety of social life (Alafi and Bruijn 2009).

Blanchard and Zanotti (2011) have indicated that Libya's government rebuilt the country's economy along socialist lines, placing a heavy stress on state-owned businesses and the economic resources allocation. Libya's economic condition from the early 1970s to the 1990s has been described thus:

In the early 1970s, Libya opted for a command economy with essentially state-driven investment, a strictly controlled external trade, widespread price controls and subsidies, and an almost nonexistent private sector. The government's stifling interference in the economy resulted in a continuous deterioration in the business climate, low economic growth, declining living standards, fragile macroeconomic conditions, and increased vulnerability to external shocks. Other impediments to economic development included weak institutions and poor governance. Economic conditions started to deteriorate in the mid-1980s with the fall in world oil prices, and worsened in the 1990s as a result of international sanctions (IMF, 2006a, p. 3).

4.2.4.4 Libya's economic reforms

In the late 1980s until the beginning of the 2000s, Libya was subjected to United Nations (UN) and United States (US) economic sanctions. The US sanctions in 1982 prompted American oil companies to withdraw from Libya and prohibited the sale, supply, or export - directly or indirectly - of any sophisticated oil and gas equipment to Libya.

Later, in 1985, the US banned the import of refined petroleum from Libya. In 1986, the US government extended its sanctions against the Libyan regime, applying widespread commercial sanctions as well as financial controls, which including banning the sale of goods and services, and freezing the accounts of the Libyan state in U.S. banks.

Additionally, in 1996, the US government proclaimed the Iran and Libya Sanctions Act, targeted at individuals making certain investments directly and significantly contributing to the enhancement of the ability of Libya to develop its petroleum resources or enhance Libya's ability to develop its petroleum resources, and for other purposes.

The UN sanctions were officially lifted in September 2003 and the sanctions imposed by the US were consequently removed in 2004. Ultimately, the US oil companies were allowed to return and to sign new contracts with the Libyan government. It is worth mentioning that both the UN and US sanctions have left a negative impact on domestic economic and foreign investment in the oil sector in particular. As pointed out by Fattouh (2008, p. 4), "the imposition of long-term sanctions on Libya affected foreign oil companies' access with adverse consequences on investment in the upstream sector".

In the wake of the UN and US sanctions, which were imposed for more than ten years, the Libyan authorities have taken substantial measures and reforms to reduce the country's dependence on the oil sector and to diversify its economy and national income sources as well as to promote greater domestic private and foreign private investors' participation. In this context, Otman and Karlberg (2007) state that, in a post-sanctions era, the Libyan government has emerged with numerous alternatives concerning its future national and international economic rearrangement.

From the point when the UN sanctions were lifting, the government of Libya had already undertaken a chain of structural reforms and speeded its shift to "people's capitalism" (IMF, 2008). According to John (2008), the Libyan state introduced socio-economic reforms aimed at liberalising its economy, and the measures for liberalisation increased in momentum after the Lockerbie crash was resolved and unconventional weapons were discarded.

Amongst these reform measures, the top legislative authority in Libya (GPC) adopted a number of economic reform programmes in recent years, mainly in the privatisation of state-owned economic enterprises, encouraging private ownership, forms of the legal framework, encouraging competition in the banking sector, monetary and exchange rate policy reforms, and encouraging foreign capital investment in non-oil sectors. In line with the GPC's reform programme, approximately 360 state-owned enterprises were identified for privatisation in March 2004 (Vandewalle and Castel, 2011).

Additionally, the Libyan government has created new laws and regulations aimed at promoting foreign capital investment in the country. The first law for encouraging foreign capital investment to invest in Libya was issued in 1997 (i.e. Law No. 5 for Promotion of Investment of Foreign Capital), which was amended through Law No. 7 of 2003, then by Law No. 9 of 2010. This new law was issued in order to fill the gaps discovered during the application of the previous laws as well to place new incentives to encourage and attract foreign investors in all economic fields in the country, such as industry, health, tourism, services, agriculture, and other sectors specified by the Libyan authorities. It allowed foreign investors to invest within the country and provided them with numerous privileges and exemptions.

This law, amongst others, provides an exemption to the investment project from income tax for a period of five years from the date of starting production or work, depending on the nature of the project, and may extend this period for further period of three years. In addition, foreign investors are entitled to carry the losses of the project during the years of the exemption to subsequent years. The law, which also affords exemptions from some customs duties and excise taxes on exported goods as well as stamp duty tax. Besides these incentives, the profits resulting from the project will enjoy similar exemption if reinvested.

Despite the exceptions and benefits offered by Libyan authorities to foreign investors to invest in the country, foreign investors remain largely hesitant and unwilling to invest in Libya for a variety of reasons. As has been reported by the WB (2006), Libya still suffers from a mixed perception by foreign investors concerning the credibility of its reform programme as well as the soundness of the whole business environment as it links to the quality of economic governance. However, unlike other developing

countries, the Libyan state has the advantage of possessing sufficient financial resources, and direct foreign investment may be not essential for its economic growth. Historical experience suggests in many countries that the foreign investor usually tends towards enterprises that achieve a higher profit as soon as possible, regardless of the needs of economic and social development in the host country.

A significant procedure accompanying this law was created by the Libyan Foreign Investment Board (LFIB). The idea was to facilitate foreign investment procedures and manage the application process. However, in fact, Libyan authorities continue to impose restrictions on foreign direct investment in specific businesses such as media, electricity, financial, and telecommunications services as well as the sea and air transport sector, which are state-owned dominations. However, once again at the present time there is a policy alteration to progressively permit most of these businesses to receive investment from overseas investors. Furthermore, the Free Trade Act of 1999 created a new legal framework for the establishment of offshore Free Trade Zones (FTZ) in Libya.

Other important measures on the way to diversifying its economy and revenue streams: in 2006, the Libyan government established the Libyan Investment Authority (LIA). In order to manage the country's financial assets assigned to it as well as the oil fund's foreign currency reserves, the organisation, through its firms, invests in various sectors including infrastructure, real estate, agriculture, tourism, oil and gas sectors. However, "the operation and workings of Libya's investment fund were notoriously opaque and the extent to which the LIA was carrying out its mandate largely unknown" (Behrendt and Sharp, 2011, p. 2).

Another considerable measure has already been taken by Libyan authorities to eliminate a number of the barriers to opening up its market and to attract foreign investment into the country, in particular in the non-oil sector. For instance, the official exchange rate had been unified and the Libyan dinar has been pegged to the IMF's Special Drawing Rights (SDRs); Libya has also cut its customs duty rate by 50% on most imports.

More important procedures have been introduced in recent years as part of ongoing processes of liberalisation of the socialist-oriented economy, which include widespread reform of the domestic banking system and the introduction of Libyan-foreign joint banks, reform of the regulatory framework, income tax reforms, and, in 2006, the

establishment of a stock market. Stress-free rules and procedures for foreign businesses, reforms of the trade and exchange system, and a strategy to promote the country's tourist sector were also recently introduced (Vandewalle and Castel, 2011).

Notwithstanding the Libyan state's efforts to reform the private sector and generate opportunities by assisting entrepreneurs and minor businesses, its economic disorganisation has stood in the way of achieving tangible improvements in the business environment (African Economic Outlook, 2012). According to Vandewalle and Castel (2011, p. 9), despite the period from 2003 to 2011 showing certain enhancements in Libya's economic reforms, the period conveyed several conflicting messages that evidenced the political pressures to which the reforms were subjected:

- There is little doubt that compared to its previous attempts at economic reform, Libya had made progress, and that slowly pockets of greater efficiency, of more consistent regulatory practices, and of adherence to international norms were emerging.
- Diversification and privatisation of the economy lagged far behind. There was little evidence that either the Libyan Export Promotion Centre and the Libyan Privatisation and Investment Board had produced noticeable results.
- The country's institutional and legal frameworks remained highly opaque; the business environment remained in most instances unpredictable.
- Philosophical proclivities continued to play havoc with the implementation of the planned reforms, particularly since there were no formal (and only weak informal) mechanisms to reduce their impact. The climate of uncertainty and ineffectiveness that had somewhat diminished, but never disappeared, kept hampering progress.
- Overall coordination remained weak, decision-making remained fragmented, and there were clear signs that the power of intermediaries and brokers had increased.
- The economic reforms remained to some extent non-institutionalised, with no official representation, and plans did not carry the imprimatur of the country's existing political structure.

- In some of the main areas, the National Economic Strategy had identified as priority areas-human capital, education, and unemployment-very little progress had been made.

4.2.4.5 Libya's economic conditions post-revolution

After the start of the Libyan Popular Revolution (LPR) against the Al-Gaddafi regime in February 2011, the international community imposed commercial and financial sanctions on the Gaddafi regime. The LIA was Libya's first sovereign wealth fund sanctioned by the UN Security Council. In addition, the sanctions later included the CBL, the Libyan Foreign Bank (LFB), the Libyan National Oil Corporation (LNOC), the Libyan Africa Investment Portfolio (LAIP), and other Libyan-state-owned assets. These sanctions were based on the premise that public funds, such as the assets held by LIA, represented a potential tool for the regime to control the revolution and commit violence against civilians (Behrendt and Sharp, 2011).

On December 16, 2011, the international sanctions applying to the CBL and the LFB were lifted, which allowed the CBL to improve the official exchange rate. In 2011, the official value of the LD had fallen on the parallel market due to the incapability of the CBL to sell foreign currency because it had no access to its foreign assets (Chami et al., 2012). However, the UN Security Council preserved the asset freeze on companies falling under the responsibility of Libya's sovereign wealth fund (the LIA).

More important, during the LPR, the exports of hydrocarbon dropped from USD 48.9 billion in 2010 to USD 19.2 billion in 2011, and the imports fell from USD 24.6 billion to USD 14.2 billion, thus the current account surplus narrowed from 21 % of GDP in 2010 to less than 4.5 % of GDP in 2011 (Chami et al., 2012).

The data in Table 4.1 shows that that the Libyan real GDP has recorded a significant decline in 2011 compared to 2010. This decline was due to a significant drop in the production of crude oil and natural gas. The GDP at constant prices (prices of 2003) accounted for LD 20.1 billion in 2011, compared to LD 52.0 billion in 2010. More specifically, the total of contraction in GDP in 2011 reached about 61.3%, compared to a growth rate of 3.0% during 2010, due to a decline in the value of oil domestic product from LD 23.7 billion in 2010 to roughly LD 6.5 billion in 2011, a drop of approximately

72.0%. Also, the non-oil GDP declined from LD 28.6 billion to reach around LD 13.6 billion in 2011 - a decrease of 52.5 %.

Understandably, the fall in the real growth rates in the year 2011, compared to what it was in the previous years (i.e. 2009, 2010), was driven primarily by the significant decline in growth rates in the extraction activities of oil and natural gas by about 72.0% . It was as result of the decline in the quantities of crude oil due to the events that occurred in the country during the outbreak of the revolution of February 17 in 2011, which led to stopping the export of crude oil from most of the Libyan ports.

As well as in the case of non-oil economic sectors, low growth rates amounting to approximately 52.5% have been recorded. This decline was concentrated in low rate of growth of the hotels and restaurants sector by 81.0%, the mining and quarrying sector and the construction sector by 79.0%, and the manufacturing sector decreased by 77.0%.

In addition, the reductions have also reached the education sector, the health sector, social security, and the supply of electricity, gas and water, which had fallen by 67.0%, 64.0%, and 61.0%, respectively, whereas the wholesale and retail trade sector, repair of mother vehicles, personal and household goods, and community services and other personal activities sector have declined by the same percentage - 59.0%. On the other hand, the transport, storage and communications sectors recorded a decline of about 58%, while real estate, renting and business activities recorded a drop approximately 52%, but the brokerage sector amounted to 46%. It was the only sector that has achieved a positive growth, along with the public administration and defence sector, and compulsory social security, which achieved growth of 1.4%.

Concerning the contribution of economic activities in the Libyan real GDP, the activities of extraction of crude oil and natural gas have formed a contribution accounting for 32.5% of real GDP, while the other economic sectors, accounted for the largest contribution to real GDP: nearby 67.5%. The activities of public administration, defence, and compulsory social security accounted for 22.8% of the total GDP, while the real estate activities, rental and commercial activities formed 13.7%, but the transport, storage, and communications sectors have accounted for 8.1%.

However, the wholesale, retail trade, repair of motor vehicles, and personal and household goods had shaped about 7.0 per cent. The contribution of the rest of the sectors in the real GDP ranged between 0.1% and 4.0%. Due to the contraction of the growth rates in the national economy in 2011, the average per capita real GDP has sharply decreased from LD 8526 in 2010 to LD 3236 in 2011(CBL, Annual Report, 2011).

**Table 4.1: Libyan real GDP (at 2003 prices) by the industrial sectors 2009-2011
(thousands LD)**

Economic sectors	2009	*2010	*2011	Growth Rate
Agriculture, forestry, and fishing	1,800,950	1,785,185	553,407	-69.0
Crude oil and natural gas	22,487,696	23,379,613	6,546,292	-79.0
Mining and quarrying	169,516	178,755	37,539	-79.0
Manufacturing	2,584,731	2,615,780	601,629	-77.0
Electricity, gas and water	1,342,545	1,405,975	548,330	-61.0
Construction	3,638,614	3,850,116	808,524	-59.0
Wholesale, retail trade, repair of motor vehicles, and personal and household goods	3,247,724	3,460,206	1,418,684	-59.0
Hotels and restaurants	160,795	170,643	32,422	-81.0
Transport, storage and communications	3,650,630	3,900,047	1,638,020	-58.0
Financial intermediation	961,165	1,021,258	551,479	-46.0
Real estate, renting and business activities	5,420,256	5,758,234	2,763,952	-52.0
Public administration, defence and compulsory social security	4,465,720	4,560,602	4,622,388	1.4
Education	91,182	96,767.0	31,933.1	-67.0
Health and social work	147,155	156,915.4	56,489.5	-64.0
Community service and other personal activities	58,687	62,046.8	25,439.2	-59.0
Imputed financial services indirectly	373,081	392,200	90,206	-77.0
Total GDP at basic prices, distributes between:	373,081	52,009,943	20,146,323	-61.3
Oil, gas and related activities ***	22,487,696	23,379,613	6,546,292	-72.0
Other economic activities	27,366,590	28,630,330	13,600,031	-52.5
* Preliminary data.				
** Include domestic sector only; education and health services provided by the public sector within the activity of public administration and defence.				
*** Include refined petroleum products and petrochemical and plastics industries classified as manufacturing				

Source: CBL, Annual Report, 2011.

Undoubtedly, the interim Libyan government will face serious challenges in the political, economic, and security issues following the fall of the Al-Gaddafi regime. As has been claimed by Mikail (2012) Libya's state challenges are both economic and political; there are also other matters to be taken into consideration by new Libyan government, specifically on the subject of security. Additionally, diversification, trade,

and entrepreneurship will remain main concerns for the incoming Libyan government (Vandewalle and Castel, 2011).

At the present, ordinary people in Libya are waiting for tangible improvements in daily life as well as advantages and schemes from the new Libyan authority to show an optimistic pathway on the way to the country's future. There is no doubt that the absence of any manufacturing activity, the imperfection of private businesses, the high levels of unemployment and the dearth of employment chances altogether threaten the Libyan state's cohesion and stability (Mikail, 2012). In this sense, Vandewalle and Castel (2011) have suggested a number of priority actions need to be taken into account by the interim Libyan government:

The new Libya therefore will need to provide sufficient guarantees on a number of issues in order to escape the patterns of the past: beyond the hard constraints of macroeconomic stability, a sufficiently clear system of property rights and contract enforcement for individuals and companies alike, mechanisms to avoid anti-competitive behavior, ways to promote trust and cooperation, and social and political institutions that can mitigate social conflict.

In short, the rapid changes in the business environment and establishment of the first stock market in Libya, and the reform of its public sector as well as the continual growth in the private sector are generating much public interest in financial and non-financial information disclosure and in the need to increase market transparency. Furthermore, later radical changes that had occurred in Libya towards a free market economy and substantial recent developments in Libya's economic system, as well as changes in the competitive business environment, are affecting the types of information needed for economic decision-making.

According to Ahmad and Gao (2004), the recent economic development in Libya has led to a rising demand for both qualified accountants and reliable accounting information. Certainly, the Libyan business environment and the investment climate in general are likely to be more positive and will only become more attractive in the near future for both local and foreign investments in the financial services sector and other different businesses, following the LPR, 2011, 'Arab Spring'.

4.3 Libyan Stock Market (LSM)

This section of this chapter is divided into six subsections, giving a brief history of the LSM (4.3.1), discussing objectives behind the establishment of the LSM (4.3.2), presenting the organisational structure of the LSM (4.3.3), then highlighting the listing application procedure (4.3.4), followed by discussing the general listing requirements (4.3.5) as well as special listing requirements (4.3.6).

4.3.1 A brief history of the LSM

The Libyan Stock Market (LSM) is the first and only stock market in the country; it was founded by Resolution No. (134) which was made by the General People's Committee on 3rd June 2006, in the form of a joint-stock company, with capital of 20 million LD, divided into two million shares with a nominal value of LD ten per share. It was founded under the supervision of the Ministry of Economy, (formerly Secretary for the People's Committee for Economy, Trade and Investment). The LSM headquarters is placed in the capital of Libya (Tripoli) and the main branch is in Benghazi.

According to Resolution 134, the LSM is structured as a corporation and performs as an exchange, a depository centre and a capital market authority. The company that manages the stock exchange is itself one of the traded companies in the market; approximately 30% of its shares are owned by the government, whereas are 25% owned by Libyan's commercial banks and the rest of its shares are owned by individuals. LSM was listed on the Commercial Register as a joint-stock company on 7th January 2007 under No. 541. According to Statute of LSM, Article No. 4, market membership should including the following economic entities:

1. Commercial and specialised banks.
2. Insurance companies.
3. Financial funds.
4. Subscribed companies, with capitals that are no less than the limit stated by the market's management committee.
5. Brokers accepted in the market according to the provisions of this Regulation.

Thus far, the LSM has witnessed a lot of development since it was established: In April 2008, the LSM launched an Electronic Trading System and also linked the headquarters of the market in Tripoli with the branch of the market in Benghazi electronically using

fibre optic cable. They also linked up using satellites to be one of the pioneers in this field in Libya. According to LSM, this modern system allowed market deals to be more simply treated and facilitated to provide information that is more accurate as well as helping to make the market more efficient and transparent. Moreover, in 2009, LSM launched the new website, which operates according to the latest techniques as well as offering a variety of new services such as a short message service and centre voice services, which allow investors to follow its operations accurately and promptly.

In 2010, the Libyan government issued new LSM Law No. 11, which regulates and governs the work in the market, including administration of the stock market authority, issuance securities rules, listing, exemption from taxes and duties, disclosure requirements, exchange, investment management, establishment of investment funds, electronic signature, authentic electronic documents in proof, and the organisation of an adjudication and conciliation board.

By the end of 2007, seven Libyan companies (mostly commercial banks) were listed with a total market capitalisation of approximately LD 1.2 billion (IMF 2008). It is necessary to point out that the LSM composition is heavily dependent upon financial companies (banks and insurance) attracting the largest share of investment flows (Aljbiri, 2012). Published data indicated that the daily trading value average reached LD 417,696,669 by the end of 2010.

Among the sectors' contribution levels, the banking sector occupied first place with LD 8, 144,422.740, which represents 88.63%, while the insurance sector came second with 7.76%, followed by the financial services sector with 2.85%. Finally, the industry sector with 0.7613% (LSM, the Monthly Annual Reports, December 2010).

The number of listed companies on LSM has grown from seven listed companies in 2007 to twelve listed Libyan financial and non-financial companies in 2011 (see Table 4.2). However, most of these companies are public companies and most of them suffer from many problems, for instance in terms of disclosure, financial deficit, or accounting standards (Aljbiri, 2012). The following table presents the names of these listed companies, the number of trading operations, and the number of shares traded at the beginning of 2011.

Table 4.2: Companies listed in the LSM at the beginning of 2011

N.	Company Name	Trading Value (Million LD)	Trading Volume (Number of Shares in Thousands)	Number of Transactions
1.	Al-Jomhuriya Bank	2.3	174,9	73
2.	Al-Sahari Bank	2,4	248,8	245
3.	Al-Wehda Bank	2,4	236,1	255
4.	Bank of Commerce and Development	14,5	515	607
5.	Mediterranean Bank	0.979	44,4	137
6.	National Commercial Bank	0,710	57.8	68
7.	Al-Saraya Trading and Development Bank	0,081	8,1	35
8.	Libya Insurance Company	0.654	67,2	194
9.	Al-Mutahed Insurance Company	0,563	25,2	32
10.	Al-Sahara Insurance Company	0,271	25,8	33
11.	Libyan Stock Market Company	0,550	54,8	117
12.	Al-Ahlia Cement Company	0,237	14,4	47
Total		25,6	1472,5	1.843

Source: LSM, Trading Annual Report, 2011

As Table 4.2 shows, the companies listed on the LSM fall under four key sectors as follows:

- *The banking sector:* 7 listed commercial banks, where the majority by volume of shares were traded, numbered 1,285,209 shares, which accounted for 87.3% of the total number of shares traded in the market. These were worth a total amount of LD 23,307,042, representing 91.1% of the total value traded.
- *The insurance sector:* 3 listed companies, which recorded 118.230 trading shares, representing 8% of the total traded shares, amounting to LD 1,488,711.0
- *The investment sector:* one listed company whose contribution was 3.7% of the total trading volume.

- *The industry sector*: one listed company, which contributed 1.0% of the total trading volume.

At the beginning of 2011, however, daily market indicators, trading data, and general levels of prices showed a remarkable increase. Trading in the LSM stopped on 20th February 2011, as a result of the Libyan revolution which began on February 17th, 2011. Data indicates that trading volume reached 1,472.682 shares in this period, compared to 670.660 shares during the same period in 2010, an increase of 119.6%, and in terms of trading value an increase of 227.1%. Generally, the total circulation during 2011 was LD 25,583,598.930, compared to LD 7,822,187 during the same period in 2010 (CBL, 2011). The following section highlights the objectives behind the establishment of the LSM

4.3.2 Objectives behind the establishment of the LSM

The LSM is one of the most important tributaries of the national economy and is aimed at providing an opportunity to invest savings and funds in securities, creating an environment from which to achieve greater returns and increase in GDP and economic growth, and to attract domestic and foreign investment (LSM, Quarterly Report, 2007). According to LSM Law No. 11 for the year 2010, LSM contributes to achieving important economic objectives sought by the community, and, in particular, the following objectives:

- to create a suitable investment climate for securities in the interest of the national economy
- to encourage savings and raise investment consciousness in ways capable of directing savings towards the economic sectors of potential greater return.
- to supervise the organisation and operation of the share dealings and ownership transfer operations.
- serve the goals of economic and social development, including achieving the employment of individuals' savings of by allowing buying and selling shares operations as well as carrying out investment transactions.

- contribute to the implementation of the programme of public ownership of the economic entities, enterprises and companies to contribute to expansion of the ownership base.
- to put in place the necessary rules for the protection and ensure the honesty of transactions in the market in order to achieve trade based on economic efficiency.
- development of linkages and cooperation relations among the Libyan stock market and Arab regional and international markets, in ways that lead to raising the level of investors' trust in the domestic economy.

4.3.3 General listing requirements

There are several conditions must be met by economic entities seeking listing in the schedules of the LSM, which include the following (Article 7, the Regulation of Listing and Follow-up Disclosure, (RLFD)):

- The economic entity must abide by the rules governing the work of the market.
- The economic entity must pay the initial and periodic fees to the market.
- The economic entity shall be registered in the market, and its securities must be deposited within the central depositing and registration system.
- There shall be no restrictions on the transfer of ownership of the securities required to be listed.
- Registration shall be of all issued securities, provided the following issue of securities must be registered within one month from the date of completing the necessary procedures.
- The company must sign the agreement of listing in the market.
- Any other conditions laid down by the management committee of the market, which must not be violating the legislation in force.

4.3.4 Special listing requirements

4.3.4.1 Listing requirements on the main market schedules

According to the LSM, the main market schedules are divided into two schedules: the main market schedule A and the main market schedule B. The following requirements

must be met in order for an economic entity to be eligible to offer securities to the public and subsequently listed at the main market schedule A:

1. All the general listing requirements must be satisfied.
2. The economic entity must have published its financial statements for three fiscal years prior to the application for listing; these financial statements should be approved by the certified legal auditor.
1. The economic entity must have published its financial statements for three fiscal years prior to the application for listing; these financial statements should be approved by the certified legal auditor.
2. The economic entity must have published its financial statements for three fiscal years prior to the application for listing; these financial statements should be approved by the certified legal auditor.
3. The economic entity's assets must be evaluated by one of the known methods of evaluation by an independent expert, and the management of the market may repeat this evaluation.
4. The economic entity's capital must not be less than LD 1,000,000 (One million LD) or the equivalent.
5. The nominal value of the shares is paid in full.
6. The company must exercise of its actual activity for three years at least, and have achieved a net profit from its main activity in the last two years by not less than five per cent of the capital.
7. The company's financial situation should be proper in terms of assets, liquidity, the balance of its financial structure and efficient performance, and the total of its fixed assets and current assets should be not less than fifty per cent of the value of its capital.
8. The economic entity's board of directors has to provide a report on its achievements and its performance, and the important events passed by and affected by the date of its establishment and until the date of the application for listing, and the company's future plan for the following three years.
9. The number of shareholders in the economic entity must not be less than one hundred shareholders, and that there are at least one hundred shareholders each holding not less than fifty shares.

10. The proportion of free float shares must be not less than fifteen per cent of the capital.

Whereas, the main market schedule B includes the securities of issuers (economic entities) that meet the same conditions to the main schedule A, excepting the following:

1. The economic entity's capital must not be less than LD 250,000 (LD two hundred and fifty thousand) or the equivalent.
2. The proportion of free float shares should be not less than ten per cent of the capital.
3. The exception from the conditions mentioned above, including the securities of destinations companies that target programme to broaden the base of ownership (privatisation) directly in the main table B after the deposit of its securities in the central registration depository system, taking into account the commitment to the rules and regulations in force in the market.

4.3.4.2 Listing requirements on the sub-market schedules

Sub-market schedules are also divided into two schedules: sub-market schedule A and sub-market schedule B. Sub-market schedule A includes the securities of the issuer which meet the following conditions:

1. All the general listing requirements should be satisfied.
2. The economic entity's capital must not be less than, LD 100,000 (LD one hundred thousand) or the equivalent.
3. The economic entity must contract with a sponsor accredited by the LSM.
4. The economic entity must exercise of its actually activity for one year at least, and have made a profit from its main activity in that year by at least five per cent of the capital.
5. The number of shareholders must not be less than ten shareholders.
6. The proportion of free float shares should not be less than five per cent of the capital.

Sub-market schedule B includes the securities of economic entities that do not meet the conditions of the main schedules and sub-market schedule A, taking into account the following:

1. The economic entity's capital must not be less than LD 100,000 (LD one hundred thousand) or the equivalent.
2. The number of shareholders must not be less than ten shareholders.

4.3.4.3 Listing requirements for foreign companies in the LSM

The foreign companies' securities may be listed in the LSM according to the same requirements for listing of the Libyan companies' securities, taking into the account of the following (Article 19 of the RLFD):

1. Submit a request application for listing, signed by the person or entity authorised to officially sign on behalf of the foreign corporation.
2. Must be to the satisfaction of all the provisions contained in the law of its country.
3. Should take the form of a joint-stock company.
4. Securities to be listed on the stock market in the foreign state, to which the corporation is subject to its laws.
5. To abide by the rules and regulations governing the functioning of the LSM.
6. Securities to be issued in convertible currency of the LD.
7. That has been established for a period of not less than two years and shall have issued two balance sheet statements, checked by a certified auditor.
8. Capital not less than the equivalent of LD one million and the number of shareholders not be less than one hundred shareholders.
9. To have made a net profit available for distribution to shareholders of at least an average of about 5% of the paid-up capital during the two years preceding the date of submission of the listing application.
10. That proves the general assembly of the corporation had met once a year at least.
11. Did not have authority or the state of the nationality of any restrictions on absolute prohibition of the transfer of stock ownership among dealers of non-nationals and statement of limited restrictions, if any.
12. To provide the commitment to publish its balance sheets and the results of its performance in the daily means of publication in Libya before being traded in the market.
13. To appoint its representative in Libya, who undertakes the functions of registering shares and dividends, the profits, and receiving and issuing reports

and documents related to the work of the entity. The representative may be the LSM or a bank operating in Libya, and is licensed by the Libyan central bank or one of the companies working in the field of securities.

14. Any other conditions approved by the LSM, and the market may-in appropriate cases-exclude foreign entities that want to list their shares on the market of any of the conditions and requirements specified in these regulations.

The application for listing of foreign entities must contain the following information (Article 20 of RLFD):

1. Name of the foreign corporation, the main location of centre of administration, the statement of legal form, amount of capital, the number of shareholders, the date of its incorporation, and the statement of nationality.
2. Name of the applicant with the destination and date of its authorisation officially submitted on the listing application.
3. The nominal value of the shares of the foreign corporation.
4. Names and addresses of the auditors who have assumed the task of auditing the accounts for the two fiscal years preceding the date of submission of the listing application.
5. Name or names of the markets in which it was listed.
6. Statement of procedure for the transfer of stock ownership and whether there are restrictions on the transition to non-citizens of the state, in which the foreign corporation's nationality is followed.
7. Name of the representative in Libya whose duty is to register the transfer of shares ownership and profit distribution, receiving and issuing reports and the documents related to the work of the entity.

In addition to above, foreign entities according to Article 21 of RLFD must provide the administration of the market through the following documents:

1. Report issued by the foreign corporation's Board of Directors includes the following:
 - (a) A brief summary of its establishment, the main objectives and its relationship to any other company.
 - (b) Determine the securities which have previously been issued by the by the hand, and those that wish to be issued in the foreseeable future.

- (c) Names of those who own more than 5% of the securities issued by the foreign corporation as well as the number owned by each of them.
 - (d) The important events experienced by the foreign corporation from the date of its inception until the date of submission of the listing application.
- 2. Evaluation of the Board of Directors supported by figures for the performance and achievements compared with the plan set.
- 3. Financial data about the foreign corporation containing :
 - (a) Annual financial statements for the fiscal years preceding the date of submission of the listing application, supported by a certified legal auditor in the home country.
 - (b) Interim financial statements covering the period from the end of the previous financial year to the date of submission of the listing application and until the end of the last quarter preceding the date of the application to be certified by the auditor.
- 4. Public documents about the foreign corporation shall include:
 - (a) Memorandum of association and its statute, certified by the state which has its nationality.
 - (b) Listing certificate in the financial market at the home country and other foreign markets (if any).
 - (c) Records of the meetings of the General Assembly of the foreign corporation for two fiscal years preceding the date of submission of the listing application.
 - (d) A copy of the published financial statements and the results of its activities in one of the daily means of publication.
 - (e) Assurance that there are no restrictions by the foreign corporation or by the state which follows its nationality that may limit the freedom of movement of share ownership among dealers, or a statement of the type of restrictions imposed on this deal.
- 5. Document the appointment of a representative of the foreign corporation in Libya, who serves as a registration of shares, the distribution of profits and receiving and issuing reports and documents related to its activities.

4.4 The Banking Sector in Libya

This section of the chapter provides an overview of the banking sector currently existing in Libya. The section therefore is organised into five subsections: (4.4.1) briefly describes the history of the Libyan banking sector, followed by discussing Libya's banking sector reforms (4.4.2). Lastly, the structure of the Libyan banking sector is explored in (4.4.3), including the Central Bank of Libya (4.4.3.1), commercial banks (4.4.3.2), the Libyan Foreign Bank (4.4.3.3), and specialised banks (4.4.3.4).

4.4.1 A brief history of Libyan banking sector

The first bank was opened in Libya during the Ottoman period, as an agricultural bank in Benghazi in 1868, and in 1901 another bank opened in Tripoli (CBL, 2006). A number of branches were later opened in different areas of the country. In 1906, the Imperial Ottoman Bank (Banque Impériale Ottomane; BIO) opened its first branch in Tripoli and in 1911, opened its second branch in Benghazi (Tschoegl, 2002). The Bank of Rome (Banca di Roma, BdR) in 1907 also opened two branches, one in Tripoli and another in Benghazi, and then expanded its operations in the counties of Tripolitania and Cyrenaica (Tschoegl, 2002).

In 1913, Italy opened a branch of the Bank of Napoli and the Bank of Sicily in Tripoli (Alnas, 2010). In addition, during the era of the British and French military administration (1943-1951), Barclays Bank opened two branches in 1943: one in Tripoli and the other in Benghazi (Alnas, 2010). After Libya became an independence country on 24 December 1951, a number of foreign banks were encouraged to open their branches in Libya, namely the Bank of England to the Middle East, the Arab Bank, Bank of Egypt, and Tunisian and Algerian Bank (CBL, 2006).

It is worth mentioning that the majority of activities of these foreign banks at the time were linked to funding business operations, where profits were large and of least risk. risk.As foreign commercial banks have acted in accordance with their benefits, their banking activities were confined to financing rapid yield and secured business, and productive economic activities were not given any importance, such as agriculture and industry (CBL, 2006). There was also no participation by Libyans in the ownership structure of these foreign banks.

In 1951, the Libyan interim government at that time enacted the Currency Law No. 4, in which the Libyan Currency Committee (LCC) was established and commenced work in February 1952. Its mission was to manage and issue banknotes and coins in Libya. It is important to note that throughout this period there were Libyan banks in existence, which pushed through the need to establish a national central bank (CBL, 2006; Alnas, 2010).

In 1955, the Libyan state passed the Bank Law No. 30, as the first real effort at a general regulation of the banking sector in Libya. The National Bank of Libya (NBL) was established under this Law and began operations at the beginning of April 1956 in Tripoli, later opening a branch in Benghazi in 1957 (CBL, 2006). Functions of the LCC as a single authority responsible for issuing banknotes and coins in Libya were transferred to the NBL.

At the same time, the NBL was unable to achieve the objectives assigned to it as a central banking authority, where it found that facing branches of foreign banks is no way to control them, which prevented it from applying effective monetary policy to serve the national economy (CBL, 2006; Alnas, 2010). Although, the law allowed the NBL to engage in normal banking business, but did not allow it to organise the banking operations or supervision of commercial banks in the country. Later, the NBL was renamed “Central Bank of Libya” (CBL), and was vested with wide authorities for the supervision of banking in Libya.

According to Otman and Karlberg (2007), the Libyan government gave the CBL its regulatory role as the watchdog authorised to control commercial banks, their administration and methods of working, and the liquidity reserve ratio, as well as issuing banking licences. All commercial banks were required to keep legal reserves and liquidity ratios with the CBL against deposits. The CBL was also authorised to carry out commercial transactions, up until the National Commercial Bank (NCB) was established in 1970 to take over the commercial department of the CBL (CBL, 2006).

In 1963, the Libyan Banking Law No. 4 was passed. This law made it compulsory for any foreign bank which had its headquarters in Libya and carrying out banking business in the country to take the form of a joint-stock company, with the Libyan state owning not less than 51% of its capital (known as the Libyanization policy). On the other hand,

any foreign bank with its headquarters outside the country had to remain permanently in Libya with funds equivalent to at least the total value of their outstanding obligations performance, as well as an amount equal to the capital of the bank.

Three commercial banks responded out of eleven foreign banks and turned into joint-stock companies: with the Bank of (Banco di Sicilia) the Libyan state owns 51% of the capital of the bank, and was renamed the Sahari Bank (CBL, 2006). The Tunisian Algerian estate was converted to the Libyan joint stock company under the name African Banking Corporation, with Libyan state owning 51% of the bank's shares.

In 1966, the British bank for the Middle East responded to the 'Libyanization policy' and took the form of the Libyan joint stock company under the name North Africa Bank; with the Libyan government owning 51% of its capital (Alnas, 2010). In contrast, the Rome Bank, Barclays Bank and Naples Bank did not respond to the 'Libyanization policy' and thus the activity of the National Bank of Libya was limited and did not include all banks in the country at the time (Alnas, 2010).

On 13th November 1969, the RCC took a resolution to nationalise entire foreign commercial banks that operated in the country. According to this resolution, it was required that foreign banks in the country should take the form of joint Libyan stock companies and be at least 51% owned by Libyans. Also, the majority of members of the boards of directors should be Libyans (CBL, 2006). This was followed by issue of the Law No. 153, on 22nd December 1977, to nationalise foreign stakes in commercial banks and to restructure them, and also to identify the Libyan contributions in these banks. Under this Law, the Libyan government bought the ownership of all banks that still had some foreign participation. Then, the capital of all foreign banks operating in Libya became Libyan-owned by the government.

Furthermore, the law prohibited all the companies not wholly owned by Libyans from practising banking activity in Libya, and included the integration of former commercial banks in five state-owned commercial banks, under the following names:

1. National Commercial Bank (formerly the commercial banking division of CBL, and two foreign commercial banks: Istiklal Bank and Orouba Bank).
2. Al-Jumhoria Bank (formerly Barclays Bank).
3. Al-Sahari Bank, (formerly the Banco di Sicilia).

4. Al-Umma Bank (the successor of Banco di Roma).
5. Al-Wahda Bank was founded in 1970 from the merger of five other banks (the Bank of North Africa, the Commercial Bank, Nahda Arabia Bank, Societe Africaine De Banque SAL and Kafila Al-Ahly Bank) (CBL, 2006).

Officially, private commercial banks were not allowed to establish themselves in Libya, up until the new Banking Law was passed in March 1993. The Libyan authorities passed Banking Law No. 1, 1993 (amended by Banking Law No. 1, 2005 and then by No. 46, 2012), which permitted the establishment of private commercial banks by individuals in Libya. This legislation also allowed the foreign banks to open branches and representative offices in Libya. Nevertheless, so far this has been limited to the opening of a representative office of the Arab Banking Corporation in 1996 and later Bank Valetta of Malta as well as Suez Bank of Egypt.

The Bank of Commerce and Development was the first private commercial bank established in Libya owned by Libyans, and commenced its operations in 1996. Additionally, in 1996 the CBL allowed the establishment of regional private banks (known as Ahliyah Banks); these banks are subject to the control and supervision of the CBL. Later, the National Banking Corporation was established to be a coordinator between these banks and the CBL, commercial banks, other public administrative units, and the correspondent banks abroad.

According to the CBL, the aims and objectives behind the establishment of these regional banks was to spread banking services and grant credit for small projects productive in the areas where they are based. As their operations and banking services are limited to the geographic scope of where they are, these banks were therefore relatively small in size and capital as well as in their contribution to national economic development. The number of these banks until the end of 2005 was forty-eight small regional private banks.

At the beginning of 2006, as part of the restructuring of the banking sector in Libya, forty-two of these banks were merged into the National Banking Corporation based on the CBL's Decree No. 49 of 2006, which in turn became the integration of these banks, a state-owned commercial bank (whose name was changed to the North Africa Bank

thereafter). One of the six remaining regional banks has been transformed into private commercial bank under the name Mediterranean Bank, (formerly Ahliyah Bank of Benghazi), and Ahliyah Bank of Tripoli was also transformed into a private commercial bank under the name Alsaraya Trading and Development Bank.

Three Ahlia Banks were merged (i.e. Al-jeelat, Zuwarah, and Sahal Aljafarah) into a single private commercial bank under the name of Al-Mutahed Bank for Trade and Investment; this was based on the decision of the governor of the CBL taken on the July 1st 2007 (Al-Mutahed Bank for Trade and Investment, 2011). In 2007, the last remaining regional bank (i.e. Bank Al-Andalus) was transformed to a private commercial bank under the name Arab Commercial Bank after its capital had increased according to Banking Law No. 1 2005.

Since the Libyan Banking Law No. 1 was applied in 1993, the number of private commercial banks in Libya has grown gradually; the first private commercial bank was established in 1997 (i.e. Bank of Commerce and Development) and by the end of 2010 the number of private commercial banks has reached eleven, which includes Al Waha Bank, Arab Commercial Bank, Assaray Trade and Investment Bank, Alejmaa Alarabei Bank, Al-Wafa Bank, Al-Mutahed Bank for Trade and Investment, Alaman Bank for Commerce and Investment, First Gulf Bank, Mediterranean Bank, and the North Africa Bank. It should be noted that some of these banks are not wholly owned by the private sector (foreign or local); the Libyan government or their agencies own them partially from their capital (for more details see Table 4.2, in section 4.4.3.2.2).

4.4.2 Libya's banking sector reforms

The Libyan state has made unremitting efforts to reform and liberalise of the banking sector, in light of the overall economic reforms that began to be implemented in the late 1990s and have intensified during the 2000s. So far, these reforms have contributed to the development of the banking sector in many aspects, while other aspects still require more effort to reach a strong and competitive banking system. Indeed, several tangible reforms and changes in the Libyan banking sector's structure and activities were recently witnessed. As have been noted by Otman and Karlberg (2007), the banking sector's reforms in Libya was closely associated with a general reform programme intended both to privatise inefficient state-owned enterprises, and as a sensible effort by

the Libyan authorities to attract forging direct investment into the national economic sectors.

The Libyan banking sector was long dominated by five state-owned commercial banks; these banks are owned in full or in the majority by the Libyan government or its agencies, namely the National Commercial Bank, Al-Umma Bank (which merged with Jamahiriya Bank in 2008), Jamahiriya Bank, Wahda Bank, and Sahara Bank. These public banks dominate over 90% of all deposits, assets and credit in the commercial banking sector in the country. As emphasised by IMF (2006a), the Libyan banking sector remains predominantly in the hands of the public sector, which represents 90% of Libya's banking business. Privatisation of Libya's state-owned banks must be viewed as an opportunity to attract a qualified group of strategic investors with a proven track record into the financial industry, to improve banking sector efficiency (WB, 2006).

It is widely recognised that the vast majority of these state-owned banks are characterised by structural and functioning weaknesses due to poor corporate governance practices, lax credit administration processes and the absence or non-adherence to credit risk management practices. At the same time, the Libyan banking sector is characterised by the magnitude of the excess liquidity owned, and a narrow product range with a focus on traditional lending and a high number of non-performing loans.

Furthermore, the banking industry in Libya suffers from the unfavourable business environment, which restricts private sector development, as well as the lack of expertise and modern banking skills (IMF, 2006a). According to the WB (2006), Libyan state-owned banks still need a management structure supported by modern skills in certain critical areas as credit, investment, risk management, and information and control systems.

The banking sector in Libya thus needs to be reformed in order to enhance its ability to perform a more proactive role in the development of the economy and to enable the banking sector effectively contribute to the advancement of private sector, increasing its contribution to the development process as well as to improve its competitiveness. According to the IMF's report published in 2006a, there are vital reform measures that

should be undertaken by Libyan government for the development of the banking sector and to promote competition within it and improve accounting and financial reporting systems which include reforming the current legislation in the areas of accounting, bookkeeping, and bankruptcy.

As a part of efforts to reform the Libyan banking system, the CBL has recently undertaken significant measures to attract greater foreign direct investment into the Libyan banking industry and to open up the banking sector to international banks, as well as to improve the Libyan banking sector efficiency. Accordingly, the CBL has created legislation permitting foreign banks to establish branches in Libya and allowing them to hold up to 50% of the shares of some domestic banks. Furthermore, the CBL has also authorised the establishment of private domestic commercial banks. According to the IMF report of 2006/b, the CBL issued a number of decrees to improve the operations of commercial banks, launched the privatisation of state-owned banks, as well as recapitalising three of the five commercial banks it owns.

In July 2007, BNP Paribas of France was invited to purchase 19 % share of Sahara Bank. One further foreign bank, the Arab Bank of Jordan was selected to buy a 19% share of Wahda Bank in November 2007, among five foreign banks (French, Italian, Moroccan institutions, Jordanian, and Bahraini) shortlisted for the privatisation of Wahda Bank, with the possibility of raising their ownership to 51% over the succeeding three to five years. In addition, in August 2010 the CBL allowed the Italian bank Unicredit to operate a subsidiary in Libya. Unicredit will hold 49% of the subsidiary with full management control, and 51% will be held by Libyan investors.

It is also noteworthy that the Libyan state is considered the largest shareholder in Italian bank UniCredit (the CBL and the LIA in combination own nearly 7.6% of Unicredit). Recently, the Arab Banking Corporation (Bahrain) was allowed to buy a 49 % stake in Libya's Mediterranean Bank. The CBL is a majority shareholder in the Arab Banking Corporation with 59.37 % of its stock, after purchasing the Abu Dhabi Investment Authority's 17.7 % stake.

The merging of the commercial banking sector is one of the remarkable signs of the recent reforms agenda in Libya. In light of subsequent developments in the banking

environment, there has been a trend towards mergers and the privatisation of state-owned commercial banks in Libya. In October 2007, the CBL announced that it intended to consolidate two large state-owned commercial banks, the Umma Bank and the Jumhuriya Bank, to form one commercial bank, Jumhuriya Bank. The merging process was completed in 2008 and this bank remains state-owned.

The government's view is that this will enable the new bank to be more effective and more capable of facing severe competition in the banking market. Furthermore, new commercial banking laws were introduced, and several new banking licences were recently issued, as part of the banking sector liberalisation, bringing the total number of commercial banks operating in the country to 15; the number of representation agency offices of foreign banks has increased to reach 24.

At the time of writing, it is obvious that the role of the banking sector in Libya remains very limited in terms of the quality of services provided, compared with other countries with similar economic characteristics, which reflects negatively on its contribution to national economic development. In spite of privatisation and reform actions recently undertaken by Libyan authorities, the banking sector still does not play a full role in the country's economic life, and is also not strongly effective in the process of economic development.

More important, the Libyan banking industry is still dominated by state-owned commercial banks. Notwithstanding, the exchange of state-owned commercial banks to private commercial banks has become an unavoidable result of socio-economic conditions challenging the emerging economy countries, such as Libya.

Overall, in the absence of reforms, a country-banking sector may not be able to play a complete role in the intermediation of national savings and the financing of economic growth in the non-oil sector (World Bank, 2006).

4.4.3 The structure of the Libyan banking sector

The current structure of the Libyan banking sector is comprised from different types of banks; at present it includes the CBL, which represents the monetary authority, responsible for the supervision and control over the banks, and a number of public commercial banks, in addition to a number of private commercial banks and mixed

ownership commercial banks, which contribute to the capital of a foreign partner (see Table 4.3).

Within the components of the Libyan bank sector there are also four specialised banks which have been created for the purpose of financing specific activities, such as housing activity, agriculture, industry and finance of small projects. In addition to these, there is a Libyan Foreign Bank (LFB), represented in overseas investments and banking activities and complementary and related financial activities (offshore). There are also a number of representative offices of foreign banks based in Libya (see Appendix No. 6). The following subsections review in detail the current structure of the Libyan banking sector.

4.4.3.1 Central bank of Libya

As discussed previously, the CBL commenced its operations on April 1, 1956, under the name the National Bank of Libya, which replaced the Libyan Currency Committee which was established in 1951. It was then renamed the CBL to perform its main functions as the central bank.

Prior to the issuance the Libyan Banking Law No. 4 for the year 1963, the functions of the CBL were limited to keeping sterling assets against the issue of local currency, hence, it had no role in controlling money supply or credit, or in supervising banks (CBL, 2006). By issuance of the Libyan Banking Law No. 1, 2005, its role has improved more effectively, and this law gave the CBL its independence and the authority to manage and implement banking and monetary policy, as well as supervising and monitoring the banking system's performance, and enhancing confidence therein.

At present, the CBL is fully (100%) under state ownership and represents the monetary authority in Libya, and it has come under the sponsorship of the Secretariat of the General People's Congress since the issuing of the Libyan Banking Law No. 1 of 2005. The main objectives of CBL under the Banking Law 2005 are to maintain monetary stability in the country, and to promote the sustained growth of the Libyan economy in accordance with the government's general economic policy.

According to Article 18, Libyan Banking Law No. 1, 2005, the governor of the CBL shall be the executive chief of the CBL, and shall be responsible for managing the CBL

and discharging its normal affairs under the board of directors' supervision. The CBL has established three branches located in Benghazi, Sebha, and Sirte, as well as headquarters in Tripoli, which has made its services more accessible to public departments as well as commercial bank branches far from the headquarters (CBL, 2006).

4.4.3.1.1 Functions of the central bank of Libya

The Libyan Banking Law No. 46, 2012, Article 5 specified the core functions and responsibilities of the CBL, which include the following:

1. Issue the Libyan currency and maintain its stability within Libya and abroad.
2. Manage its reserves and the government's reserves of gold and foreign exchange.
3. Regulate monetary policy and supervise currency conversion transactions within Libya and abroad.
4. Regulate credit and banking policy and supervise its implementation within the framework of the government's general policy.
5. Achieve the goals of economic policy in terms of stabilizing the general level of prices and maintaining the soundness of the banking system.
6. Manage the liquidity of the national economy.
7. Regulate and supervise the foreign exchange market.
8. Provide advice to the government on matters related to the general economic policy.

In addition, in carrying out the above-mentioned obligations the CBL may (Article 5/2):

1. Exert control on the amount, type, and period of credit available to ensure that the actual needs of economic factors involved in production and services will be met.
2. Take appropriate measures to deal with economic and financial troubles, whether domestic or international.
3. Monitor and supervise banks, companies and exchange offices, and financial leasing companies to ensure the soundness of their financial position, monitor their performance, and protect the rights of their shareholders, depositors and customers.
4. Supervise the national system of payments, including clearing operations between banks subject to the provisions of this law, and develop regulations to govern the system.

5. Any other measures required to implement the monetary, credit, and banking policies and enhance the supervision of banking credit.

The following is a review of the most important functions undertaken by CBL since it was founded.

- **Issuing and regulating the Libyan currency**

CBL is the sole issuer of the Libyan currency; it supplies market needs for banknotes and coins and keeps a sufficient inventory of these banknotes and coins. As was stated in the Article No. 30, Banking Law No 46, 2012, “the CBL alone shall have the prerogative to issue currency in Libya. In the application of the provisions of this section, currency shall mean banknotes and coins”. It is also responsible for eliminating and withdrawing old currency from circulation which is damaged or no longer valid.

According to Libyan Banking Law, 2012, Article 31, the unit of national currency is Libyan Dinar (LD), which is divided into (1000 Dirhams); the CBL’s board of directors shall set the par value of the LD in SDRs or any convertible foreign currency or according to supply and demand in the foreign exchange. The LD was introduced in 1971 by the CBL as a replacement of the Jonayh.

One LD equalled \$3.04 (US dollars) and continued to be strong until the 1986 (CBL, 2006). Later the value of LD started to gradually reduce. Currently it is valued at less than a dollar (approximately USD 0.80). Since January 2002, the LD has been pegged to Special Drawing Rights (SDRs) by fixed rate. In June 2003, the exchange rate was devalued by 15 per cent to one LD equals SDRs 0.5175 (IMF, 2005).

It is worth mentioning that before CBL commenced its activity in 1956 the currency notes traded at the time were those issued by the LCC, which was established in February 1952, and began issuing the Libyan currency in 24 March, 1952 (CBL, 2006).

- **Manage and develop the government’s gold and foreign exchange reserves**

According to Article 6 of Libyan Banking Law No. 46, 2012, the CBL is the only body responsible for managing and developing the government’s gold and foreign exchange reserves. In addition, it is responsible for selecting appropriate investment instruments and determining the amounts to be invested in each currency, taking into account the

developments in foreign exchange and money and capital markets to certify safety and profitability.

The CBL licenses commercial banks to hold foreign currencies in accordance with guidelines of the foreign exchange regulations issued from time to time to take into account the country's general economic interests.

Foreign exchange transactions shall be executed through banks and entities that are licensed for this purpose by the Central Bank of Libya. Each such bank and entity must prepare a periodic statement of the foreign exchange that it sells or buys, the foreign exchange transfers that it executes and receives, foreign exchange that it receives for transactions involving the export of goods and services, and foreign exchange balances at its disposal. It must transfer all such foreign exchange to the Central Bank of Libya at the times stipulated by the Central Bank of Libya (Article 47, Banking Law No. 46, 2012).

Furthermore, Article 43 indicated that commercial banks operating in Libya may open accounts in foreign exchange for individuals and legal entities that are fed by:

- a. Deposits in foreign exchange.
- b. Sums transferred from abroad.
- c. Sums transferred from another domestic account in foreign exchange.
- d. The foreign currency equivalent that the banks receives for its purchase of foreign banknotes, or other means of payment in foreign exchange credited to the account.
- e. Banking interest on the aforesaid accounts.
- f. Any other legal channel.

• **Acting as a banker and financial agent to the state and public entities**

The CBL acts as a banker and financial agent to the Libyan state and public entities. Article 9/1 of the Libyan Banking Law No 46, 2012 emphasises that the CBL have to engage in banking activities relating to public administrative units required to deposit their balances in it, and it must provide banking services to those units. Further, the CBL may accept deposits from, and provide banking services to, public entities (Article 9/2). The CBL may also provide temporary advances to the government to cover any

temporary deficit in general budget revenues based on terms agreed between the CBL and the Ministry of Treasury (Article 11/2).

Accordingly, the CBL, under the Libyan Banking Law, is charged with maintaining the government and public institutions' revenues and expenditures accounts. It also makes payments, transfers and collects funds locally and abroad, as well as managing letters of credit transactions on behalf of its customers, and provides various banking services to public institutions. In addition, it participates in representing the government in contracts, negotiations, and operations conducted with foreign governments and international organisations regarding monetary, financial, or commercial matters.

- **Acting as economic and financial consultant to the state**

The role of the Central Bank of Libya (CBL) in promoting economic activity in the country is not limited to its role in monetary stability and managing the banking environment. It also provides advice to the government on various aspects of economic life, such as the submission of proposals and recommendations to make decisions and measures which relate to economic affairs and finance, through studies and reports to the competent authorities about the economic developments in the country. Moreover, it offers advice on questions or concerns in various topics and economic issues.

- **Acting as a banker to the commercial banks**

The CBL maintains the legal cash reserves required from commercial banks as a percentage of their customers deposits. According to Article 57 of the Banking Law No 46, 2012, all commercial banks operating in Libya must maintain, with the CBL and without interest, the required monetary reserve corresponding to their deposit liabilities. These reserves must be paid in the Libyan dinar unless the board of directors of the CBL permits the provision of some such reserves in the form of other assets. Commercial banks have to maintain mandatory cash reserves of 15 % at the CBL by the demand deposits, and 7.5% on savings and time deposits. In addition, it accepts time deposits of these banks for the benefits, and the CBL is a last resort for the commercial banks and can give them unusual loans in the face of any exceptional circumstances it assumes threaten the stability of the monetary system and banking in Libya.

- **Inspecting, supervision and regulation of banking activities**

In order to ensure that banks comply with the CBL rules, regulations, policies, and directions, the CBL checks and analyses the financial positions of all banks and their branches operating in Libya, in terms of legal liquidity and the safety of their financial position, and confirms that they maintain the legal required ratios such as cash reserves and legal liquidity. It also examines the truth of figures and information which they supply to the CBL and their commitment to following the directives that issued by CBL, such as that concerning the size and direction of credit granted by the banking sector. Under Banking Law No 46, 2012, Article 55, the following shall be subject to the supervision of the CBL:

1. Commercial banks and Islamic banks.
2. Specialised banks.
3. Banks that operate abroad whose head office is in Libya.
4. The branches of foreign banks in Libya.
5. The representation offices of foreign banks in Libya.
6. Companies and exchange offices, financial leasing companies, and investment funds.

According to Article 61 of the Banking Law No. 46, 2012, the CBL has a right to inspect at any time the banks' books, records, debit accounts, and their electronic systems as well as the files pertaining thereto. This inspection should be done at the head office of the bank concerned by CBL inspectors assigned to carry out this task. In addition, the banks must provide the inspectors with all of the data and facilities that they require to carry out their work. Furthermore, all banks must comply with the rules and regulations established by the CBL to regulate clearing operations and issues relating to National Payment System (NPS) and they must also implement the decrees, circulars, and instructions issued by the CBL (Article 64).

4.4.3.2 Commercial banks

This includes all commercial banks operating in Libya licensed to perform banking operations under the supervision of the CBL, in accordance with the provisions of Libyan Banking Law No. (46) of the year 2012. Commercial banks are the most important components of the financial sector in Libya in terms of size and role, geographical spread, and various types of services offered to customers.

4.4.3.2.1 Definition and functions of commercial bank

The Libyan Banking Law No, 46 of 2012, Article 65/1 defines a commercial bank as “Any company that ordinarily accepts deposits in current demand accounts or time deposits, grants loans and credit facilities, and engages in other such banking activities according to the provisions of paragraph (2) of this article shall be considered a commercial bank”. This definition does not include the specialised banks or other financial institutions.

According to the Banking Law commercial banks must assume the form of a Libyan joint-stock company, according to the rules and conditions determined by the board of directors of the CBL. Commercial banks may engage in some or all of the following business activities (Article 65/2):

- a. The cashing of checks made out to and by customers.
- b. Services relating to documentary credits, documents for collection, and letters of credit.
- c. Issuance and management of instruments of payment including monetary drawings, financial transfers, payment and credit cards, traveller’s cheques, etc.
- d. Sale and purchase transactions involving monetary market instruments and capital market instruments to the credit of the bank or its customers.
- e. The purchase and sale of debt, without or without the right of recourse.
- f. Financial leasing activities.
- g. Foreign exchange transactions in spot and forward exchange markets.
- h. The management, coverage, distribution, and transaction of banknote issues.
- i. The provision of investment and other services for investment portfolios, and the provision of investment trustee services, including the management and investment of funds for a third party.
- j. Management and safekeeping of securities and valuables.
- k. Provision of trustee or financial investor services.
- l. Any other banking activities approved by the CBL.

Each commercial bank must obtain a license to engage in banking activities before commencing such activities. The board of directors of the CBL is responsible for issuing this license. According to the Libyan Banking Law, Article No. 66 this license shall

replace the license stipulated in the Commercial Law. However, commercial banks in Libya are prohibited from engaging in the following transactions (Article 77):

- a. Wholesale and retail commerce, including importation and exportation and brokerage or commercial agency activities, except as required by financial leasing activities or Islamic banking services.
- b. The acquisition of a joint stock company's shares in the capital of the bank.
- c. The acquisition of the shares of another joint stock company in excess of 10 per cent of the company's paid capital. The nominal value of the total shares owned by the bank in such companies must not exceed one-half of the paid capital and capital reserve.
- d. Entry as a general partner into partnerships and the like.
- e. Acceptance of shares that comprise the bank's capital in the form of a loan guarantee, or the transacting in or acquisition of such shares, unless ownership of the shares was transferred to the bank in payment of a debt to the bank by a third party; in this case, the bank must sell such shares within one year of the transfer of the shares to it.
- f. The purchase of the shares of any bank operating in Libya, even if its head office is abroad, only with the permission of the board of directors of CBL.
- g. The issuance of bearer notes payable on demand.

The following are the most important characteristics of the Libyan commercial banking sector.

4.4.3.2.2 Ownership structure of the Libyan commercial banks

The commercial banking sector in Libya consists of fifteen banks in operation: six public sector-owned commercial banks with foreign participation in two banks (i.e. Al-Wahda Bank and Al-Sahari Bank), eight private commercial banks owned by Libyans individuals and foreign participation (joint ownership), and one commercial bank owned jointly by the Libyan state and the United Arab Emirates, 50% for each. As can be seen in Table 4.3 the ownership structure of the Libyan commercial banking sector can be categorised by the following features:

- a. Four commercial banks are 100% private local owners,
- b. Eight commercial banks are wholly or partially owned by the public sector,

- c. Two private commercial banks are jointly by private local and foreign strategic pattern, and
- d. One is owned jointly by the Libyan state and the United Arab Emirates (50% for each).

Table 4.3: List of commercial banks operating in Libya as of 2010

No.	Name of the bank	Capital Ownership		
		Public Sector %	Private Sector %	Strategic Partner %
1.	Al-Jumhoria Bank	83.0	17.0	0.0
2.	National Commercial Bank	85.0	15.0	0.0
3.	Al-Wahda Bank	54.0	27.0	19.0
4.	Al-Sahari Bank	59.0	22.0	19.0
5.	North Africa Bank	82.0	18.0	0.0
6.	Al-Waha Bank	90.0	0.0	0.0
7.	Bank Alaman for Commerce and Investment	0.0	60.0	40.0
8.	Al-Wafa Bank	0.65	99.3	0.0
9.	Assaray Trade and Investment Bank	0.0	100.0	0.0
10.	First Gulf Bank	50.0	0.0	50.0
11.	Al-Mutahed Bank for Trade and Investment	3.0	57.0	40.0
12.	Arab Commercial Bank	0.0	100.0	0.0
13.	Bank of Commerce and Development	17.0	34.0	49.0
14.	Mediterranean Bank	0.0	100.0	0.0
15.	Al-Ejmaa Al-Arabei Bank	0.0	100.0	0.0

Source: The third annual report of the Department of Bank Supervision and Monetary for the years 2010-2011.

4.4.3.2.3 The nature of the Libyan commercial banking sector

Libyan commercial banks, as a profit-seeking business institution, provide traditional banking services in rural areas, smaller and bigger cities in the country via (330) branches and (159) agencies. These services include accepting the deposits (demand or saving) from the general public, granting various types of loans and advances to individuals and companies, issuance and management of instruments of payment including monetary drawings, financial transfers, credit cards, traveller's cheques, and

collection pensions and salaries on behalf of their clientele. They also offer services relating to processing letters of guarantee and letters of credit.

Along with these services, they also deal in foreign exchange transactions as well as acting as brokers in foreign exchange markets, and service transfer of funds in foreign countries. In addition to these traditional services, in recent years, due to community pressure, several of these commercial banks have begun to offer some banking products compliant with Islamic Sharia tenets. The number of branches that began to provide banking products according to Islamic Sharia was thirteen. However, the Libyan commercial banking sector, up to the present time, is relatively small and underdeveloped as well as offering a very limited range of financial products compared to other similar countries; services are often provided on the basis of personal relationships.

4.4.3.2.4 Commercial banks' performance during Libya's popular revolution

The fiscal year 2011 was an exceptional year for commercial banks, when the events of Libya's popular revolution on February 17, 2011 split apart the commercial banks through most of the year, and contact was completely lost between some branches and their major administrations. In addition to restrictions on withdrawals, and the disruption of communication networks and irregular electricity, there was also a sharp decline in foreign trade activities (CBL, 2011).

The commercial banks, however, witnessed during the economic conditions that prevailed in the domestic environment in the year 2011, remarkable significant changes in most of the financial indicators compared with the corresponding period of 2010, as follows:

- The total assets have increased (excluding contra accounts) by a growth rate of 8.5%, representing LD 5.6 million. The total assets reached LD 70.9 million in 2011, compared to LD 65.4 million at the end of 2010, with the liquid assets formed of total assets accounting for 73.0%, or about LD 51.7 million, mostly in the form of certificates deposited with the CBL, which reached its total of around LD 30.0 million.

- The contra accounts which consist mostly of local and foreign credit and guarantee letters, recorded at the end of 2011 an increase of LD 3.6 million, or an increase of 5.7% over the end of the year 2010, to reach LD 65.9 million.
- The conditions experienced by Libya after the revolution of February 17, 2011 led to a decrease in the total of loans and credits granted by commercial banks from LD 13044.6 million at the end of 2010 to LD 12786.5 million at the end of the year 2011, at nearly LD 258.1, representing an average decline of 2.0%. This decline in credit granted by commercial banks comes as aggregate to the following:
 - a) social advances items declined by about LD 433.5 million, or 11%, from around LD 3770.6 (5.8% of total assets) in 2010 to roughly LD 3337.1 million (4.7% of total assets) in 2011. This decline mainly translates to imposition of limits on cash withdrawals and the lack of liquidity in LD for banks.
 - b) real estate loans items declined by LD 32.5 million, from about LD 11872 million (1.8% of total assets) at the end of 2010 to approximately 1154.7 (1.6% of total assets) at the end of 2011.
 - c) increase of economic activities loans items by LD 208.0 million, an increase of 2.6%, to reach LD 8.2948 million at the end of 2011, compared to LD 8086.8 million at the end of 2010. The relative size of this item in the structure of assets declined during this period from 12.4% to 11.7%.
- The percentage to cover the provision for doubtful debts to the total loans and facilities accounted for 16.7% at year-end 2011, compared with 14.7% in 2010, which requires commercial banks to make greater efforts in order to reduce this ratio and access to the international averages of less than 6.0 %.
- The deposits volume of companies, public institutions, and the private sector increased from LD 55.3 million to reach LD 58.5 million by a growth rate of 5.7%. The demand deposits formed approximately 79.3% of total deposits, while time deposits accounted for about 19.5% of total deposits. However, the savings deposits constituted only around 1.2 %, whereas the balance of private sector deposits was shaped at the end of 2011, about LD 28.9 million, which represented nearly 49.4% of the total deposits, while the balance of public sector deposits represented the remaining 50.6% which was worth LD 29.6 million of total deposits.

- The total of shareholders' equity during the same period declined from LD 4517.6 million at the end of the year 2010 to reach LD 4365.2 million at the end of the year 2011; the decrease rate was roughly 3.4%.
- For the same reasons mentioned above, the amount of revenue earned by commercial banks during the year 2011 decreased by 38.2% to reach LD 1010.4 million compared with the corresponding period of 2010, which amounted to LD 1634.2 million. The expenses also decreased by 26.5% in 2011, reached LD 608.8 million, compared to LD 828.7 million in 2010. The ratio of expenses to revenues was about 60.3% in 2011, compared to 50.7% in 2010.
- The balance of the surplus liquidity of commercial banks at the end of 2010 was about LD 31.126.7 million, compared LD 32808.7 million at the end of 2011, an increase of LD 1682.0, representing 5.4%. This increase represents the difference between the actual balance of liquid assets (LD 2525.8 million) and the balance of liquid assets reserves (LD 843.8 million). It should be noted that although the rate of growth of excess liquidity has declined, compared to 2010, the commercial banks' liquidity reserves remain high for several reasons; perhaps the most important are limited areas of employment and the increase in public spending. In addition, Libya's extraordinary conditions witnessed during 2011 are what led to restrictions on banking operations.

4.4.3.3 Libyan Foreign Bank

The Libyan Foreign Bank (LFB) was founded in 1972 under Law No. (18) as a Libyan joint-stock company with a paid up capital of LD10 million, fully owned by the CBL. The capital of the bank rose to LD 20 million (equivalent to USD 67.4 million) according to the Law No. 66, for the year 1972. At the beginning of 2006, the bank's capital was increased once more to reach USD one billion. On December 12, 2009, at an extraordinary general assembly meeting of shareholders, the bank decided to increase its capital to USD two billion.

Subsequently, the extraordinary general assembly meeting of shareholders on February 21st, 2010 agreed to increase the bank capital by a further USD one billion; the paid up capital of the LFB therefore became USD three billion. In addition, the extraordinary general assembly meeting of shareholders agreed to increase the authorised capital to be

USD 8.7 billion divided into 87 million shares at a value of USD 100 per share (LFB, 2012).

The LFB serves as the foreign agent for the government and Libyan commercial banks and implements the worldwide functions of the CBL through its head office in Tripoli and branches in more than 30 countries. In particular, the LFB performs the activity of opening accounts and accepting deposits from abroad and non-residents, in addition to banking and financial transactions with commercial local banks and any related banking activities licensed by the CBL (LFB website, 2012).

Article No. 20 of the Statute of the LFB identified the purposes for which, performing outside Libya, the bank are engaging in all banking and financial services as well as development of finance operations and in particular the following:

- Acceptance of demand and time deposits, opening current accounts, loans held and granting other credit facilities.
- Collection and payment orders, promissory notes and other securities with financial value.
- Issuance of bonds, notes and other commercial paper.
- Discount, re-discount and trading of commercial paper.
- Issuance of letters of guarantee and credits and the opening credits and financing foreign trade operations, providing facilities for importers and exporters as well as the issuance of securities, as well as project financing and development investment on commercial grounds.
- Carrying out trustees' investment.

The banking and financial services that LFB is licensed to carry out inside Libya are:

- Opening accounts and accepting deposits in convertible foreign currencies from abroad and non-residents in Libya.
- Opening accounts and accepting deposits from public institutions assigned from the CBL to deal with it.
- Carrying out banking and financial transactions with local commercial banks in line with the purposes of the bank.

4.4.3.4 Specialised banks

Specialised banks (lending institutions) are the institutions that specialise in financing of a particular economic activity or specific sectors. Specialised banks were structured on cooperative lines; they do not operate on the principle of profit, and thus their activities are different from those of commercial banks. These banks were specially established to support and accelerate the socio-economic development in Libya by granting medium-term and long-term loans to agricultural, industrial and real estate activities.

In accordance with Article 65/1, Banking Law No. 46 of the year 2012, “a specialised bank whose main purpose is to finance and grant credit for specific activities, and whose basic activities do not include the acceptance of demand deposits, shall not be considered a commercial bank”. In view of that, four specialised banks were established in Libya to serve specific types of economic activity, they wholly owned by Libyan government, and these are in accordance with the resolutions of their establishment: (i) National Agricultural Bank, (ii) Saving and Real Estate Investment Bank, (vi) Development Bank, and (v) Rural Bank. Following is a brief introduction to these four specialised banks.

(i) The National Agricultural Bank:

The National Agricultural Bank (NAB) is one of the oldest specialised banks in Libya. It was founded in 1955 and commenced its operations in 1957 with a paid up capital of LD one million. In 1960, the Libyan government increased the NAB’s capital another LD one million; in March 1967, the NAB’s capital became five million dinars, and this capital is stipulated in the bank law.

The capital was increased again to reach LD six million and two hundred thousand, in order to meet the expansion aspects of the NAB’s activities relating to agriculture and the expansion of the open branches and offices in agricultural areas of the country (Alnas, 2010). Furthermore, in 2002, the capital of the NAB was increased to LD 450 million, based on decision No. 105 taken by the General People’s Committee (CBL, 2006). Its main purpose was to promote the agricultural sector in the country by providing interest-free loans to Libyan farmers; it purchases agricultural products from them at a guaranteed profit and sells materials to them at supported prices.

In 1970, the NAB was reorganised under law No. 133, which redefined its functions as follows:

- a. Work on the promotion and development of agricultural activity in the country.
- b. Grant agricultural loans to farmers and agricultural cooperatives and public sector companies related to agricultural activity and livestock.
- c. Accept deposits from individual farmers and agricultural cooperatives and public sector companies.
- d. Market agricultural products and animal within the public policy of the state.
- e. Trade in materials, machinery and equipment which is used for agriculture purposes.
- f. Establish, own and contribute to companies whose activities relate to agriculture

In order to achieve its objectives the NAB continued to provide loans and credit facilities for farmers, companies and public agricultural enterprises. Table 4.4 shows the value of loans granted by the bank during the period 1990-2011. It is clear that the total loans granted by the NAB (short, medium, and long term) was increased from LD 73.5 million at the end of 1990 to LD 1571.2 million in 2011, which showed a rise of LD 1497.7 million.

By analysing the relative importance of the loans, it is clear that the short-term loans accounted for approximately 7.04 % of the total of loans granted by the NAB to reach about LD 110.6 million in the end of 2011. The medium-term loans accounted for around 40.16% of the total loans granted by the bank to reach around LD 631.0 million at the end of 2011. The long-term loans accounted for about 52.8% of the total loans, which reached LD 829.6 in 2011.

Table 4.4: The value of loans granted by the NAB during the period 1990-2011 (million LD)

Year	Short Term	Medium Term	Long Term	Total
1990	21.4	18.7	33.4	73.5
1991	22.5	17.4	34.6	74.5
1992	20.9	15.4	34.4	70.7
1993	24.9	11.8	31.8	68.5
1994	25.9	10.9	30.1	66.9
1995	28.0	10.5	28.8	67.3
1996	29.6	16.3	29.1	75.0
1997	32.4	20.0	28.1	80.5
1998	35.4	22.8	27.5	85.7
1999	39.5	28.5	27.5	95.5
2000	50.0	36.0	27.0	113.0
2001	55.2	44.5	31.5	131.2
2002	57.4	92.4	82.9	232.7
2003	51.9	115.6	130.5	298.0
2004	67.2	148.0	155.2	370.4
2005	60.1	296.5	360.4	717.0
2006	64.5	425.1	685.4	1175.0
2007	63.7	495.5	840.9	1400.1
2008	81.8	564.2	829.1	1475.1
2009	89.2	549.2	829.0	1467.4
2010	73.3	555.0	829.6	1457.9
2011	110.6	631.0	829.6	1571.2

Source: CBL, Economic Bulletin, for the year 2012

(ii) Saving and Real Estate Investment Bank

This bank began the exercise of its transactions in the special section in the Industrial and Real Estate Bank (IREB) in 1965 with a paid capital of LD 10 million, and then increased the bank's capital by the end of 1965 to LD 45 million (LCB, 2006). Under Law No. 2 for the year 1981, the real estate section was separated from the IREB and then became known as the Saving and Real Estate Investment Bank (SREIB), with capital of LD 100 million.

In 2002, the capital of the SREIB was raised to reach LD 1100 by resolution of the General People's Committee No. 105. Law No 2 for the year 1981 specified that the SREIB respects and supports the movement of construction and reconstruction by encouraging saving, real estate, and providing credit facilities for the purpose of providing adequate housing in the context of transformation and plans in line with the general policy of the state. In order to achieve this may require the following means:

- a. Granting real estate loans.
- b. Issuing bonds and investment certificates.
- c. Accepting deposits from the bank's clients relating to real estate activity.
- d. Implementing and managing real estate projects to their account and others.
- e. Constructing, owning and mortgaging the real estate.
- f. Establishing and owning the real estate enterprises or participating in them.

As Table 4.5 shows, the balance of loans and financing provided by the bank (housing Loans and construction projects) until the end of 2011 was about LD 7953.3 million, compared with DL 520.9 million at the end of 2000, representing an increase of over LD 7432.4 million.

Table 4.5: SREIB loans during the period 2000-2011 (million LD)

Year	Disbursements Loans for Housing and Construction Projects		Total
	Housing Loans *	Construction Projects	
2000	503.9	17.0	520.9
2001	5090.2	18.7	5108.9
2002	869.5	12.6	882.1
2003	876.6	198.6	1075.2
2004	1066.6	83.8	1150.4
2005	1881.4	95.1	1976.5
2006	3381.6	130.9	3512.5
2007	4590.2	194.6	4784.8
2008	4403.3	1495.4	5898.7
2009	4666.6	1930.1	6596.7
2010	5195.7	2207.6	7403.3
2011	5745.7	2207.6	7953.3

* Includes loans by popularity since 2002

Source: CBL, *Economic Bulletin*, for the year 2012.

(iii) Development Bank

Development Bank is a financial institution that was established under Law No. 8 of the year 1981, as a joint-stock state-owned company with a capital LD 100 million. Its purpose is to support the process of development in Libya, and to establish the foundations of an industrial base, contributing to increased production and diversifying

production through the support of public companies, cooperatives, and private enterprises by granting them the necessary loans for purchasing machinery, equipment and operating requirements.

In 2005, the bank's capital was increased to reach LD 628.8 million. In particular, in recent years the Development Bank has played an active role in accelerating economic development in Libya, through granting loans to finance large or medium-sized productive and service projects, in order to develop the production and service sector and in particular to encourage projects that used modern methods in manufacturing, especially those using local raw materials available in the country. In addition, the bank has expanded its activities to include transportation, health and therapeutic services, food and feed.

In order to achieve the objectives of the plans and programmes of economic development in the country, the Development Bank continued to grant different types of loans with simple terms and conditions, going on the largest number of beneficiaries. Short-term and medium-term loans, are often granted to individuals and do not exceed LD ten thousand; the period of loan ranges between sixteen months and five years, while long-term loans exceeding LD ten thousand are granted to corporations.

The number of loans granted by the bank during 1990 reached 162 loans, accounting for LD 4005 thousand, mostly focused on the food industry to form respectively 54.9% and 32.4% of the total number and value of granted loans (CBL, 2006). Remarkably, the number of granted loans grew to reach 5053 loans and the value of LD 254408.0 in 2005, mostly focused on service activities, accounting respectively for 90.6% and 77.3% of the total number and value of granted loans (CBL, 2006).

Table 4.6 gives the number of loans granted to each industry by the Development Bank during the period 1995-2011. For example, the value of loans granted by the bank during the year 2011 reached about LD 121115.2 million, growing by about 35.2% from what it was in 2010 and amounting to LD 89.6 million. In particular, the development bank, according to Law No. 8 Articles 2 and 3, is functioning to achieve a set of objectives, which include:

- a.* Contribute to the activation of the production process and increase production rates through the provision of funding for productive projects which are economically feasible in the fields of industry, agriculture, tourism and other, whether new projects or to develop existing production capacities or for the purposes of an expansionary.
- b.* Forecast for investment opportunities with economic and social returns that contribute to the expansion of the productive base and diversity of income streams.
- c.* Offer technical assistance and advice to the owners of the projects directly or indirectly financed from the bank.
- d.* Attracting foreign expertise through financing cooperatives that bring together the national and foreign investment.

Table 4.6: Development bank loans by industries 1995-2011 (thousand LD)

Year	Food Industries	Building Material	Chemical and Plastics	Metal Works	Textile Industries	Furniture Industries	Industrial services	Others	Total
1995	50.0	301.1	-	-	350.4	0.0	501.0	288.0	1490.5
1996	65.9	248.4	82.1	521.7	1314.2	0.0	5780.7	27.9	8040.9
1997	5066.7	2766.9	4801.7	5607.9	4546.2	762.9	2618.7	910.7	27081.7
1998	322.4	112.5	-	288.1	854.9	0.0	953.6	0.1	2531.6
1999	1069.4	304.7	378.4	394.6	461.0	5.0	882.3	88.0	3583.4
2000	4150.7	2445.5	5008.0	4024.0	344.2	814.4	2526.3	1408.7	20721.8
2001	4794.8	2053.3	6693.7	1862.2	1271.4	730.5	5456.6	8841.7	31704.2
2002	7368.6	5113.8	18763.3	10023.7	228.7	270.1	17116.1	10282.3	69166.6
2003	16729.0	10865.0	13695.8	10053.2	844.7	1130.1	16707.6	7800.3	77825.7
2004	11154.5	6543.1	4059.0	2185.5	233.9	306.7	7147.3	4392.8	36022.8
2005	10778.3	18604.1	8569.0	3240.9	173.9	8377.6	196685.7	7978.5	254408.0
2006	25701.6	59518.9	14823.4	6837.2	2480.0	2493.4	12976.3	52645.5	177476.3
2007	29178.2	129949.2	7843.4	5969.9	490.0	0.0	6858.3	41650.9	221939.9
2008	4710.6	40820.3	358.2	290.9	607.1	808.6	1356.4	12016.4	60968.5
2009	6033.0	65793.0	1218.3	1289.4	0.0	1402.2	5260.7	5788.1	86784.7
2010	4476.9	58967.6	1421.0	808.7	1230.0	780.6	1770.9	20014.6	89470.3
2011	289.5	8297.9	150.0	0.0	0.0	0.0	60.0	112317.8	121115.2

Source: CBL, Economic Bulletin, for the year 2012

(iv) Rural Bank

Rural Bank is considered as one of the pillars of the national economy, and an important addition to other funding institutions operating in Libya. This bank was established based on the decision of the General People's Committee No. 12 of 2002, it has a legal personality and independent financial position and exercises its activity which is stated by law under the auspices of the General People's Committee.

The authorised capital of the bank was LD 100 million, wholly owned by the Secretariat of the General People's Committee of Finance, and its capital may be increased by a decision of the secretariat of the General People's Committee (CBL, 2006). The main purpose of the establishment of Rural Bank was to drive forward the growth and development in the areas of industrial and service sectors, by motivating the low-income individuals and job seekers to participate in the development process. Thus, the bank aimed to improve the standard of living of Libyans, especially those who are low-income, by granting them with loans for businesses in the areas of agriculture, livestock production, marine, industrial, artisanal and service.

The bank offers loans between LD 500 up to LD 10,000, with an interest rate valued at 2% of the loan amount. As Table 4.7 shows, a number of loans have been granted by the Rural Bank to various economic activities (i.e. agricultural, livestock, marine, industrial, craft, and service) since it started its operations until the end 2011. The total number of granted loans has reached 158,565, with the total amount of loans LD 623.0 million. 45,732 loans valued at about LD 254.9 million had been granted to service activities which represented roughly 40.9% from the total granted loans. While 57,952 loans with amount up LD 175.4 million had been given to the livestock sector, accounting for around 28.1%, and 27,122 loans amounting to LD 99.9 million had been granted to craft, which accounts for approximately 16.0%. The rest of the loans granted were distributed on industrial, agricultural, and marine as 8.1%, 5.9%, and 1.0% respectively.

The Rural Bank was specially established to achieve a set of economic and social objectives including:

- Improve the standard of living for members of the community, especially low-income families and job seekers, encouraging them to establish projects in various fields.
- Contribute to the success of the projects financed by the bank, through the provision of technical assistance and advice to the beneficiaries to ensure the feasibility of such projects.
- Benefit most segments of society with limited income and job seekers by encouraging them to borrow from the bank, through the ease of the procedures for obtaining the loan and the limited interest obtained by the banks, about 2 % of the loan value, and to overcome any difficulties that prevent this.
- Find available investment opportunities, which guarantee the achievement of economic and social objectives.
- Provide various banking services to the beneficiaries by opening deposit accounts to them.

Table 4.7: Rural Bank loans by economic activities (thousand LD)

Year	Agricultural		livestock		Marine		Industrial		Craft		Service		Total	
	N.	Value	N.	Value	N.	Value	N.	Value	N.	Value	N.	Value	N.	Value
2003	352	1048.5	2391	7154.0	11	33.0	87	259.5	114	336.5	110	327.5	3065	9159.0
2004	891	2496.8	6417	17765.3	96	381.2	309	913.5	1001	2678.5	649	3002.3	9363	27237.6
2005	2797	4869.7	14230	17776.7	199	197.8	1698	4353.0	3902	10761.0	5743	66307.1	28569	104265.3
2006	967	6517.2	10340	55896.3	377	2935.3	2196	10011.5	4635	24857.5	12301	44836.1	30816	145053.9
2007	1871	5715.0	9569	28737.9	199	885.9	2955	10967.5	4798	19161.0	10408	66520.3	29800	131987.6
2008	602	1811.0	2881	8646.5	46	144.0	690	2220.0	1690	5499.0	2834	16882.8	8743	35203.3
2009	885	2775.0	3737	11680.1	175	652.5	2040	6700.0	3953	13880.5	6353	30933.0	17143	66621.1
2010	1466	4529.0	5451	11680.1	175	337.1	2402	7296.0	3901	12055.0	4286	15524.1	17615	56836.2
2011	1466	6913.5	2935	10472.0	180	574.0	2208	7484.5	3128	10673.0	3048	10538.6	13451	46655.6

Source: CBL, Economic Bulletin, for the year 2012.

4.6 Summary and Conclusions

This chapter has reviewed, in section 4.2, the Libyan background, including its geographical, population, historical, political, and economic background. This section shared that Libya is the largest fourth country among the countries of Africa and the fifteenth among the countries of the world. It is of great geo-strategic importance, within easy reach of most European countries, and linking the Arab nations of North Africa with the Middle Eastern Arab countries. Before the discovery of significant crude oil reserves in 1959, Libya was one of the poorest countries in the world. The social and economic conditions in the country witnessed rapid change after the discovery of crude oil in commercial quantities in 1959.

Since becoming independent in 1951, the economic system in Libya was primarily capitalist and the private sector dominated all aspects of economic activity in the country. From the mid-1970s to 1980s, the new revolutionary government applied a socialist-oriented economy regime. Later, radical changes occurred in Libya towards a free market economy by opening the stock market for the first time and adopting market-oriented economic reforms and liberalisation as well as undertaking a number of measures to open the Libyan market to foreign investment.

Overall, Libya's economy is heavily dependent upon revenues from the hydrocarbon sector, which still plays a significant role in supporting and developing the social and economic sectors. In addition, this chapter has discussed in section 4.3 the Libyan stock market (LSM) as the first and only stock market in the country, which was established after issuing the resolution No. 134 of the year 2006 by the General People's Committee. It has been shown that the LSM has undergone many remarkable developments since its founding; the LSM launched an Electronic Trading System and also linked the headquarters of the market with its branch electronically using fibre optic cable, and also linked up using satellites to be one of the pioneers in this field in Libya.

Further, it has been shown that the LSM, in 2009, has launched a new website, as well as offering a variety of new services such as a short message service and centre voice services, which allow investors to pursue its operations in the market accurately and promptly. This section has also revealed that the number of listed companies on the

LSM has grown modestly from seven listed companies to twelve listed financial and non-financial companies since its inception in 2006. Although the number of listed companies has increased, in fact LSM remains the smallest in terms of number of listed corporations and market capitalisation compared to other Arab countries' stock markets.

Lastly, Section 4.4 has provided a brief overview of the banking sector in Libya, its historical and the recent developments, as well as Libya's banking sector reforms. Additionally this section has also presented the structure of the Libyan banking sector. It has found that the banking sector has grown and currently consists of the Central Bank, four specialised banks, fifteen commercial banks, and the Libyan Foreign Bank.

Furthermore, this section has highlighted that the banking sector in Libya is still dominated by state-owned commercial banks, and these banks control over ninety per cent of total banking deposits and assets. In this section, it was also shown that Libya's banking system was undertaking reforms focused on privatisation and liberalisation of state-owned commercial banks with the view to improving the banks' performance and their role in the national economic growth. The next chapter will present financial reporting laws and regulations in Libya, and it also explores the background and evolution of the accounting profession in Libya.

Chapter Five

Regulation of Financial Accounting and Reporting in Libya

5.1 Introduction

A country's laws or statutory regulations (legal systems) can directly or indirectly influence its corporate financial reporting and disclosures. Direct influence sets general requirements for measurement and disclosure of accounting information (Jaggi and Low, 2000). Otherwise, a country's laws or statutory regulations can influence corporate financial reporting and disclosures indirectly through legal protection rights provided to investors and creditors (Jaggi and Low, 2000).

This chapter therefore reviews and discusses in detail a number of governmental laws and regulations that may have influenced the corporate financial reporting and disclosure practices in Libya. In this chapter, the accounting profession in Libya also will be reviewed.

The rest of this chapter is structured as follows: section 5.2 deals with financial reporting laws and regulations in Libya; these include the Commercial Activity Law (5.2.1), the Income Tax Law (5.2.2), the Petroleum Law (5.2.3), the Banking Law (5.2.4), and finally, Libyan Stock Market Law (5.2.5). The following section, 5.3, examines the accounting profession in Libya. Section 5.4 gives a summary and conclusions of the chapter.

5.2 Financial Reporting Laws and Regulations in Libya

5.2.1 The Commercial activity law

The Commercial Activity Law (CAL) No. 23 was issued on 28th January 2010 to replace the Libyan Commercial Law (LCL), which was issued on 28th November 1953. In fact, the LCL 1953 was the first Libyan legislation to deal with certain financial accounting rules and provisions. The LCL was amended a number of times between 1953 and 2010. The old law involved certain aspects of financial reporting and auditing; for instance, Article No. 58 (Compulsory Books) of the LCL 1953 required individuals conducting business to keep and maintain at least two books: (i) a journal, and (ii) an

inventory and balance book. Besides that, businesses must prepare a balance sheet and a profit and loss account at least once a year according to the second paragraph of this Article. The old law (Article No. 573) also determines the assets and liabilities items that have to be included in any business's balance sheet. However, the LCL of 1953 has been criticised by some scholars for many reasons; for example it was stated that:

Libyan commercial law was passed for the year (1953) from within a group of laws in the areas of public law and private law, as an attempt to develop the legislation in force in the Libyan environment. It is well known that most laws passed in that period, that were prepared by expert Arab non-residents (Egyptian, Lebanese, Iraqi, etc.), lack familiarity with the Libyan environmental conditions and were not prepared by a team with sufficient experiences of Libya. Therefore, any mutation at the legislative level in the field of accounting as a result of the issuance of the Libyan Commercial Law (1953) cannot be seen on the grounds that they represent a response to the requirements and the Libyan environment interactions. In fact, the true meaning of the texts regarding Libyan trade law, with respect to the accounting area, is still not understood by a large segment of Libyan society (Al-Hasade, 2007, p. 10).

Accordingly, CAL No. 23 of 2010 amended a number of the provisions of the LCL of 1953. The new law included a range of Articles covering certain aspects of corporate financial reporting (Articles from 225 to 237 and Articles from 254 to 255), which in their entirety included mandatory books, records, financial statements, a balance sheet listing items and an estimate basis of its elements.

Article No. 225 of this law, permits companies to keep their accounting records in the form of printed paper or offline and must be dated and numbered in the manner prescribed by the law. Companies may also keep and maintain their accounting records in the form of an information system (computerised) and are not permitted to change the data listed therein. These two approaches, according to the provision of the Article, 225, have the same authority as traditional commercial books. In the light of the provisions of the law (Article 226) a joint stock company's board of directors has to prepare financial statements (balance sheet and the profit and loss account) and the explanatory notes, as well as a report about the company's progress.

The annual balance sheet and the profit and loss account are to be reported to the general assembly of shareholders for approval (Article 234), and a copy of the balance

sheet and the profit and loss account is required to be submitted to the Commercial Register within ten days of its approval by the general assembly. This is to be accompanied by the directors' report, the monitoring board report, and the minutes of the general assembly approval (Article 237).

Furthermore, each company is required to establish a monitoring board consisting of three full-time members and two reserve members from shareholders or others. The members and the chairman of the board are nominated by a general assembly of stockholders and each member being elected for a three year term (Articles 196 and 198). The monitoring board's duty is, amongst others, to confirm that the balance sheet and the profit and loss account correspond with the accounting records as well as to check the company's assets at least once every three months (Article 200).

According to Article 223, joint stock companies are required to keep the following records further to maintaining the books required by the Article No 460: (1) a register of shareholders, (2) a register of loan bonds, (3) a minute record of the general assembly and its decisions, (4) a minute record of the meetings of the board directors and its decisions, (5) a minute record of the monitoring committee's meetings and its decisions, (6) a minute record of the meetings of the executive committee and its decisions, and (7) a minute record of the meetings of bondholders loan association and its decisions (if the company has issued a bond loan).

Moreover, this law (Article 227) details the items of assets and liabilities that must be reported in any company's balance sheet. As this Article states "without prejudice to the laws of private companies that engage in a particular activity, the following items must be recorded by total value in the balance sheets sections". These items must be reported on the assets side of the balance sheet:

1. Unpaid amount from the shareholders.
2. Real estate.
3. Fixed installations and machinery.
4. Industrial patent rights and rights to exploit intellectual products.
5. Privileges, trademarks, and the goodwill value.
6. Portables.

7. Raw materials and goods.
8. Cash and securities in the fund, or deposited with third parties.
9. Securities with fixed and variable profit.
10. Partnerships, with a statement (if the company has bought its shares).
11. Customers' debts.
12. Banks' debts.
13. Debts acquired from associated companies.
14. Others debts acquired from other parties.

The following items have to be reported on the liabilities side of the balance sheet:

- 1- The company's capital at its nominal value, with a separate statement of ordinary shares from other types of stocks.
- 2- The legal reserve balance.
- 3- Reserve stipulated in the contract and voluntary reserves.
- 4- Amounts of depreciation, renewal, and insurance against the risk of decline in the value of assets.
- 5- Amounts allocated to compensate for the company's employees.
- 6- Restricted debt guarantees in kind.
- 7- The required debts to suppliers.
- 8- The company's debts to banks or other financiers.
- 9- Debts acquired for the associated company.
- 10- Bonds and loans issued and that still exist.
- 11- Other debts acquired from the company.
- 12- Deposits by others, optional or mandatory deposit.

The CAL also offers (Articles 228 to 235) particular guidelines for the valuation of assets and liabilities, the goodwill valuation, the creation of legal reserves, shares and securities valuation, participation in profits, and the distribution of profits to the shareholders. According to the Article No. 228 of the CAL, the following guidelines must be followed in respect of valuation of financial statement items. If there are special reasons preventing a company from following these rules, a company's managers and monitoring committee must reveal the reasons in their report before the general assembly.

- a. Fixed assets must not be estimated as being greater than the original cost, and in each accounting period the value should be reduced by the annual depreciation rate for that period. The accumulated depreciation should be reported in the liabilities section.
- b. Raw materials and goods should not be valued as greater than the lowest price of purchasing or higher than the market price.
- c. Industrial patents, rights of exploitation, inventions, privileges, and trademarks should not be valued higher than the price of purchase or cost. These values must be amortised periodically on the basis of useful or legal life.
- d. Shares and securities should be estimated by the board of directors and the monitoring committee must be informed of the methods of valuation. The monitoring committee has to report these methods in its annual report to the general assembly of shareholders.
- e. Participations that do not have the status of shares should be estimated as an amount not more than that shown on the last balance sheet.
- f. Debts are to be included at their estimated realisable value.
- g. Bond discounts may be recorded in a special division of asset item, and the amount should be amortised over the life of the bond.
- h. Construction and development expenses may be capitalised and amortised over a period not exceeding five years, if agreed upon by the monitoring committee (Article 229).
- i. Goodwill is to be recorded in the balance sheet assets, but only if it has been purchased. It must be amortised over a period decided upon by the board of directors and the monitoring committee (Article 230).

In addition to the above, five per cent of annual net profits must be deducted to form a legal reserve, until the balance reaches a quarter of the company's capital at least (Article 231). According to Article No. 254 of the law, a holding company is required to prepare, at the end of each fiscal year, a consolidated balance sheet and profit and loss account (income statement) or its cash flows. They must be disclosed to the general assembly with explanatory notes and other related data. These accounts have to be prepared in accordance with the applicable accounting standards and principles.

Additionally, the CAL (Article 460) requires each enterprise to keep and maintain three books at least, instead of the two books of accounts which were required by the old law, as discussed above. These books are:

1. Journal: in which the enterprise must enter all daily acts that generally return to his business activity, and enter each month the total amounts spent on himself and his family.
2. General ledger: this shows the different enterprise accounts.
3. Inventory and balance book: in which the enterprise must enter the list of the inventory, the balance sheet, and the profit and loss account, at least once every year.

Under the provisions of the CAL, before those books are used, revenue stamps must be placed on each page and must be registered at the court, and any transactions prior to registration of the books are banned.

In short, the CAL was very brief in describing the mandatory disclosure requirements of the corporations, and no clear forms and contents of the balance sheet and profit and loss account were given. Also, all type of companies are not required by CAL to disclose detailed financial and operating information for their shareholders; only the annual balance sheet, profit and loss account, and explanatory notes were required to be available for a company's shareholders.

An important point to note is that the CAL does not require mandatory disclosure of corporations' accounts, balance sheet statement, and profit and loss account to the market participants and the general public. Besides, the CAL required holding companies only to prepare their accounts in accordance with the applicable accounting standards and principles, but it did not define these.

5.2.2 Income tax law

The second Libyan governmental Law has a certain influence on financial accounting and corporate reporting in the country: Income Tax Law (ITL), which was originally passed in 1968. Formerly, Italian income tax law was applied with some amendment to suit the Libyan circumstances (Oreibi, 1969, p. 47 cited in Bait-El-Mal et al., 1973). Italian income tax law was presented by the Italian settlement government to Libya for

the first time in 1923; under this law each business entity was required to provide financial statements and other financial records at the end of each year to the tax authority, prepared according to the 1923 tax law (Bait-El-Mal et al., 1973). The law was changed by ITL No. 64 of the year 1973, and was then amended in 2004 by law No. 11. Later, ITL No. 11 of 2004 was eliminated on 28th January 2010, while ITL No. (7) was passed.

The recent Libyan ITL contains 105 Articles allocated into Five Parts:

- Part One-*General Provisions* (1-33 Articles).
- Part Two-*Taxes in individuals and partnerships* (divided into six chapters: *Chapter (1)* General provisions (34-45); *Chapter (2)* Tax on income of trade, industry and crafts (46-49); *Chapter (3)* Tax on the income of partners in the entities that apply partners, not wage-workers (50-52); *Chapter (4)* Tax on the income of free professions (53-54); *Chapter (5)* Tax on income from work and equivalentents (55-60); and *Chapter (6)* Tax on interest from the deposits with Banks (61-62).
- Part Three-*Tax on Companies* (63-71).
- Part Four- *Penalties* (72-79).
- Part Five-*Final Provisions* (80-105).

The income tax is imposed on the incomes resulting in Libya and abroad for the national companies (including the joint venture “mushtarika” and state-owned corporations) and branches of foreign companies in Libya, whatever their type of activity or purpose. In applying this law, the companies concerned are those stipulated in the law organising commercial activity in Libya. Foreign companies’ branches means activities and capitals of foreign companies in Libya whatever their organisational and legal status (Article No. 63).

Under this law, all companies are required to submit an annual declaration about their income to the tax authority, approved by legal accountant or auditor registered in the list of Libyan accountants and auditors, on the special form prepared for this purpose, within one month from the date of approval of the balance sheet, and in a in period not exceeding four months of the year following the financial year (Article No. 71).

Article 45 of the executive regulation of this law provides that any enterprise (in the case of maintaining regular accounts) must attach, with its declaration of annual income tax, the following financial statements and documents, which must be prepared in accordance with accounting principles and must be audited by a Libyan registered certified auditor and accountant.

- a. Cost of Goods Manufactured Statement (In the case of industrial activity).
- b. Income Statement (profit and loss account).
- c. Balance Sheet.
- d. Depreciation Statement.
- e. Detailed Statement of the expenses which are included in the Income Statement.

In order for the taxpayer's books and records to be considered as regular accounts (Article 46 of the executive regulation), the following conditions must be satisfied:

- a) The accounts must be prepared in accordance with the theory of double entry and in accordance with Generally Accepted Accounting Principles (GAAP).
- b) Accounting entries recorded on the books must be in favour of the necessary documents.
- c) There must be an elaborate system of internal control to check on the truthfulness of transactions contained within the books.
- d) There must be a commitment to hold the books in accordance with the regulations prescribed by CAL.
- e) Does not violate the conditions referred to regarding what should be held in the books and other records under any other law or according to the nature of the activity in which the company is engaged.

According to Articles 39 and 66, income tax is identified annually on the net income, in accordance with the principle of cash basis or accrual basis or according to the taxpayer's choices during the taxable year. The taxable income is assessed on the basis of different kinds of operations' results for by the taxpayer during the year, after deducting all actual costs and expenses, particularly the following:

- a. Instalments for depreciation of the equipment, machinery, buildings and all assets used for producing the income; these must be calculated by using the straight-line

- method, according to annual rates given in Article No. 35 of the executive regulation.
- b. Debt which is proved as bad debt, on condition that this debt is entered in the activity's account or is due to lending operation related to the activity. Any amount collected from this debt must be considered as income.
 - c. Amounts paid for the benefit of employees according the retirement system, or any other alternative system, or any other alternative special system.
 - d. Taxes and fees paid by the taxpayer regarding the activity, except the tax which is paid according to the provisions of this law.
 - e. Contributions to charitable organisations which are approved by the government and must not exceed 2% of the net income.
 - f. Allocations formed according measures specified by the state's relevant authorities. The refunded amounts from these allocations are subject to tax.
 - g. If the accounts for a year have been closed with a loss, the loss is to be included in the following year's expenses and deducted from its profits. If the profits were not enough to cover the loss, the loss balance shall be carried forward for a maximum of five years from the year of the loss (Article 42).

Briefly, the ITL had certain influence on accounting practice in that many corporations have regularly adopted tax guidelines and requirements for general external reporting (Bait-El-Mal, p. 95). In fact, the main purpose of the ITL is aimed at determining the taxable income, including the methods of accounting to be used to computing this income.

The law has offered specific tax accounting rules to be followed by those preparing companies' financial statements to calculate the companies' income for taxation purposes. For example, the acceptable depreciation methods to be applied to fixed assets: there are a number of methods that can be used by accountants to compute depreciation of fixed assets, such as declining balance method, and sum-of-years digits, but according to the ITL, only straight-line method must be used. Therefore, change from straight-line depreciation to another method is not permitted. It is important to

note that the ITL does not require publishing of financial statements or other accounts to the general public. Based on the preceding discussion, there is no doubting that the provisions of the ITL were basically designed to service the needs of the tax authority.

5.2.3 The petroleum law

The third Libyan governmental law is the Petroleum Law No 25; this law was enacted in 1955, and has been amended several times (Bait-El-Mal, 1973). This law was enacted before commercial oil had been discovered in Libya and it was the first to allow drilling operations. The first concessions were given in 1955 and by 1968, 137 concession agreements had been given to 42 oil companies (International Business Publications, 2013).

The Libyan Petroleum Law provides a legal foundation for Libya's oil and gas sector. According to Article No. 1/2 of this law, no person shall explore or prospect for, mine or produce, petroleum in any part of Libya, unless authorised by a permit or concession issued under this Law. Bait-El-Mal (1973) pointed out that the Libyan Petroleum Law prescribed general financial accounting requirements for the oil industry.

According to Article No. 14 of this law, in determining a concession holder's profits (the company), the following items are entitled to deduct from the income resulting from the operations of the concession holder in Libya:

- (a) Operating expenses and overheads, the details of which are defined in the regulations, excluding the fees, rents, royalties and income tax, and other direct taxes.
- (b) Depreciation of all physical assets in Libya at the rate of $33\frac{1}{3}$ per cent per annum and amortisation of all other capital expenditure in Libya at the rate of five per cent per annum until such assets and expenditure are wholly written off. The unamortised balance of the cost of physical assets permanently put out of use may be deducted in the year when such assets are scrapped or sold.
- (c) Sixteen and sixty-seven hundredths per cent of the value of the crude oil exported. The 16.67% per cent is calculated on the basis of the applicable posted prices of crude oil exported by the concession holder in any such complete year and on which royalty is payable by the concession holder in that year.

According to the fifth paragraph of the Article No. 14 of the Petroleum Law, the income resulting from the operations of the concession holder in Libya means:

- (a) In relation to crude oil exported by the concession holder from Libya. Total gross receipts realised by the concession holder from such export.
- (b) In relation to other operations of the concession holder in Libya. The income to be ascertained in a manner to be agreed between the concession holder and the Libyan Ministry of Petroleum.

Article 14/8 of the Petroleum Law, which emphasizes that in computing profits as herein defined, sound and consistent accounting practices usual in the petroleum industry must be employed. Where more than one such accounting practice prevails, the Libyan Ministry of Petroleum shall decide which practice is to be applied by the concession holder. Article No. 21 of the Petroleum Regulation No. 9 of the year 1973 of the Petroleum Law proclaims that each oil company must submit to the Libyan Ministry of Petroleum after the end of every month of the calendar year, within no more than thirty days from the end of each month, a declaration presenting its estimate of the tax obligations payable thereby on the basis of its anticipated profits for the period covered by such a declaration.

The declaration must be made in compliance with the form established for this purpose by the Directorate General of Companies' Accounting of the Ministry of Petroleum. In addition, in accordance with the provisions of Article 21 of the Petroleum Regulation No. 9, the oil company has to submit to the Libyan Ministry of Petroleum, after the end of each fiscal year, and no more than four months from the end of each fiscal year, the accounts displaying the profits of the year.

At the same time, when an oil company submits the accounts it must pay an amount that, if added to the fees, rents and royalties, excluding 16.67% of the value of the crude oil exported and direct taxes previously paid for such year, shall equal 65% of the profits presented by the accounts or any other further supplemental payments by which the oil company is obligated as per the agreements signed therewith in this regard. The amount paid in this manner must be considered as a part of the income tax, surtax and the supplemental payments and a payment on their account.

From the above discussion, the Libyan Petroleum Law and Petroleum Regulations No. 9 provided a legal basis for the oil and gas industry and also specified oil and gas accounting rules that must be applied for financial accounting and reporting by oil and gas companies operating in Libya for income tax purposes or for profit sharing with the Libyan state. However, the Libyan Petroleum Law and its Regulations did not define mandatory disclosure requirements for oil and gas exploration, production and development activities.

5.2.4 The banking law

The banking sector in Libya, which includes CBL, specialised banks, Libyan foreign banks, and commercial banks as well as a number of representatives of foreign bank offices, was governed until 5th of July 2012 by the Banking Law No. 1 of the year 2005. Besides, the banking sector also has to follow the directions and guidelines issued by the CBL.

The Libyan Banking Law was partially amended by the Law No 46 of the year 2012 in accordance with the decree of the ITNC. The new law was enacted as a result of the 17th February Libyan revolution, to follow the recent changes that have occurred in the Libyan economic, political and legal environment in general, and the banking activities in particular. The issuance of the new banking law was aimed at filling the gaps that emerged at the application of the previous law, laying the foundations which suit the Islamic financial products, and meet the needs of the Libyan's society, in consistence with the Islamic financial regulations and legislation.

The new Libyan Banking Law No. 46 of 2012 was divided into three key chapters including 121 Articles. The following is a review of the most important features of this law:

The first Chapter of the law deals with '*the Central Bank*'. This chapter includes sixty-four articles and was divided into six sections. **Section one**, "*Nature and Functions of the Central Bank of Libya*", includes thirteen Articles. According to Article No. 1 the CBL is an independent institution, enjoying the status of a legal entity with independent financial liability, and the CBL's assets are its own funds and may not be held to meet the debts owed to other entities.

In that sense, the independence of the CBL means that the administration of monetary policy, as well as management of its daily business, will be performed without interference or pressure from the executive organ of the Libyan state. This independence does not mean leading on the implementation of monetary policy without coordination with other relevant authorities related to financial and trade policies, especially in light of the interdependence and overlapping of various economic policies.

The Article No. 4 of the law identified that the authorised capital of the CBL shall be LD one billion, approved for increasing the bank's capital. The first paragraph of the Article 11 of this law stipulates that the CBL is not permitted to grant facilities or guarantees to anyone, either directly or indirectly. On the other hand, the second paragraph of the article allows for the CBL to provide temporary advances to the Ministry Treasury, to cover any temporary shortage in general budget revenues, according to the conditions to be agreed upon between the bank and the Ministry Treasury, and which should include the following:

- a) These advances must not exceed one-fifth of the total estimated revenues for the general budget.
- b) Any advance must be repaid at the end of the fiscal year in which it was provided, and no advance may be provided to the public treasury in a given fiscal year until after the advances provided to the public treasury during the previous fiscal year have been repaid.

Section two *“Management of the Central Bank of Libya”*: this section includes nine Articles on various administrative matters in the CBL, including the powers and responsibilities, and the terms of appointment of members of the board of directors. The current law requires that the six members of the CBL's board of directors must be highly qualified in the fields of law, financial, banking or economics, as well as the chairman of the board of directors as the governor, the deputy chairman of the board of directors as the deputy governor, and the undersecretary of the Ministry of Finance as member (Article 14).

The membership of the CBL's board of directors, in accordance with the law, reflect the principle of independence of the bank, which does not include in its membership representatives of the executive organ of the state except the undersecretary of the

Ministry of Finance. Among other responsibilities, the CBL's board of directors must be responsible for discharging the authorities directly related to the achievement of the CBL's goals and purposes. It must also be responsible for formulating and implementing monetary, credit, and banking policies, within the scope of the government's general policy (Article 16).

In addition, the CBL's board of directors is also responsible for approving the budget, financial statements, and reports prepared by the CBL on its financial position and activity results (Article 16/5). The governor of the CBL shall be the chief executive of the CBL, and it must be responsible for managing the CBL and discharging its normal affairs under the board of directors' supervision (Article 18).

Section three "The Central Bank of Libya's Accounts": this section includes seven Articles related to the accounts of the CBL, which determine the CBL's fiscal year to start and end at the start and end of the state's fiscal year (Article 23). Article 24 reveals that proximately after the end of the last day of each month, the CBL must prepare and publish a statement of its assets and liabilities at the close of its operations on that day or at the close of the immediately preceding business day if the last day of the month is a holiday.

A copy of this statement must be sent to the legislative power and the prime minister, and must be published in the Official Gazette. Article 25 emphasises that the Audit Bureau is responsible for auditing the CBL's accounts according to the nature of the activity of central banks and the international auditing and accounting standards. In order to comply with the provisions of this law, the CBL requires the preparation of the following within four months of the end of its fiscal year (Article No. 26):

- a) Financial statements for the ending fiscal year, according to the nature of the activity of central banks and the international accounting standards.
- b) A report on the CBL's financial position for the ending fiscal year. This report shall in particular present domestic and international economic, fiscal, monetary, and banking conditions.

These financial statements and reports have to be submitted within the previously mentioned period to the legislative power, after they are approved by the board of directors and the Audit Bureau. In addition, the financial statements must be published

in the Official Gazette. Additionally, Article 27 provides the following accounting rules that must be followed by the CBL:

- a. Book profits and losses resulting from the net revaluation of the CBL's assets and liabilities due to a change in the par value of the Libyan dinar must be recorded in an account designated the "Revaluation Reserve Account."
- b. Losses resulting from revaluation must be deducted from the credit balance in the account stipulated in the previous paragraph. If the balance does not suffice to cover these losses, the Minister of Treasury shall issue, for the CBL, bonds in the value of the deficit. These bonds should be valued in the domestic currency and shall not bear interest.
- c. In the event of a credit balance in the "Revaluation Reserve Account," the CBL should, at the end of each fiscal year, cover the value of the bonds mentioned in paragraph (b), in coordination with the Minister of Treasury. If this value is covered, the CBL must retain 25 per cent of the remaining balance. Any remaining balance must be used to extinguish the public debt. If the public debt is paid, the remaining balance must be allocated to finance the deficit, if any, in the State's General Budget.

In additional to the above, Article 28 states that after subtracting all expenses, the CBL's social security contribution for its employees, bad and doubtful debts provisions, asset depreciation, reserves designated to cover any shortfall in the CBL's assets, any other reserves required by international accounting standards, other normal and unforeseen expenses, and the public treasury's share of profits resulting from the currency issue operations, the remaining amount (net profit) must be added to the CBL's general reserve balance at the end of the fiscal year as follows:

1. All net profits must be added until the general reserve totals half of the authorised capital.
2. If the general reserve reaches one-half of the capital, 25 % of net profits must be added to the general reserve until it totals the authorised capital.
3. If the general reserve equals the capital, 10 % of net profits must be added to the general reserve until its totals twice the amount of the authorised capital.
4. If the general reserve reaches twice the amount of capital, 5 % of net profits must be added to the general reserve balance until it totals 10 % of the CBL's total assets.

5. Net profits remaining thereafter have to be transferred to the Ministry of Finance

Section four “*Issuance of Money*”: this section has eleven Articles on the affairs of issuing currency. For example, Article No. 30, which stipulates that the CBL alone must have the prerogative to issue currency in Libya, and the CBL’s board of directors may set and stipulate rules and principles for the issuance of currency, and it may establish currency specifications and denominations, and banknotes must bear the signature of the governor. Article 31 identifies the Libyan dinar as a unit of currency in Libya, with the board of directors of CBL determining the value by offsetting the Libyan dinar against the SDRs or any convertible foreign currency or according to the forces of supply and demand in the foreign exchange market.

According to Article 32, the CBL is responsible for determining the exchange rate of the Libyan dinar against foreign currencies according to domestic and international financial and economic developments so as to achieve the interests of the national economy. Given that the amount of banknotes and coins issued in any time is one of the most important variables affecting the national economy, monetary stability and the stability of the value of the dinar, under the current Law (Article 36) the CBL requires that the total value of banknotes and coins in circulation must always correspond to specific assets denominated in gold bars or coins, or convertible foreign currencies, or SDRs (the value of all of which must not be less than 30 % of the total assets of the issue), and securities issued or guaranteed by international financial institutions or foreign governments.

To give the CBL a degree of flexibility in determining monetary assets corresponding to the source, it included domestic assets such as treasury notes and bonds issued by the Ministry Treasury in Libya, whose value does not exceed 20% of the total assets of the issue.

The regulation of foreign exchange is covered in detail in **Section five** of the Law, “*Regulation of Foreign Exchange Transactions*”, which consists of Fourteen Articles; the Articles in this section confirm the liberalisation of the current account and the lifting of government censorship, which was imposed on foreign exchange dealings. For example, Article No. 41 allows any natural person or legal entity to retain any foreign

exchange that he/it owns or possesses or that is transferred to him/it, and may execute any foreign exchange transaction, including transfers to Libya or abroad.

However, Article 42 stipulates that Libyan legal entities may not retain foreign exchange unless it stems from the return on their activities, and they must keep the foreign exchange in an account with the CBL or in an account with a national bank that operates in Libya. In addition, according to Article 43, banks operating in Libya are permitted to open accounts in foreign exchange for natural persons and legal entities that are fed by:

1. Deposits in foreign exchange.
2. Sums transferred from abroad.
3. Sums transferred from another domestic account in foreign exchange.
4. The foreign currency equivalent that the bank receives for its purchase of foreign banknotes or other means of payment in foreign exchange credited to the account.
5. Banking interest on the aforementioned accounts.
6. Any other legal channel.

The Libyan Banking Law has authorised the CBL with all the necessary powers to regulate foreign exchange, which is required by a function of the CBL to maintain the stability of the value of the LD and the general level to prices; Article 54 gave the CBL necessary flexibility to take action in cases involving foreign exchange, which is not covered under this law.

Section six “*Supervision of Banks*”: this section contains ten Articles. Article No. 55 in this section has identified financial institutions which are subject to the supervision and control of the CBL under the provisions of this law; they are commercial and Islamic banks, specialised banks, banks operating abroad and headquartered in Libya, the branches and representative office of foreign banks in Libya, investment funds, finance lease companies as well as money changing and financial services companies.

The board of directors of the CBL have to establish, according to the requirements of the domestic money and credit situation, and international banking standards, the general rules for the control and supervision of banks and the other institutions stipulated in Article No. 55 in order to regulate the following matters (Article 56/1):

- a. The method for appraising different types of entity assets.

- b. The determination of the types of liquid assets and the ratio of liquidity to deposit liabilities that must be maintained.
- c. Areas in which entities subject to the control of the CBL are prohibited from investing funds.
- d. The provisions that must be available to cover assets whose value is subject to extreme fluctuation.
- e. The ratios that must be observed between the value of credit and the value of credit guarantees; and the specification of credit type.
- f. Identification or liberalisation of the interest rates for all accounts, and all the interest of delay.
- g. The permitted difference between interest rates and the rediscount rate set by the CBL on the one hand, and the discount rates set by the banks for their customers on the other hand, if credit instruments are suited to being rediscounted or if they are suited to a loan being obtained against them.
- h. The percentage credit policy, that banks should follow, and directing credit, including determining the value and term, both for all banks, or of any bank.
- i. The minimum monetary cover needed to establish documentary credits and issue letters of credit in general or with respect to a specific type of credit.
- j. The maximum limits on investments in securities, real-estate financing, and credit for consumption purposes.
- k. The terms and conditions under which irregular loans must be repaid, and the setting aside of, and exemption from, interest calculated thereon.
- l. The rules and facilities needed to regulate clearing operations between banks subject to the provisions of this law.

In addition to the above, the CBL must establish the following rules (Article 56/2):

- a. Disclosure rules, the statements that must be published, and the method of publication.
- b. The rules needed to counter money laundering operations and the financing of terrorism.
- c. The rules and requirements with which the members of the board of directors of banks, investment funds, finance lease companies, and money changing and financial services companies must comply.

- d. The minimum capital adequacy criterion.
- e. Rules for opening accounts and engaging in banking activities.
- f. The criteria required for the classification and irregular classification of the loans and credit facilities provided by banks. Each bank shall establish the measures that must be taken to cover irregular loans and credit facilities. In addition, auditors must be required to ascertain whether the bank management observes these criteria.
- g. The rating and classification of banks according to domestic and international banking criteria.
- h. Any monetary, financial, and other credit issues consistent with the CBL's objectives and conducive to achieving the interests of the national economy.

Furthermore, to enable the CBL to practice concrete supervision of the banks' operating activities, Article No 60 states that CBL must be responsible for collecting and examining the reports sent to it by the banks pursuant to the provisions of this law. At the end of the last business day of each month, the CBL must prepare a summary report on the banks' financial positions. Such a summary report must be published in the Official Gazette. Article 61 states that the CBL may examine, at any time, entities' books, records, debit accounts, and the electronic systems and files pertaining thereto. The examination must be conducted at the head office of the concerned entity by CBL's inspectors assigned for this purpose. The entities must provide the inspectors with all of the data and facilities that they require to carry out their investigation.

Article 64 emphasises that banks subject to the provisions of this law must comply with the rules and regulations established by the CBL to regulate clearing operations and issues relating to the System of National Payments. All entities that engage in their activities pursuant to the provisions of this law must implement the decrees, circulars, and instructions issued by the CBL.

Chapter Two, "**Commercial Banks**", is divided into four sections comprising fifty-seven Articles, relating to the organisation and conditions for carrying out banking business, such as licensing and establishment affairs, mergers and cancellation, while others relate business activity that commercial banks are prohibited from exercising. Some Articles of the current banking law in this chapter address the board of directors

of commercial banks and their duties, and internal auditing matters, as well as the legal terms to be provided by the auditors assigned to checking the bank accounts, and the financial statements and other accounts that must be provided by commercial banks. The rest of the Articles relate to the general provisions. Nine Duplicated Articles add in the new banking law; these Articles deal with special provision for the Islamic banks. The four sections contained in this chapter can be summarised as follows:

Section one “*The Establishment and Supervision of Commercial Banks*” contains eight Articles. Article No. 65, for example, gives clear definition to the term “commercial bank” in the first paragraph, and in the second paragraph determines the banking activities in which a commercial bank should be engaged. Article No. 66 states that each entity subject to supervision of the CBL must obtain a license before commencing their activities, and that the board of directors of the CBL shall issue this license. This license shall replace the license stipulated in the Commercial Law.

According to Article 67, a commercial bank must assume the form of a Libyan joint-stock company. A bank’s shares may be held by natural persons, and public and private legal entities, according to the rules and conditions stipulated in a decree issued by of the board of directors of the CBL. Moreover, this Article requests all the existing commercial banks to correct their capital, which is required by the provisions of this law within a period not exceeding three years from the effective date of this law, with the possibility of extending this term for a similar period once.

Furthermore, CBL may authorise the establishment of foreign banks and give permission to foreign banks to hold shares in the domestic banks, or open branches or offices representing them in Libya (67/3). Article 68 identifies the members of the board of directors for any commercial bank with at least nine members, provided further that the bank must have a general manager, who shall be appointed by its board of directors based on the recommendation of the chairman or two members of the board of directors.

Commercial banks are subject to the supervision and control of the CBL, and the CBL is responsible for regulating its relations with the commercial banks, coordinating their actions, and monitoring their activities in the framework of the government’s general

policy (Article 71). In addition, according to the second paragraph of this Article, the decisions of the boards of directors of the commercial banks on long-term investments and the opening or closing of branches must be conveyed to the CBL within ten days of the date on which the decisions are issued. The implementation of such these decisions has to be contingent on the CBL's approval thereof. Article 72 of the law approves public people to acquire the shares of capital state-owned banks, and each shareholder has a voting right according to the percentage of his share of the bank's capital.

Section two "*Duties of the Banks*": this section contains nineteen Articles (73-92). Article No. 73, for example, highlights that each bank must hold a capital reserve - before distributing profits, it must transfer to this reserve no less than 25% of net profits until the reserve totals reached one half of its paid capital, and it must then transfer to the reserve 10% of net profits until the reserve equals capital. According to Article 76, the bank does not have to distribute dividends until after it deducts all expenses, including establishment and administrative expenses, expenses to cover losses, and any other expenses for which there are no corresponding assets.

Every commercial bank must have an internal auditing department that is directly subordinate to the bank's board of directors. The manager of the department has to be appointed by decision of the board of directors. The board of directors must be responsible for determining the authorities of this department, which must include (Article 81):

1. Review and audit of the bank's daily operations.
2. Preparation of a quarterly report on its activities for submission to the bank's board of directors.
3. Coordination between the bank's management and external auditors.

The CBL must prepare, in coordination with the relevant entities, a register of auditing offices capable of auditing and inspecting the banks' accounts, and another register of consulting offices and firms capable of valuating real and other assets provided to banks to guarantee financing, loans, and facilities granted by the banks, CBL is responsible to establish rules, conditions, and procedures for registering in these two registers (Article 82).

Article No. 83/1 requires that each entity subject to supervision and control of the CBL must assign the auditing of its accounts annually to two chartered accountants selected by the bank's general assembly from among the auditors in the CBL's register, for a period of two years, renewable only once. The decision of assignment of the auditors has to be effective only after approval by the governor of the CBL, and each auditor must:

1. Not be a member of the bank's board of directors, a bank employee or agent, or the recipient of a loan or facility from the bank with or without a guarantee.
2. Not be related to any member of the board of directors or to the bank's other chartered accountant by a kinship tie up to the fourth degree.

Furthermore, in order to comply with the provision of the second paragraph in Article 83 of the law, the CBL requires the external auditors each separately:

1. Prepare a report on the bank's annual financial statements. The report must include the methods used to ascertain the existence of and to value assets, the method for appraising existing commitments, and the extent to which the audited transactions comply with the law.
2. Prepare a semi-annual report monitoring the bank's financial and administrative performance and compliance with domestic and international banking criteria.
3. Send a copy of the two reports mentioned in the previous two subparagraphs to the Central Bank of Libya within the period set by the governor.

Under the provision of this Article, each chartered accountant must be liable for any shortcomings contained in any of the two reports that he submits. In the event of any such shortcoming, the CBL may delete the chartered accountant from the register stipulated in the previous article. Additionally, in order to comply with the provisions of the current banking law, each bank must establish, within its administrative organisation, an administrative unit called the "Compliance Unit." This is directly subordinate to the board of directors and is concerned with the duties set out in detail paragraph four of Article 83/4 as follows,

- (a). monitoring of supervisory instructions issued by the CBL to ascertain compliance therewith by the bank and its branches.
- (b). monitoring of the bank's adherence to criteria governing daily banking activity, the most important being:

1. Capital adequacy.
 2. Maintenance of the legally stipulated liquidity.
 3. Maintenance of the required reserves.
 4. International banking supervision criteria.
- (c). the preparation of a periodic report on its activities, which shall be submitted to the board of directors.
- (d). any other functions assigned to the unit by the bank's board of directors.

In relation to commercial banking disclosure, the provision of the Libyan Banking Law governing the banking disclosure requirements is limited to a provision in Article 84. This Article stipulates that each entity subject to the control and supervision of the CBL has to display, throughout the year, in a conspicuous place at its head office and at all of its branches, a copy of its most recent, audited financial statements. It must also publish these statements in the Official Gazette and in a domestic newspaper as well as on its own website.

However, the Libyan Banking Law No. 1, 2005 or its later amendments, did not specify any additional requirements concerning the form and content of the balance sheet and profit and loss account. In pursuing its objectives in monitoring and supervision, the CBL requires each commercial bank to submit the following (Article 85):

1. Monthly statements on its financial position within fifteen days of the end of each month on the form established by the CBL.
2. Monthly statements that include details of all advances and financial credits provided by the bank, with or without guarantees, to any company in which the bank or any member of its board of directors has an interest, such as being a member of the company's board of directors, or a manager, agent, or guarantor of the company.
3. A copy of its most recent, audited financial statements, within four months of the end of its fiscal year.
4. A copy of each report provided to shareholders on the bank's activities within five days of the provision of the report to shareholders, and a copy of the minutes of each meeting held by the general assembly of shareholders within fifteen days of each meeting of the assembly.

5. A statement of any change in the members of the bank's board of directors within fifteen days of the date on which the change occurs.
6. Any other statements or clarifications on the transactions executed by the bank, according to the format and deadline stipulated by the CBL.

In addition to the above, the governor of the CBL may issue, within a month of the date of his receipt of the financial statements and report stipulated in subparagraph (4) of the first paragraph, a decision not to approve the profits whose distribution to shareholders is proposed, if a shortage of provisions or any drop in the capital adequacy criterion below the established minimum level becomes evident to him, or if a reservation bearing on distributable profits is expressed in the report of the two auditors (Article 85/2).

Section three "*General Provisions*": this section contains seven Articles (93-100). Article No. 93, for example, demonstrates that there is no restriction on the freedom of depositors to dispose of their account balances with banks subject to the provisions of this law according to the conditions agreed upon the opening of such accounts. According to Article 94 of this law, all banks have to maintain the confidentiality of their customers' accounts and balances, and all of their customers' banking transactions. They must also not permit the examination, disclosure, or provision of information on such accounts, balances, and transactions to a third party without the written permission of the account holder or a competent judicial authority.

Article 97/1 indicates that the provisions of the Civil and Commercial Codes must be applied to banks to the extent that these provisions do not conflict with the provisions of this law. In addition, the same Article (97/2) provides that electronic documents and signatures executed in the framework of banking transactions and other transactions related thereto must be honoured and must have a determinative effect in substantiating the data contained therein.

Moreover, paragraph three of the Article 97 reveals that computer output pertaining to banking transactions must be regarded as equivalent to the legal books stipulated in the Commercial Code and Laws that complement it. Banks must retain, for the period established in the law, miniature copies of books, records, statements, documents,

correspondence, cables, notices and other documents relating to their activities on hard, floppy, or compact disks or other current data or information storage devices instead of the originals. These copies have the determinative effect of the original for evidentiary purposes.

Section four “*Special Provisions to Islamic banking*”: this separate new section was added to the current law. It is interesting to note that this section did not exist in the previous Banking Law No 1 of 2005. This section contains nine duplicated Articles (i.e. 100/1-100/9); these Articles deal with different issues related to Islamic banks, such as the definition of Islamic bank and other Islamic financial institutions, the function of Islamic banks, and the inspection and supervision of the Islamic banks’ activities, which are expected to be established in the near future in Libya for the first time.

The CBL is responsible for supervising and controlling the activities of the Islamic banks under this law provision, is responsible for the conduct of monetary and banking policy, for regulating the amount and the type and cost of credit, and for maintaining monetary stability in Libya. It should, however, be noted that Libya was not inactive in this movement toward Islamic banking. Although there has been a rapid expansion of Islamic banking in both the Muslim and non-Muslim world, the CBL has not pursued the initiative to establish Islamic banks in the country, or made any effort to change conventional commercial banks into Islamic banks.

The third and final chapter of the Libyan banking law deals with “*Penalties*”; the chapter was divided into twenty-one Articles (101-121). These Articles provide for legal deterrents and penalties which oblige banks that are subject to supervision and control by the CBL to abide by the provisions of the law. More precisely, the Libyan Banking Law No. 46 for the year 2012 authorises the CBL signing of various sanctions on banks that violate the provisions of this law.

Article No. 104, for instance, states that any bank that fails to put into effect decrees issued by the CBL in application of the banking supervision of the provisions stated in Article 56, or who violates the provisions of Articles 58 and 59 of this law, will be punished by a fine of not less than LD ten thousand, and not more than LD one hundred thousand. The bank in violation has to be required to eliminate the violation. Also in Article 107, failure to submit the accounts stated in Articles 47 and 85/1 of this law by

the designated deadlines or by the deadlines set by the CBL must be punished by a fine of not less than LD one thousand, and not more than LD ten thousand.

The same penalty will be imposed for refusal to provide books, records, documents, and papers to employees of the CBL who are assigned to examine and inspect, without prejudice to the requirement to submit them. In addition to above, as Article 109 indicated:

1. Any person who fabricates, with the intent of fraud, inaccurate facts or conceals some documents or facts in statements, minutes, or other papers submitted to the CBL or its representatives according to the provisions of this law, shall be punished by a fine of not less than LD one thousand, and not more than LD five thousand.
2. The aforesaid penalty shall be doubled in the event of a repeat violation or if the act was committed by the chartered auditor or valuation consultant stipulated in Article 83 of this law.

Furthermore, Article 112 provides that any statutory external auditor who violates the duties stipulated in Article 83 /2 or fails to observe the rules and principles of the profession in his report must be punished by imprisonment of at least six months and/or a fine of LD 50, 000.

Overall, in fact, the new Libyan Banking Law No. 46, 2012, did not make any substantial changes, and maintains all of the provisions of the old Libyan banking Law No. 1 of the year 2005, with the exception of some slight changes to meet the demand of the new Libyan political and economic regime. Only new nine duplicated Articles (i.e. 100/1-100/9) were added to the new law; these Articles were specific to Islamic banks products.

A slight amendment was made relating to commercial banking financial statements disclosure; according to the old Banking Law, each bank must display, throughout the year and in a conspicuous place at its head office and at all of its branches, a copy of its most recent, audited financial statements. It must also publish these statements in the Official Gazette and in a domestic newspaper, but the commercial banks were not required to publish their financial statements on their own websites under the old law; however, the new Libyan Banking Law has forced these banks to disclose their audited

financial statements on their own websites and to make them available to general public.

However, the newly amended Banking Law still shows considerable shortcomings; it has failed to specify the required financial statements and the form and content of these statements has not specified which accounting standards should be applied. Moreover, the new law did not provide for nonfulfillment penalties or specify the mechanism to enforce the law. So no further mandatory legal requirements were required by the new Libyan Banking Law, thereby there is no obligation for commercial banks to publish the notes to the financial statements, the board of directors' report or the auditor's report to general public.

5.2.5 Libyan stock market law

The Libyan Stock Market Law (SML) No. 11 was enacted to regulate and govern the work in the LSM. This law consists of 101 Articles separated into eight chapters; the Articles cover the organisation and structure of LSM, control and supervision of the stock market, issuance of securities rules, listing requirements, exemption from taxes and duties, disclosure rules, exchange, investment management, establishment of investment funds, electronic signature, authentic electronic documents in proof, organisation of adjudication and conciliation board.

Specifically, the SML sets out the disclosure requirements with which listed economic entities must comply. For example, the disclosure rules in Article 23/1 require each economic entity listed on the market to provide, as part of its own responsibility to the management market during the specified time period determined by the Stock Market Authority (SMA) quarterly, semi-annual, and annual reports on its overall activities and the results of its work. These reports must be comprised of the data revealing its honest financial position, and the entities must publish a comprehensive summary of these reports in two daily newspapers, at least one in the Arabic language.

The law also requires, in Article No. 23/1, that all listed economic entities must prepare their financial statements and other financial statements according to accounting standards and auditing rules to be determined or mentioned in the implementing regulations of this law. In addition, the second paragraph of Article No. 23 states that the SMA has the right to investigate and inspect these financial statements or assign an

expert to carry out this investigation, and to inform the listed economic entity in the market by their observations, and may request reconsideration of these documents and reports in line with the results inspection.

If the economic entity fails to respond to these observations, then the economic entity must be committed to publishing expenses of the SMA observations and modifications that it has requested. Moreover, the third paragraph of this Article emphasises that each company must notify the SMA of the budget and financial statements before the expiration of thirty days from the general assembly meeting of the company's shareholders. More precisely, Article No. 33 of the Regulation of Listing and Follow-up Disclosure (RLFD) requires all listed economic entities in the LSM to supply the management of the market with the following:

1. A copy of the annual financial statements and the supplementary information, after their approval by the economic entity's board of directors. These reports must be accompanied by the directors' report and the report of the external auditor, to be done before the start of the trading session in the next day. In addition to the above, the economic entity must provide the market management with a copy of those financial statements and the minutes of the general assembly meeting within ten days from the date of authorisation of the general assembly, on a computer disk prepared in accordance with the program determined by the market management before the start of the trading session on the following day at the latest, with statements supporting the amendments and their impact on the financial statements. The annual financial statements must also be prepared and approved during the period not exceeding three months from the date of the end of the financial year.
2. The annual financial statements must be accompanied by the annual report of the board of directors.
3. A copy of quarterly financial statements, with a summary report of the external auditor attached, within thirty days from the date of the period mentioned must also be recorded on a computer disk prepared in accordance with the program determined by the management of the market.

Furthermore, taking into account the RLFD of the LSM, Article No. 34 requires all listed economic entities to prepare their financial statements in accordance with

International Accounting Standards and to be audited according to the International Auditing Standards; it should be refer explicitly to this the auditor's report. In order to make the information available to the general public, the RLFD (Article No. 35) requires all economic entities with their securities listed in the market to publish their annual and semi-annual financial statements, supplementary information, the auditor's report, and the management market notes in two widely-circulated daily newspapers, one of which should at least be in the English language, within one week from the date of approval of the general assembly.

The SML (Article No. 78) also requires any listed economic entity facing unforeseen substantial circumstances affecting its activities or financial position, to disclose them forthwith to the market, and to publish all the relevant information in one of the mass-distribution daily newspapers. If the economic entity did not agree to publish such information then the information will be announced by the market in the media, which it deems appropriate at the expense of the entity. However, Article No. 98 (Disclosure Provisions) states that unless otherwise specifically provided in this law or its implementing regulations, the committee of SMA determines the rules, provisions, and procedures relating to disclosure.

In brief, the RLFD indicates clearly that the financial statements have to be prepared according to international accounting standards and to be reviewed in accordance with the international auditing standards. However, LSML and its RLFD do not include the forms of the financial statements or information items that must be reported in financial statements in their notes. Moreover, there is no declaration on the audited financial statements published by listed companies in LSM that these financial statements were prepared in accordance with the IAS/IFRS.

5.3 Accounting Profession in Libya

The accounting profession of (internal or external functions) in general plays a fundamentally important role in contributing to the development of the country's economy, as has been indicated by the statement that "as an integral facet of society, the accounting profession has a role in the state and the corporate sector, and is also expected to serve the public interest" (Kaidonis, 2008, p. 1). The accounting profession serves community interest by contributing to investor confidence, improving economic

growth and, in the end, will improve the financial wellbeing of society (International Federation of Accountants, IFAC, 2010).

There is no doubt that more sophisticated and effective professional accountants will contribute impressively in enhancing the development process through the useful and reliable information they provide. Certainly, providing useful and accurate financial and non-financial information about the economic entity's financial position, performance, and changes is an absolute necessity and is helpful in making any economic decision, or particular investment decision, which means there should be an efficient accountant and auditor capable of providing such information. According to the IFAC (2010, p. 6) high quality financial information, prepared by professional accountants and certified by auditors, will contribute to national economic growth by:

- Encouraging investment.
- Assisting the government in economic planning and taxation decisions.
- Helping to avoid damaging accounting scandals.
- Supporting anti-fraud and anti-corruption efforts.
- Assisting good governance and management control.
- Supporting poverty reduction.

In the Libyan context, a number of factors have significantly influenced the improvement of the accounting profession in Libya, since the state of Libya achieved its independence in 1951. These include: the inputs from graduates of the Libyan accounting education system; the teaching of accounting academics; the preferences of international firms; the expertise of international accounting companies, as well as, to a certain extent, the rapid changes in the Libyan social, economic, political and legal environment (Mahmed and Russell, 2003).

Additionally, foreign companies or branches, specifically American and British, which were operating in the country in a different field, had a positive influence on the development of the accounting and auditing profession in Libya in two ways, as pointed out by Bait El-Mal et al. (1973, p. 90): (i) Libyan employees in these companies are exposed to contemporary accounting in practice; (ii) there is a "trickling-down effect" in that dealings between these companies and local enterprise lead to significant improvements in the generally less-developed accounting systems of the latter.

Up to the beginning of the seventies, there was no structured public accounting profession in Libya (Bait-El-Mal et al., 1973). The Ministry of Treasury was only the accounting authority in Libya who was responsible for offering licenses to individuals who wished to practice the profession of accounting and auditing, with the requirement to obtain a bachelor's degree in accounting and two years of post-qualifying practical accounting experience (Mahmed and Russell, 2003).

The result of the rapid increase in the number of accounting graduates from the University of Libya and the return of numerous Libyan graduates from abroad, as well as Libyan-run accounting companies, is the rising demand for the creation of a professional body to take the responsibility for developing a general framework of accounting (Ahmad and Gao, 2004). As a result, the Libyan Union of Accountants and Auditors (LUAA) was established in June 1975, after the Law No. 116 of 1973 was passed as the first law regulating the accounting and auditing profession in the country; it was an important event for the accounting profession, and the profession became formally organised in Libya.

The law covered a number of issues including the establishment of the LUAA, registration of accountants, exercise of profession, fees, pensions and contribution funds, obligations of accountants and auditors, penalties and general and transitional provisions. The LUAA pronounced that its mission was to achieve the following objectives:

- To organise and improve the settings for the accounting profession and to develop the standards of accountants and auditors professionally, academically, culturally and ethically;
- To organise and participate in the seminars, conferences, and workshops relating to national and international accounting, and to keep up to date with new education and training programmes in the field;
- To establish a retirement pension fund for its members;
- To increase collaboration between its members and to protect their rights; and
- To take disciplinary action against members who violate the traditions and ethics of the profession.

Remarkably, the founding of the LUAA has had a relatively certain influence on the organisation and improvement in the performance of professional accounting practice in

Libya. Consequently, the Certified Public Accountant (CPA) system was presented officially for the first time in the country; only CPA is permitted to conduct statutory audit services. The members of LUAA are divided into two key groups: (i) working accountants, which split into two categories; (a) accountants, and (b) assistant accountants. (ii) non-working accountants, also split into two categories; (a) non-working accountants, and (b) non-working assistant accountants.

According to the requirements of the law, all members of LUAA must hold Libyan nationality, have obtained a university degree in accounting, enjoy civil and political rights, and have a decent conduct, reputation and respectability, commensurate with the profession. In addition to these, an accountant who wants to register as a working accountant must have no less five years' experience in accounting work in an accounting office after obtaining a university degree.

The accountant who has a bachelor's degree in accounting without experience will be only able to register as a working assistant accountant and, after two years of experience, will have the right to practise in the accounting profession with some restrictions. Accountants who hold a university degree with practice experience and do not intend to practise in the profession are entitled to list as non-working accountants; accountants without experience also have the right to register as non-working assistant accountants. An accountant who obtains a master's or doctoral degree in accounting is exempt from the five years' experience requirement. Members of LUAA, who are registered as accountants in practice, are entitled to audit and certify financial statements of all types of companies and taxpayers.

In summary, although the LUAA has clear objectives and regulations, it has not done enough to pass a code of professional ethics or to stipulate particular accounting and auditing standards and principles that will be expected to be adopted by Libyan professional accountants (Buzied, 1998). The LUAA remains, up to the present, only a single professional accounting body, and has a relatively low social status in Libya. It is worth noting that the ITNC has issued decree No. 12, dated 29th of March 2011, after the Libyan popular revolution starting on the 17th of February 2011, to freeze the activities of all unions and professional associations that affiliate to the General People's Congress, which include the LUAA; thereby the LUAA after this date has no legal role in the country.

5.4 Summary and Conclusions

This chapter has reviewed, in Section 5.2, the current Libyan laws and regulations, which provide a legal basis for corporate financial accounting and reporting practices. Five governmental laws were discussed in this chapter, namely the Commercial Activity Law (5.2.1), the Income Tax Law (5.2.2), Petroleum Law (5.2.3), Banking Law (5.2.4), and Libyan Stock Market Law (5.2.5).

The chapter has founded the fundamental legal framework for corporate financial reporting and auditing practice in Libya is the Commercial Activity Law and Income Tax Law, which in particular covered issues such as accounting records and some aspects of financial accounting and corporate reporting practices, as well as auditing practice.

Otherwise, Petroleum Law and Petroleum Regulations provided a legal basis for the oil industry, and also specified accounting rules that must be applied for financial accounting and reporting by oil and gas companies operating in Libya. In addition, the Libyan Banking Law No 46, 2012, provides a framework for regulation and supervision of the banking sector. The provision of the Libyan Banking Law governing the banking disclosure requirements was limited to a provision in Article 84.

It failed to specify the required financial statements, and neither the form nor the content of these statements specified which accounting standards should be applied. Furthermore, Libyan Stock Market Law and its regulations included specific requirements concerning financial disclosure by listed financial and non-financial companies in the market. However, Libyan Stock Market Law and its regulations do not include the form of the financial statements or the information required to be disclosed in these statements or in their notes.

Lastly, Section 5.2 has explored the background and evolution of the accounting profession in Libya, and it has been observed that the accounting profession in Libya has been established since 1973 as a legal body. However, up to the present day the impact of the profession on the development of accounting regulations and standards in Libya has been inadequate and very limited. Moreover, the accounting profession has a relatively low social status in Libya. The subsequent chapter will discuss in detail the research methodology and research methods applied for the empirical analysis.

Chapter Six

Research Methodology, Methods and Formulation of Hypotheses

6.1. Introduction

This chapter aims to provide a brief introduction to the research methodologies and methods available in the literature that will help the researcher to develop the research methodology and research methods to undertake the current study. It presents the research philosophies, approaches and strategies adopted and used to answer the research questions posited in section (1.3) of the thesis, including justification of the reasons for the choices for the current study.

The chapter also discusses in detail the research methods chosen to be applied in this study, including the data collection and the sample selection process, the research instruments and procedures followed, as well as the research hypotheses to be tested. In addition, this chapter outlines statistical data analysis techniques adopted in the present study.

The chapter is organised as follows: Section 6.2 explains in detail the research methodologies and methods available in the literature. Section 6.3 discusses the philosophy underlying the research. Section 6.4 introduces the research approach. Section 6.5 deals with the research strategy. Section 6.6 discusses data collection methods, including selection of the sample and the method for collecting the annual reports as well as selecting sample interviewees. Section 6.7 describes the research instruments and procedures selected to be used to measure the extent of voluntary disclosure and to elicit the views of those preparing commercial banks' annual reports, in relation to the current financial reporting practice and voluntary disclosure issues. Section 6.8 presents the development and formulation of the research hypotheses to be tested in this study. Section 6.9 provides a discussion of the statistical analysis techniques applied to analyse data and to test the research hypotheses. Finally, a summary and conclusions of the chapter is reported in Section 6.10.

6.2. Research Methodology and Methods

There is often confusion between the terms “method” and “methodology” (Mingers, 2001, p. 242). Methodology has been defined by Collis and Hussey (2003, p. 55) as the “overall approach to the research process, from the theoretical underpinning to the collection and analysis of the data”, whereas Saunders et al. (2003, p. 2) defined methodology as “the theory of how research should be undertaken”.

According to Silverman (2006) a methodology refers to the selections made by a researcher about cases to study, methods of data collection, data analysis procedures etc. in planning and performing the research study. A research methodology can be described as a study of methods which raises philosophical questions about what the researchers want to know and how valid their assertions about knowledge might be (Fisher, 2010). In this context, Eriksson and Kovalainen (2008) stressed that the principal point of methodology is to describe how a particular issue or problem can be studied.

On the other hand, methods, “refer only to the various means by which data can be collected and/ or analysed” (Hussey and Hussey, 1997, p. 54). Methods, as described by Silverman (2006, p. 15) “are specific research techniques”, which include quantitative methods such as statistical correlation, and qualitative methods like observation, interviewing and audio recording. According to Saunders et al. (2003, p. 2) the term “methods” refers to “tools and techniques used to obtain and analyse the data”. In this respect, the term “method” is clearly defined by Jankowicz (2000, p. 209) as “a systematic and orderly approach taken towards the collection and analysis of data that information can be obtained from those data”.

Methods can be classified into methods of data collection (for example interviews, observation), and methods of data analysis (for example thematic analysis, narrative analysis) (Eriksson and Kovalainen, 2008). However, the terms “methodology” and “method” are sometimes used interchangeably by some scholars, and at times they are used to refer to different meanings (Hussey and Hussey, 1997; Collis and Hussey, 2003). In this sense, Mingers (2001, p. 242) stated that:

It can be difficult to precisely delineate the boundaries between method and methodology at one end (e.g. which is administering and analysing a

Overall, methodology in particular is concerned with specific issues, which include (Hussey and Hussey, 1997): why the researcher collected certain data; what data was collected; where the researcher collected it from; when the researcher collected it; how the researcher collected it; and how the researcher will analyse it. Eriksson and Kovalainen (2008) assert that methodology is focused on the specific ways (the methods) that the researcher can use in research when attempting to understand the world better.

Generally, the nature and purpose of the research decides which methods and methodologies are appropriate to answer the research question and to accomplish the objectives of the research. The methods and methodologies that the present study has followed to investigate the research questions will be explained and justified in the following sections.

6.3. Research Philosophy

According to Easterby-Smith et al. (2002), there are three main reasons for why an understanding of philosophical issues is very useful for researchers. These are: (i) to enable the researcher to clarify research designs which help to provide acceptable answers to the basic questions being investigated in the research; (ii) a knowledge of research philosophy can aid the researcher to identify which research designs will work within the specific research purpose and which will not; and (iii) knowledge of research philosophy can help the researcher identify and create research designs that may be outside the prior knowledge and experience of the researcher. It may also guide the researcher in adapting research designs according to the constraints of different subjects or knowledge structures.

The term research philosophy (paradigm), according to Hussey and Hussey (1997, p. 47), refers to the “progress of scientific practice based on people’s philosophies and assumptions about the world and the nature of knowledge”. According to Collis and Hussey (2003) there are two main traditional research paradigms or philosophies: the positivism paradigm and the phenomenological paradigm (social constructionism or interpretivism). Denscombe (2007, p. 332) defines the positivistic paradigm as “an approach to social research which seeks to apply the natural science model of research

to investigations of the social world”. In contrast, the phenomenological paradigm was defined as “a fact or occurrence that appears or is perceived, especially one of which is the cause in question” (Allan, 1991, p. 893).

According to the positivism paradigm, knowledge of the world can be obtained through applying scientific methods to experiences. The phenomenological paradigm, in contrast, believes that knowledge about the world is socially constructed. As Howe and Eisenhart (1990) explained, positivism was primarily considered as partly an explanation of, and partly a prescription for, the conduct of natural sciences. Positivists have faith in empiricism: the idea that observation is the essence of scientific venture (Eriksson and Kovalainen, 2008).

Essentially, the positivistic approach searches for the facts or causes of social phenomena and stresses the objective truth, with little concern for the subjective state of the individual (Collis and Hussey, 2003). According to Cavana et al. (2001), positivist research utilises precise, objective measures, and it is typically associated with quantitative data. The standard process under the positivistic paradigm is to review the literature to establish an appropriate theory and formulate hypotheses.

Collis and Hussey (2009) concluded that positivistic research involves a deductive procedure with a view to providing explanatory theories to understand social phenomena. The positivistic research approach includes cross-sectional studies, experimental studies, longitudinal studies, and surveys, and because of the way in which data is collected and analysed, it is also referred to as quantitative research (Collis and Hussey, 2003).

The phenomenological paradigm, in contrast, is concerned with understanding human behaviour from the participant’s own frame of reference (Collis and Hussey, 2003), and involves research methods such as action research, case studies, ethnography, feminist perspectives, grounded theory, hermeneutics, and participative enquiry. The phenomenological research starts with the direct, existed experience as a starting point, not just the ‘articulation’ of that experience; this is because phenomenological perspectives consider much of individuals experience to be ‘intuitive’ (Lee and Lings, 2008).

Additionally, phenomenological research is not intended to test hypotheses, but aims to understand a phenomenon by letting the data talk for itself, and by attempting to put aside personal biases (Osborne, 1990). More precisely, Denscombe (2007, p. 75) indicated that phenomenological research is seen as an approach that emphasises:

- Subjectivity (rather than objectivity)
- Description (more than analysis)
- Interpretation (rather than measurement)
- Agency (rather than structure)

Overall, the philosophical terms are used interchangeably and consequently there is a misperception about their meaning (Easterby-Smith et al., 2002). Table 6.1 shows some of the more common terms used by other scholars, as alternative terms for the positivist and phenomenological paradigms (philosophies).

Table 6.1: Alternative terms for the main research paradigms

Positivistic Paradigm	Phenomenological Paradigm
Quantitative	Qualitative
Objectivist	Subjectivist
Scientific	Humanistic
Experimentalist	Interpretivist
Traditionalist	

Source: *Hussey and Hussey (1997)*

Research philosophy depends on the way that researchers think about the development of knowledge. Hence, from the underlying research aims and objectives of this study, both positivist and phenomenological paradigms have been adopted. The main reason for utilising both paradigms is that the study will rely upon the hypothetic-deductive method of conducting the study (i.e. deductive reasoning), identifying causal effects, testing pre-existing theory, exploring the views and perceptions of those preparing commercial banks' annual reports (i.e. inductive reasoning), and using a semi-structured interview technique. Deductive reasoning, as Kriksson and Kovalainen (2008) explained, is concerned with the formulation of hypotheses and theories from which specific phenomena can then be explained.

As Hussey and Hussey (1997) pointed out, interviews are linked with both positivist and phenomenological methodologies; however, a positivistic approach suggests a structured interview technique (closed questions) to be used, unlike in the phenomenological approach which suggests using unstructured or semi-structured interview methods (unstructured questions). In this context, Collis and Hussey (2003, p. 55) outline a list of the main features of the two philosophy paradigms, as shown in Table 6.2.

Table 6.2: Distinctive features of the two philosophy paradigms

Positivistic Paradigm	Phenomenological Paradigm
Tends to produce quantitative data	Tends to produce qualitative data
Uses large samples	Uses small samples
Concerned with hypothesis	Concerned with generating theories
Data is highly specific and precise	Data is rich and subjective
The location is artificial	The location is natural
Reliability is high	Reliability is low
Validity is low	Validity is high
Generalises from sample to population	Generalises from one setting to another

Source: *Collis and Hussey (2003)*

6.4. Research Approach

The two main research approach methodologies are the empirical inductive approach and the deductive approach. The empirical inductive approach is typically an empirical investigation of current practices and attempts to generalise from them. In contrast, the deductive approach is not dependent on existing practice; the deductive approach seeks an identified problem based on testing a theory (Elliott and Elliott, 2011). According to Collis and Hussey (2003, p. 15), deductive research is a “study in which a conceptual and theoretical structure is developed and then tested by empirical observation; thus particular instances are deducted from general inferences”.

On the other hand, inductive research is a study in which theory is “developed from the observation of empirical reality; thus general inferences are induced from particular instances, which is the reverse of the deductive method since it involves moving from

individual observation to statements of general patterns or laws” (Collis and Hussey, 2003, p. 15).

Both deductive and inductive approaches are used in science to arrive at a conclusion. In the deductive method, the researcher forms certain expectations or hypotheses from a general assumption or theory and collects evidence to investigate those expectations; this approach is called the hypothetico-deductive method of investigation (Abdolmohmmadi and McQuade, 2002). Practically, the deductive method is referred to as moving from the general to the specific (Collis and Hussey, 2009).

In contrast, in the inductive method, the researcher starts with the data at hand and designs a technique to investigate the generalisability of the evidence; this is called generating theories from the ground up, known as the inductive ground-up method of investigation (Abdolmohmmadi and McQuade,2002). Precisely, the inductive method refers to moving from the specific to the general (Collis and Hussey, 2009).

Abdolmohmmadi and McQuade (2002) recommended that both the hypothetico-deductive and the inductive approaches could be used in scientific research to conclude results from evidence, and both approaches are useful for accounting research. Saunders et al. (2003) identified the major differences between deductive and inductive approaches to research, as presented in Table 6.3.

Table 6.3: Distinctions between deductive and inductive approaches

Deductive approach	Inductive Approach
Scientific principles	Gaining an understanding of the meanings humans attach to events
Moving from theory to data	A close understanding of the research context
The need to explain causal relationship between variables	The collection of qualitative data
The collection of quantitative data	A more flexible structure to permit changes of research emphasis as the research progresses
The application of controls to ensure validity of data	A realisation that the researcher is part of the research process
The operationalisation of concepts to ensure clarity of definition	A realisation that the researcher is part of the research process
A highly structured approach	

In testing the validity of hypotheses, the researcher typically employs the hypothetico-deductive approach starting with a theoretical framework, then formulating hypotheses, and subsequently deducing what the outcomes of the test should be if the hypotheses are supported. Accordingly, Powell (1997, p. 35) states that this is usually accomplished in two steps; in the first step, the researcher deductively develops certain logical implications that, when stated in operational terms, can help to reject or support the research hypothesis; the second basic step is in testing a research hypothesis and involves actually subjecting it to a test by collecting and analysing relevant data.

The research approach to be used depends on the research questions and the nature of the investigation related to the focus of the research. In the context of the research approach, a combination of research approaches is more acceptable and may be more effective in order to achieve the specific research aims and answer research questions, and therefore both inductive and deductive approaches appear particularly appropriate to the focus of the current study.

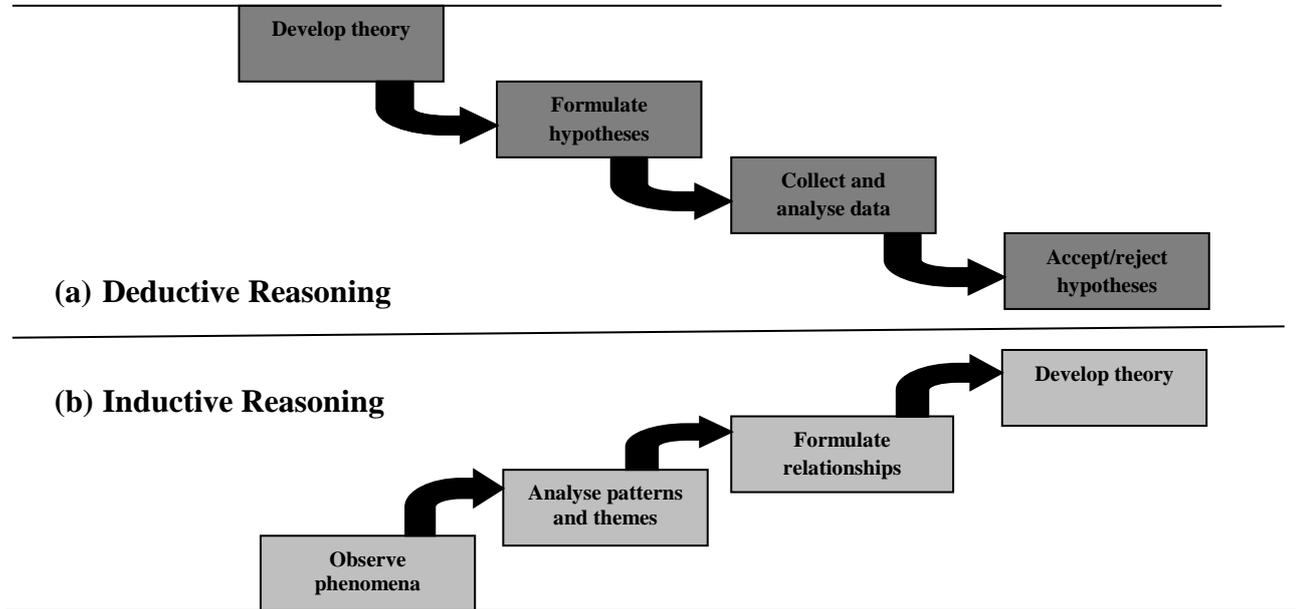
In the current study, the researcher is aiming to test the significant relationship between several commercial bank-specific attributes as independent variables and the extent of voluntary disclosure in annual reports as dependent variables. It is therefore the hypothetico-deductive method which is considered suitable for testing such causal relationships. According to Cavana et al. (2001, p. 35), deduction is “the process by which the researcher begins with a theoretical proposition and then moves towards concrete empirical evidence” (Figure 6.2a).

The selection of a deductive method also fits well with Collis and Hussey’s view (2003, p. 15), who described deductive research as “a study in which a conceptual and theoretical structure is developed and then tested by empirical observation”. The inductive approach has also been adopted for its ability to inquire into individual perceptions of the meanings individuals attach to events. According to Cavana et al. (2001, p. 36), induction is “a process by which we observe certain phenomena and arrive at certain conclusions” (Figure 6.2b).

Therefore, this approach will also be considered suitable for the current study, which aims to explore the views and perceptions of those preparing commercial banks’ annual reports in relation to the current commercial banking financial reporting and voluntary

disclosure issues. Thus, a combination of both approaches (deductive and inductive) may be essential to provide a more comprehensive research result.

Figure 6.2: Deductive and inductive reasoning in business research



Adapted from: *Cavana et al. (2001)*

6.5. Research Strategy

Research strategy is a general plan of how the researcher will go about answering the particular research questions. A variety of research strategies are available to researchers to use in their studies; some of these strategies belong to the deductive approach, others to the inductive approach, and they include experiment, survey, case study, grounded theory, ethnography, action research, cross-sectional and longitudinal studies, and exploratory, descriptive and explanatory studies (Saunders et al., 2003).

The purpose of the research strategy is to specify what type of research is undertaken to provide satisfactory answers to the research questions. Selecting which strategy researchers should apply is dependent on the purpose of the research and the type of information required. According to Naoum (2007), research strategies can be divided into two types, depending on the type of data collected: ‘quantitative research’ and ‘qualitative research’.

Quantitative research approaches include questionnaires, field and laboratory experiments, and also statistical data gathered by organisations. In contrast to quantitative approaches, qualitative research approaches include interviews, focus groups and observations, and are aimed at understanding the rich, complex and idiosyncratic nature of human phenomena; qualitative approaches rely on the researcher being a 'human-as-an-instrument' to both collect and analyse the data (Cavana et al., 2001). The qualitative approach stresses the subjective aspects of human action by focusing on the sense, rather than the measurement, of social phenomena (Hussey and Hussey, 1997).

Cavana et al. (2001) distinguish between two qualitative and quantitative strategies: quantitative research is based on deductive reasoning, and is used within the positivist research paradigm. Qualitative research involves inductive reasoning, and is used within the interpretivist (phenomenological) paradigm. Moreover, qualitative research is 'subjective' in nature, and the data gathered in qualitative research can be classified under two categories of research; exploratory and attitudinal, but quantitative research is 'objective' in nature (Naoum, 2007). In this sense, Hair et al. (2007, p. 152) have compared between quantitative and qualitative approaches, as shown in Table 6.4.

Table 6.4: Comparison of quantitative and qualitative approaches

Description	Quantitative Approach	Qualitative Approach
Purpose:	Collection quantitative data	Collection qualitative data
Properties:	More useful for testing.	More useful for discovering.
	Provides summary information on many characteristics.	Provides in-depth (deeper understand) information on a few characteristics.
	Useful in tracking trends.	Discovers 'hidden' motivations and values.
	More structured data collection techniques and objective ratings.	More unstructured data collection techniques requiring subjective interpretation.
	Higher concern for representativeness.	Less concern for representativeness.
	Emphasis on achieving reliability and validity of measure used.	Emphasis on the trustworthiness of respondents.
	Relatively short interviews (1 to 20 minutes).	Relatively long interviews (1/2 to many hours 20).
	Interviewer questions directly, but does not probe deeply.	Interviewer actively probes and must be highly skilled.
	Large samples (over 50).	Small samples (1-50).
	Results relatively objective.	Results relatively subjective.

Source: from Hair et al. (2007).

Quantitative researchers cannot deal with the social and cultural creation of its own variables and can only deal with deduction, confirmation, explanation, testing of hypotheses, prediction and statistical analysis. The qualitative researchers, in contrast, are concerned with induction, interpretation, discovery, exploration and understanding through social and cultural senses (Eriksson and Kovalainen, 2008). However, both the quantitative and the qualitative methods are valuable and can make a worthwhile contribution to what is known about the phenomenon under study (Denscombe, 2007).

It has been argued that using mixed methods in one overall research study has more advantages than using a single method. According to Creswell and Clark (2011, p. 12) there are a number of advantages to utilising multi-methods in the same study:

- Mixed methods research provides strengths that balance the weaknesses of both quantitative and qualitative research.
- Mixed methods research provides additional evidence for studying a research problem than either quantitative or qualitative research alone.
- Mixed methods research assists in answering those research questions that cannot be answered by quantitative or qualitative approaches alone.
- Mixed methods research provides a link through the sometimes adversarial divide between quantitative and qualitative researchers.

Therefore, a mixed-methods research strategy is adopted in the current study i.e. quantitative and qualitative approaches, where each research strategy is considered suitable for application to the particular type of research questions. By combining both research techniques within the current study, it will help the study provide stronger evidence for a conclusion by convergence and validation of results. Denscombe (2007, p. 110) stated that:

Combining the methods, however, allows the researcher to produce a fuller account of the situation that covers not only the scale of the issue (e.g. numbers involved, age, sex, ethnic group) but also gives some insight into the motivational factors that give rise to the behaviour (e.g. self-image, stress, peer groups)

According to Muskat et al. (2012) mixed-methods research is helpful to use in order to produce a research outcome that is of higher value than single approaches in qualitative or quantitative methods. Moreover, mixed-methods research, according to Johnson and Onwuegbuzie, (2004, p. 17), “is an attempt to legitimise the use of multiple approaches in answering research questions, rather than restricting or constraining researchers’ choices”. In short, as summarised by Denscombe (2007, p. 110), the mixed methods approach can be a valuable research strategy for:

- The validation of the study findings in terms of their accuracy;
- Checking for bias in research methods; and
- The development of research instruments.

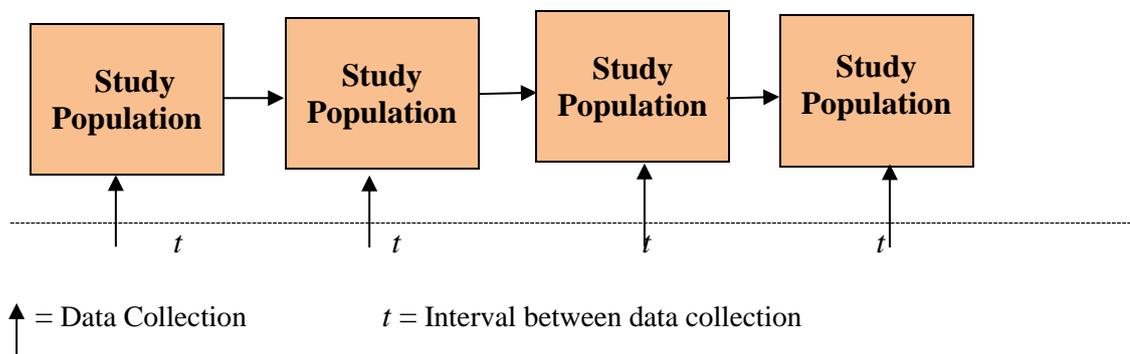
Given the second objective of this particular study, and the intention to gather data from a number of years, a longitudinal research strategy is also adopted, since, as noted by Collis and Hussey (2003), such a study enables the researcher to examine change

processes within a social, economic and political background. Saunders et al. (2003) assert that the key strength of longitudinal research is its' capability to study change and development.

Moreover, it can be employed to investigate whether there have been significant changes or developments over a period of time and how these changes or developments might be explained (Collis and Hussey, 2003). Additionally, a longitudinal research approach can shed light on the elements which cause the change over time. As Collis and Hussey (2003) asserted, a longitudinal study is often associated with a positivist research methodology.

In the context of this research, therefore, the longitudinal study is used to examine changes in the extent of voluntary disclosure and determine whether Libyan commercial banks have paid particular attention to voluntary information disclosure over a period of six years (2006-2011). The main reason for using the longitudinal study approach is that it allows the researcher to measure the pattern of change and to obtain factual information, requiring collection on a regular or continuing basis, thus enhancing its accuracy (Kumar, 2005). Additionally, "longitudinal studies are appropriate when research questions and hypotheses are affected by how things vary over time" (Hair et al., 2003, p. 62). In longitudinal studies the study population is visited a number of times at steady intervals, usually over a long period, and data must be collected from the same sample population (Figure 6.3) (Kumar, 2005).

Figure 6.3: The longitudinal study design



Source: Kumar (2005)

6.6 Data Collection Methods

“Data” refers to “known facts of things used as a basis for inference or reckoning” (Collis and Hussy, 2003, p. 160). In both positivistic and phenomenological research, the researcher needs to gather data about the phenomena being researched (Collis and Hussy, 2003). Data can be collected for research in a variety of ways and from different sources (Sekaran, 2003). However, the type and quantity of data to be collected depends on the nature of the study composed with its research objectives (Hair et al., 2003).

The data for the current study are extracted from commercial banks’ annual reports and semi-structured face-to-face interviews with directors of accounting departments in Libyan commercial banks who are involved directly in the preparation of those annual reports. Collection of data through different methods or collecting different types of data on the topic of interest will improve the accuracy of judgements and research outcomes (Ghauri et al., 1995). The following subsections discuss the process for sample selecting and collecting the commercial banks’ annual reports, and selecting the sample of interviewees.

6.6.1 Selection of sample and collecting the annual reports

This study is concerned with the information disclosed in the annual reports of Libyan listed and unlisted commercial banks from 2006 to 2011. Though the annual report is only one means of corporate reporting, it should serve as a good proxy for the level of voluntary disclosure provided by a commercial bank through all disclosure means (Botosan, 1997). The reason for choosing this time period is that it is expected to give more insight into whether there are any significant changes in the voluntary disclosure levels being linked to the first stock market established in Libya in 2006; the first of its kind was officially founded by Decision No (134) of the General People’s Committee (GPCO), on June 3, 2006.

The analysis of listed commercial banks annual reports from 2006 allows the exploration of the influence of listing requirements of the LSM, on the level of information voluntarily disclosed by listed banks in their annual reports. In addition, during that period Libya had remarkable and rapid economic development moving from a centrally planned economy to a more market-oriented economy. This made significant changes in the corporate external financial reporting environment in Libya.

Selecting commercial banks in the sample was based on the availability of their audited annual reports for six years (2006-2011). The sample represents the entire population of the commercial banks listed in the LSM until the end of 2011. The researcher planned to collect the annual reports of the entire population of represented unlisted commercial banks. The total number of unlisted commercial banks was eight in 2011.

Three unlisted banks were excluded from the sample as they were established after 2006 (i.e. Almutahed Bank for Trading and Investment, Arab Commercial Bank, and First Gulf Bank), and they had not started their activities at that time; three other unlisted commercial banks were also excluded because their audited annual reports were not available (Al-Ejmaa Al-Arabei Bank, Bank Alaman for Commerce and Investment, and North Africa Bank).

It should be noted that the majority of Libyan commercial banks do not have their own website; others have a website but without access to the entire audited annual reports. Finally, the total number of listed and unlisted commercial banks covered under the study is nine. A copy of the audited annual reports for the years 2006, 2007, 2008, 2009, 2010 and 2011 was collected from each bank¹.

Six banks have participated in interviews; the researcher was able to collect their annual reports from 2006 to 2009 on the interview day, and the annual reports of the financial year 2010 and 2011 were collected later. Annual reports for three listed banks were downloaded from the LSM's website. 54 audited annual reports from the period 2006-2011 of nine listed and unlisted commercial banks were obtained and analysed. The list of commercial banks covered by the current study is shown with their year established and listing status in Table 6.5.

¹ Two commercial banks (National Commercial Bank and Wahda Bank) were not able to publish their annual reports for 2011 due to the 17.02.2011 Libyan revolution; they published annual reports of 2012, which were collected and used in this study.

Table 6.5: List of the Libyan commercial banks covered by the current study

Commercial Bank's Name	Year Established	Listing Status
1. Sahara Bank	1964	Listed
2. Gumhouria Bank	1969	Listed
3. The National Commercial Bank	1970	Listed
4. Wahda Bank	1970	Listed
5. Commerce and Development Bank.	1996	Listed
6. Mediterranean Bank	1997	Listed
7. Alsaraya Trading and Investment Bank	1997	Listed
8. Alwafa Bank	2004	Unlisted
9. Alwaha Bank	2005	Unlisted

6.6.2 Selecting sample interviewees

The second phase of data collection in the current study involved conducting a semi-structured, face-to-face interview, which was designed as a data collecting strategy to meet the fourth research objective. The researcher planned to interview all the Libyan listed and unlisted commercial banks' directors of the accounting departments or representatives who are involved directly in the preparation of annual reports. Directors of the accounting departments in Libyan commercial banks were chosen for two reasons.

Firstly, based on the researcher's knowledge of Libyan commercial banks' regulations, directors of the accounting departments are more reliable sources and are more exposed to issues relating to the banking financial reporting and disclosure practices than other directors or employees in Libyan commercial bank. Secondly, directors of the accounting departments are directly responsible for the preparation of financial annual reports and accounts of Libyan commercial banks.

Nevertheless, the researcher was not able to realise the plan due to bureaucratic rules that governed the Libyan banking system, and so it was difficult for the researcher to conduct interviews with all directors of accounting departments. It should also be noted that confidentiality and anonymity were crucial factors, as the subjects were commercial banks.

As a result, six commercial banks (two listed and four unlisted commercial banks) allowed the researcher to carry out interviews with the people responsible for preparing their annual reports. The final size of the sample interviewees was seven. Two representatives of one listed commercial bank were present in one of the interviews. The number of participants in the interviews formed a good representation and provided rich information concerning the current financial reporting and disclosure practices by Libyan listed and unlisted commercial banks.

6.7 Research Instruments and Procedures

This section introduces the main research instruments and procedures employed in the present study. Section (6.7.1) explains the research method to measure the extent of voluntary disclosure in the annual reports of each individual commercial bank for each year (dependent variable, TVDIS), which involves a two-step process: construction of the voluntary disclosure index and scoring the voluntary information disclosure items. The semi-structured interview process adopted by this research is outlined in section (6.7.2).

6.7.1 Research method to measure the extent of voluntary disclosure

The purpose of this section is to explain the method used to answer the first research question of this study, i.e. to what extent have Libyan listed and unlisted commercial banks disclosed voluntarily information in their annual reports during the period between 2006 and 2011. Measuring the level of voluntary information disclosure in the annual reports of each individual commercial bank for each year involves a two-step process: (i) construction of the voluntary disclosure index, and (ii) scoring the voluntary information disclosure items. A detailed description of each step is given below.

6.7.1.1 Construction of the voluntary disclosure index

The first step is to construct a disclosure index in order to assess the voluntary disclosure level in the commercial banks' annual reports. It is demonstrated in the disclosure literature that a self-constructed disclosure index is a widely used method of collecting data to assess the extent of information disclosure in corporate annual reports (e.g. Singhvi and Desai, 1971; Buzby, 19975; Barrett, 1976; Kahl and Belkaoui, 1981; Chow and Wong-Boren, 1987; Cooke, 1989a, 1991; Raffournier, 1995; Inchausti, 1997;

Tsamenyi et al., 2007; Hossain, 2008). Therefore, for the principal purpose of this research, the index approach is considered appropriate.

A major step in the construction of the voluntary disclosure index is the selection of information items that could be disclosed voluntarily by listed and unlisted commercial banks in their annual reports and which are relevant to the Libyan environment. Wallace (1988, p. 354) claims that there is no general theory to guide what should be considered when deciding upon a list of information items for inclusion in a disclosure index.

As discussed earlier in Chapter Five, the Banking Law No. (1) of 2005 provided a legal framework for regulation and supervision of Libyan commercial banking activities until 2012. The only legal requirement for Libyan commercial banks, according to the provisions of Article 84 of this law, was that every commercial bank must display, throughout the year and in a visible place at its head office and at all of its branches, a copy of its most recent, audited balance sheet and profit and loss accounts. These financial statements must be also published in the Official Gazette and in a domestic newspaper.

However, the Libyan Banking Law No. 1 (2005) or its later amendments did not specify any additional requirements concerning the form and content of the balance sheet and profit and loss account. It is obvious that no specific information items are required to be disclosed in the Libyan commercial banks' consolidated financial statements, which was confirmed by interviewees' responses in Chapter Seven of this thesis.

Therefore, it can be concluded that the Libyan Banking Law No (1) of 2005 failed to specify the actual level of information that commercial banks must disclose in their consolidated financial statements. In other words, this law does not provide details of the key legislation and guidelines relevant to the preparation of financial statements and other accounts by the Libyan commercial banking sector.

As discussed in Chapter Five, listed companies on the LSM are required to submit a copy of their annual audited financial statements, the auditor's report and the annual report of the board of directors within a period not exceeding three months from the end date of the financial year to the LSM. According to LSM rules, listed companies must prepare their financial statements in accordance with the IASs/IFRS, reviewed in accordance with the International Standards on Auditing (ISA).

In addition to these listing requirements, LSM has the right to request additional information not contrary to the legislation in force. However, the detailed requirements on the form and content of the company's financial statements and reports were not specified. In fact, since the LSM was established in 2006, none of the companies listed in the LSM, including banks, could confirm that their audited annual financial statements have been prepared in accordance with IFRS requirements. More importantly, listed commercial banks in fact must follow the CBL directives, regulations and legislation when they prepare their annual accounts and consolidated financial statements.

As the current study focuses on information that is expected to be presented in the commercial banks' annual reports and this information is not compulsory to be disclosed in the annual reports of listed and unlisted Libyan commercial banks, it is assumed that the information represents free choices on the part of commercial bank management to provide financial and non-financial information considered relevant to the decision-making needs of users of their annual reports (Meek et al., 1995).

Hence, the selection of voluntary information items for inclusion in the disclosure index that will be employed in this study to measure the extent of voluntary disclosure in annual reports is based on the following criteria:

- (i) Information items recommended for banking disclosure by the International Accounting Standards Board (IASB) and other bodies such as the US Financial Accounting Standards Board (FASB), the Basel Committee, and the International Monetary Fund (IMF); the items should not be mandatory for disclosure by any Libyan codes.
- (ii) Information items included in earlier relevant voluntary disclosure studies (i.e. Kahl and Belkaoui, 1981; Abdul Hamid, 2004; Hossain and Taylor, 2007; Hossain and Reaz, 2007; Hooi, 2007; Hossain, 2008; Barako and Brown, 2008, Maingot and Zeghal, 2008).

A review of recently published annual reports and discussion with interviewees was used to refine the items included in the voluntary disclosure index. However, Marston and Shrivs (1991, p. 198) have acknowledged the fact that:

The validity of disclosure indices as a measure of information disclosure cannot be accepted without question. However, no other method for measuring disclosure has been developed...The fact that no one particular index has gained favour with researchers illustrates another facet of the validity problem. Most researchers adapt and tailor existing indices to meet their own perceived needs. This is an attempt to create an index that is valid in the particular research environment being investigated

A total of 63 items of information were finally identified as relevant to Libyan commercial banking disclosure and are applicable to all sampled banks. These 63 voluntary information items were then classified into five key categories according to their nature:

- (A) Background about the commercial bank/ general information;
- (B) Social responsibility information;
- (C) Financial ratios and other statistics information;
- (D) Accounting policies, and
- (E) Corporate governance information.

Table 6.6 shows the number of voluntary disclosure items under each category. The list of the 63 voluntary disclosure items is comprised in Appendix No. 1.

Table 6.6: Voluntary information categories

Category	Number of Information Items	%
(A) Background about the Commercial Bank/ General Information	11	17.46
(B) Social Responsibility Information	4	6.35
(C) Financial Ratios and Other Statistics Information	21	33.33
(D) Accounting policies	8	12.70
(E) Corporate Governance Information	19	30.16
Total	63	100

6.7.1.2 Scoring the voluntary information disclosure items

The second step in measuring the extent of voluntary disclosure in annual reports for every commercial bank in the sample for each year involves scoring the voluntary disclosure index items. A scoring sheet was designed including the 63 voluntary

disclosure items index (see Appendix No. 2), to score each of the sample commercial banks on their voluntary disclosure levels.

Two main approaches were found to be widely used by earlier disclosure studies to develop a scoring scheme to determine the level of a corporate annual disclosure, these being the weighted scoring approach, and the unweighted scoring approach (dichotomous scoring approach).

The weighted approach is constructed based on surveys of the perceptions of financial report users. Users are asked to scale their perceived importance of disclosure index items from one to five, one if an item is not important to their decision-making and five if it is very important to their decisions. This approach has been adopted in several previous empirical studies (e.g. Singhvi and Desai, 1971; Buzby, 1974; Barrett, 1976; Kahl and Belkaoui, 1981; Malone et al., 1993). However, Cooke and Wallace (1989) consider that any scoring approach employed to assign weights to each item of information may be misleading, since the level of importance differs according to entities, transaction, the user, industry, country and the time of the study.

The unweighted approach, in contrast with the weighted method, uses a dichotomous score, in which one point given if an item is disclosed in the annual report and zero if not disclosed. This approach is based on the assumption that each information item in the disclosure index is considered equally important to all users of corporate annual reports. Therefore, the unweighted approach is less subjective than the weighted approach.

Researchers such as Cooke (1989a and 1989b), Cooke (1992), Wallace et al. (1994), Hossain et al. (1995), Akhtaruddin (2005), Ahmed (2006), and Hossain (2008) prefer to use the unweighted approach to avoid the subjectivity inherent in any individual scoring of disclosure index items. As confirmed by Adams and Hossain (1998, p. 264) “an unweighted disclosure index was employed because criticisms of the use of weighted disclosure indices are widespread in the academic accounting literature.”

Additionally, previous empirical research which has employed both a weighted and an unweighted scoring technique has indicated that there are no substantial differences to the statistical findings which emerge between the two approaches (e.g. Choi, 1973;

Chow and Wong-Boren, 1987; Robbins and Austin, 1986; Wallace and Naser, 1995). For the purpose of this study it therefore, an unweighted approach (dichotomous scale) was adopted for use, in which if a commercial bank discloses an item of information included in the disclosure index it is assigned a score of 1, and 0 if it is not disclosed.

The main reason for adopting this approach in the current study is to avoid the subjectivity inherent in using any weighted scoring approach. Another reason is that the unweighted scoring approach has been most commonly employed in prior disclosure studies (see e.g. Cooke, 1989b; Hossain et al., 1995; Hossain and Reaz, 2007). Moreover, one of the main research objectives of the current study is concerned with developments in the levels of voluntary disclosure over the period 2006 to 2011 rather than with the importance of information items to any specific user group.

Therefore, the use of a weighted scoring technique is inappropriate in the precise circumstances of this study, since the items of information are to be assigned according to users' perceptions in a particular year. Hence, it may be the case that some or all information items are considered to be very important in one year, but much less important in another.

After the all voluntary disclosure items have been scored, the Total Voluntary Disclosure Index Score (**TVDIS**) for each of the 54 annual reports from the commercial banks in the sample (this score as dependent variable), is calculated as the ratio of the Actual Voluntary Disclosure Score (**AVDS**), which is awarded to a commercial bank, divided by the Maximum Voluntary Disclosure Score (**MVDS**), which that particular commercial bank is expected to earn.

The Total Voluntary Disclosure Index Score for each commercial bank for each year (**TVDIS**) is calculated as follows:

- The Actual Voluntary Disclosure Scores (**AVDS**) for per commercial bank in the sample of the study in each year is additive as:

$$\mathbf{AVDS} = \sum_{j=1}^n dj$$

Where, **AVDS** = Actual Voluntary Disclosure Score for per commercial bank.

$d_j = 1$ if the j information item is disclosed in the annual reports.

$d_j = 0$ if the j information item is not disclosed in the annual reports.

n = the total of information items which a commercial bank is expected to disclose.

- The Maximum Voluntary Disclosure Score (**MVDS**) that an individual commercial bank is expected to earn is calculated as follows:

$$\text{MVDS} = \sum_{j=1}^n d_j$$

Where, **MVDS** = Maximum Voluntary Disclosure Score.

n = the number of information items in the voluntary disclosure index expected to be disclosed, where $n \leq 63$

- Therefore, the Total Voluntary Disclosure Index Score (**TVDIS**) for the individual commercial bank for each year is calculated as follows:

$$\text{TVDIS} = \text{AVDS} \div \text{MVDS} (100\%)$$

TVDIS for the individual commercial bank for per year (its value range from zero to one) = Actual Voluntary Disclosure Score (AVDS) ÷ Maximum Voluntary Disclosure Score (MVDS). The fraction is then multiplied by 100 to convert to per cent and rounded up to the nearest whole number. A commercial bank with higher value of disclosure score demonstrates the greater extent of voluntary information disclosure in its published annual reports.

6.7.2 Semi-structured interview process

Interviews are one of the most commonly used research methods employed for collecting primary data; they can be conducted with individuals or groups, using face-to-face, telephone, email or video (Collis and Hussey, 2009). The interviews allow the researcher to gain an insight into an individual's beliefs and attitudes towards a specific

subject (Wilson, 2010). Interviews can be structured, unstructured or semi-structured. A structured interview is based on an inflexible set of interview questions. One of the major drawbacks of the structured interview is that the researcher has little flexibility to react to the particular concerns of the interviewee; there is also no guarantee that the questions asked focus on the issues that are most relevant to the topic studied (Kriksson and Kovalainen, 2008). Unstructured interviews are also known as in-depth interviews; the interview begins with broad questions, the interviewers then debate these in a general, open manner, and the subsequent interview questions are very much dependent on the answers given by the interviewees (Wilson, 2010).

A semi-structured interview is a mixture of the structured and unstructured approach; it is based on a set of structured questions, but at the same time provides room for the interviewees to elaborate on certain points and raise specific questions or subjects (Wilson, 2010). An additional advantage of conducting semi-structured interviews is that the views and opinions expressed during the interview stem from a single source (the interviewee) (Denscombe, 2007). A common feature of the three interview methods is that they have more flexibility than printed questionnaires and give the interviewees the chance to express their personal views and perceptions in their own words (Coll and Chapman, 2000).

For the purpose of this study, a semi-structured, face-to-face interview was adopted as the most effective technique to be used in the current study to obtain accurate and more detailed information from those preparing commercial banks' annual reports. The main advantage of a semi-structured interview method is to conduct discussions to not only reveal and understand the 'what' and the 'how' questions but also to place more emphasis on exploring the 'why' questions. (Saunders et al., 2003). Since the present study depends upon the data extracted mainly from annual reports published by Libyan commercial banks, by using interview techniques the researcher can gain valuable supplementary information and explanations that cannot be found in the annual reports. As Kriksson and Kovalainen (2008, p. 80) pointed out, "a common reason for the use of interviews in business research is that they are an efficient and practical way of collecting information that the researcher cannot find in a published form".

In addition, this method also assists and supports the researcher in interpretation of quantitative results in the current study. Furthermore, “qualitative data can be used to strengthen quantitative research designs in general and intervention research designs (experimental or quasi-experimental) in particular” (Leech and Onwuegbuzie, 2007, p.560). Moreover, it is recommended that using more than one research method will enhance the research findings by providing a fuller and more complete picture of the matter that is being studied (Denscombe, 2007).

To interview the people preparing the commercial banks’ annual reports, a copy of the ‘Participant Information Sheet’ (see copy in Appendix No. 3) attached with the ‘Management Letter’ (see copy in Appendix No. 4), explaining the purpose of the interviews was hand-delivered to all directors of accounting departments in Libyan commercial banks to obtain their permission and to arrange an appropriate date and interview time. It ultimately depended on the personal relationships and contacts already formed which resulted in six commercial banks (4 listed and 2 unlisted) allowing the researcher to conduct the interviews.

The interviewees were given the choice to select a convenient time for their interviews. Each interview lasted approximately forty-five to ninety minutes. All interviews were conducted face-to-face on a one-to-one basis excepting one interview which was held with two participants representing one commercial bank. Semi-structured questions were used by the researcher as guidelines during the interviews (see Appendix No. 5) and also to allow interviewees to answer questions in their own words, encouraging them to elaborate on their responses and give more accurate and complete information.

The original interview questions were first written in the Arabic language, since all interviews were conducted in Arabic and later translated into the English language by the researcher. Before conducting the interviews, the interview questions were tested by two Libyan professional practice accountants to guarantee that the interview questions can be answered without misunderstanding.

All interviews began with the researcher introducing himself to the interviewees, after having thanked them for participating; this was then followed by a brief introduction to the research aims and objectives as well as explaining the purpose of the interview. Each interviewee was assured that all information given during the interview would be

used for academic purposes only and would be treated confidentially, and that they have the right to change their mind at any time; they were also asked whether the interview could be recorded by the researcher.

This was done to make interviewees feel more comfortable and to encourage them to provide realistic and free answers to all interview questions. All interviewees were also invited to give their comments on the issues that they thought might not be covered in the interview questions. Four interviews were tape-recorded and handwritten notes were taken during the all interviews. After asking the interviewee to confirm the recordings and written notes, they were then translated from Arabic to English and transformed into a written document at the end of each interview by the researcher.

Content analysis was used for analysis of the interview transcripts. Content analysis has been defined as “an approach to the analysis of documents and texts that seeks to quantify content in terms of predetermined categories and in a systematic and replicable manner” (Bryman, 2004, p. 181). According to Denscombe (2007) content analysis is a technique which helps the researcher to analyse the content of documents and can be used with any ‘text’, whether it be in the form of writing, sounds or images, as a manner of quantifying the contents of that text.

Content analysis involves creating categories which classify the meaning expressed in the data, and then coding, tabulating and illustrating the data itself (Jankowicz, 1995, p. 195). More precisely, Kumar, 2005 (p. 240-241) clarified that content analysis means analysis of the contents of an interview in order to identify the main themes that arise from the answers given by interviewees. According to Kumar (2005), the process of analysis of the contents of an interview involves the following steps:

Step 1- Identify the main themes;

Step 2- Assign codes to the main themes;

Step 3- Classify responses under the main themes; and

Step 4- Integrate themes and responses into the text of the report.

The above four steps will be applied in this study to analyse the respondents’ interviews. Despite there being a number of software programs that can be used to analyse qualitative research data, such as ATLAS, NUD*IST6, and NVIVO, using them to analyse small data - six interviews - will be more time-consuming. As pointed out by

Kanakriyah (2012) qualitative data analysis software is considered more time-consuming as the researcher must draw tree nodes with different themes and sub-nodes with related themes on paper before putting them on NVIVO. He also added:

This consumed more time than using colour codes (using highlighter pens) to connect between different themes of the same issues in a transcription methods table. The second reason for not using qualitative data analysis software was the discrepancies between Word and NVIVO document pages. Some features were missing in NVIVO and the software sometimes suddenly shut down after more than six hours of work (Elsayed, 2008, p. 240), causing a loss of analysis. The third reason was the small number of interviewees, fourteen, which didn't need analysis by software (p. 199).

6.8 Development and Formulation of the Research Hypotheses

This section highlights the development and formulation of the research hypotheses in order to answer the third research question. Previous empirical studies that examined the relationship between the extent of disclosure and corporate-specific attributes have shown that there are many company characteristics that might influence the extent of disclosure (i.e. mandatory, voluntary or aggregate disclosure) in annual reports.

Seven commercial bank characteristics (age of bank, size of bank, bank liquidity position, profitability, government ownership, foreign ownership, and listing status) as determinants of voluntary disclosure were selected in this study, based on the findings of previous empirical disclosure research and the Libyan socio-economic environment. As suggested by Smith (2004) that theory and the existing literature should drive the formation of research hypotheses. Hence, the tenets of agency theory and signalling theory and their association with the extent of voluntary disclosure are used in developing the research hypotheses in the following subsections:

6.8.1 Age of the commercial bank (AGE)

The age of business entity is a critical factor in determining the level of information disclosure in its annual reports (Akhtaruddin 2005 and Owusu-Ansah 2005). An older company is likely to be more expert in collecting, processing and releasing information (Owusu-Ansah 2005). Accordingly, it may seem that long-standing commercial banks having more experience in ways of providing more extensive disclosure about their financial results and current position to satisfy users' needs than young commercial

banks. Moreover, older commercial banks are more likely to include more financial and non-financial information above legal requirements in their annual reports than younger banks. Abdul Hamid (2004) suggested that the age of a bank, like any other corporation or business entity, may influence the level of information disclosure.

Prior disclosure studies examining the relationship between the extent of disclosure and firm age have documented inconsistent results. For example, Alsaeed (2006) examined empirically the impact of firm age on the level of voluntary information disclosure. The empirical results revealed that firm age does not associate significantly with the level of disclosure. In a more recent study by Galani et al. (2011), the age of the company was found to be insignificant in explaining the variation of mandatory disclosures in the annual reports of non-financial Greek companies. In the case of banking companies, Hossain (2008) claimed that no relationship exists between banking companies' age and the extent of monetary disclosure.

Moreover, Hossain and Reaz (2007) empirically investigated the relationship between bank age and the extent of overall voluntary information disclosed by listed banking companies in India. They revealed that the age variable is not significant. In contrast, a significant positive association between the company's age and the extent of disclosure have been found by Owusu-Ansah (1998 and 2005). However, the commercial bank age effect has not been supported by any empirical evidence to suggest such a theorised positive relationship. Therefore, the commercial bank age is chosen as one of the independent variables for testing. This leads to formulation of the first research hypothesis:

H1: There is a significant positive association between the extent of voluntary information disclosure in annual reports and the age of a commercial bank.

In this study, the age of a commercial bank is considered to be the number of years it has been in operation since its inception up until 2011.

6.8.2 Size of commercial bank (SIZE)

A company's size was found in previous disclosure studies as a significant explanatory variable in explaining variation in the extent of information disclosed by companies. For

instance, Cooke (1991) stated that the most important independent variable that helps explain variations in voluntary disclosure in Japanese corporate annual reports is size.

Most of the prior disclosure studies in various countries have empirically agreed that corporate size has a positive relationship with the level of corporate voluntary disclosure (e.g. Singhvi and Desai, 1971; Buzby, 1975; Kahl and Belkaoui, 1981; Chow and Wong-Boren, 1987; Cooke, 1989; Cooke, 1991; Hossain et al., 1994; Meek et al., 1995; Raffournier, 1995; Hossain et al., 1995; Depoers, 2000; Haniffa and Cook, 2002; Leventis and Weetman, 2004; Abdul Hamid, 2004; Alsaeed, 2006; Agca and Önder, 2007; Hossain and Taylor, 2007; Hossain and Reaz, 2007; Yuen et al., 2009). Although empirical evidence from previous studies provides prodigious support for the hypothesis that there may be a positive relationship between company size and the extent of disclosure, the theoretical basis for such a relationship is unclear (Wallace et al., 1994, p. 44).

Agency theory suggests that agency costs are associated with the separation of management from ownership, which is likely to be higher in larger companies (Jensen and Meckling, 1976). Hence, large companies have more incentive to voluntarily disclose additional information in their annual reports than smaller firms, to reduce agency cost. Additionally, managers of larger companies tend to be more motivated to disclose more information in order to create or maintain strong demand for their securities (Hossain et al. 1994).

Larger companies are expected to disclose more information than smaller companies in their published annual reports for a number of reasons (see Singhvi and Desai, 1971, p. 131). Firstly, collection, preparing and disclosure a great amount of financial and non-financial information is relatively less costly for large companies than smaller companies. Secondly, large companies disclose more financial and non-information in their published annual reports because they are more aware of the potential benefits of additional disclosure for increasing stakeholders' confidence and attracting new investors. Thirdly, managers of smaller companies are likely to feel, more than executives of large companies, that full disclosure of information might endanger their competitive position (Singhi and Desai, 1971).

A few empirical studies on banking voluntary disclosure (i.e. Kahl and Belkaoui, 1981; Hossain and Taylor, 2007; Hossain and Reaz, 2007) have documented empirical evidence in the positive association between bank size and the extent of voluntary disclosure in the annual reports. It is therefore may difficult to conclude whether commercial bank size is an important explanatory variable to establish an association with the overall level of information voluntarily disclosed by commercial banks in their annual reports. Based on the above argument, the second research hypothesis is formulated as follows:

H2: There is a significant positive association between the size of a commercial bank and the extent of its voluntary information disclosure in the annual reports.

Previous empirical disclosure studies have measured the size of an economic entity through different ways: total assets; number of employees; sales turnover, capital employed, net income and number of stockholders. Cook (1991, p.176) asserted that “size can be measured in a number of different ways and there is no overriding theoretical reason to select one rather than another. In this study, total assets was utilised as the proxy measure for a commercial bank’s size (**SIZE**).

6.8.3 Commercial bank liquidity position (LQDP)

Commercial bank liquidity is an important factor in enhancing a bank’s business activity and determines the bank’s ability to deal efficiently with decreases in deposits and other liabilities. Moreover, the liquidity ratio will assist investors, depositors and regulators in their predictions and assessment of bankruptcy and a company’s going-concern status (Owusu-Ansah, 2005).

Several empirical disclosure studies have found a positive association between liquidity and the level of information disclosed in the company’s annual reports (e.g. Owusu-Ansah, 2005; Alsaeed, 2006). On the other hand, other previous disclosure studies have found no positive relationship between liquidity and the extent of mandatory disclosure. For example, Wallace et al. (1994) found firm liquidity to be a significantly negative explanatory variable.

As they argue, companies with lower liquidity ratios tend to view their results as bad news and probably consider the provision of more details as part of their accountability

to shareholders and other users of their annual reports. Wallace et al. (1994) added that it is more likely that the managers of high liquidity companies: (i) feel that shareholders are satisfied with the results and do not require additional information; and (ii) do not want to disclose additional detail that will have to be continued in succeeding years.

A further empirical study by Wallace and Naser (1995) found no positive relation between firm liquidity and comprehensive disclosure. In other empirical evidence, Owusu-Ansah (1998) found that the liquidity of the firm is statistically insignificant. Furthermore, in a more recent empirical study by Galani et al. (2011) company liquidity was found to be insignificant in explaining the variation of mandatory disclosures in the annual reports of non-financial Greek firms. In fact, the entirety of these empirical research findings came from non-banking companies. So far, there is no conclusive empirical evidence to support the hypothesised relationship between liquidity position and the extent of voluntary disclosure in annual reports.

Based on the previous empirical results, it is possible to predict that commercial banks with strong liquidity disclose more detailed information in their annual reports than commercial banks with weaker liquidity. To determine whether or not the liquidity of a commercial bank has an impact on the extent of voluntary disclosure, the third research hypothesis is formulated as follows:

H3: Commercial banks with a higher liquidity position disclose more information voluntarily than do commercial banks with a lower liquidity position.

In this study, commercial bank liquidity position (**LQDP**) is measured as the ratio of current assets divided by current liabilities at the end of the financial year.

6.8.4 Profitability of the commercial bank (PRFT)

The influence of profitability on the level of information disclosure in corporate annual reports is well documented in disclosure literature (e.g. Singhvi and Desai, 1971; McNally et al., 1982; Wallace and Naser 1995; Raffournier, 1995; Inchausti, 1997; Ansah, 1998; Akhtaruddin, 2005; Owusu-Ansah, 1998; Owusu-Ansah, 2005; Hossain and Taylor, 2007; Ghazali, 2007; Hossain, 2008). However, past empirical disclosure studies have produced mixed results on the relationship between profitability and the extent of companies' disclosure. For example, Singhvi and Desai (1971) show a

significant positive relationship between these two variables. Further, Owusu-Ansah (1998) reports a significant positive relationship between profitability and mandatory disclosure.

In contrast, McNally et al. (1982) examined the correlation between company profitability and the extent of voluntary disclosure, finding no significant association between the two. Similarly, Wallace and Naser (1995) did not find any positive relationship between disclosure level and profitability of the firm. A further empirical study by Akhtaruddin (2005) found no relationship between profitability and the level of corporate disclosure. The finding of his study was consistent with Raffournier (1995) and Inchausti (1997) whose results revealed that firm profitability was not significantly associated with the extent of information disclosure.

A more recent study by Rouf (2010) found that the extent of voluntary information disclosure by listed non-financial companies of Bangladesh is not positively associated with their profitability. Moreover, Galani et al. (2011) report that a significant relationship between a firm's profitability and its level of mandatory disclosure does not exist. In a similar vein, previous empirical research on commercial banking voluntary disclosure by Hossain and Taylor (2007) shows no statistically significant relationship between the extent of voluntary disclosure in the annual reports of Bangladeshi commercial banks and the profitability variable.

In contrast, a study by Hossain (2008) found a significant positive relationship between the aggregate disclosure levels in the annual reports of listed banking companies in India and their profitability. Agency theory would suggest that the management of very profitable companies would disclose additional information in order to obtain personal advantages such as continuance of their positions and compensation arrangements (Inchausti, 1997).

It is also argued, in the disclosure literature, that higher profitability motivates companies' managers to disclose greater information since it increases investors' confidence, which in turn, increases managers' remunerations (Rouf and Harun, 2011). A company in good financial condition is expected to provide more extensive information disclosure than a company in poor financial condition (Cormier and Magnan, 1999). Based on the argument of signalling theory, managers of superior performance

companies use corporate disclosure to send signals to shareholders and the capital market.

As Hossain and Taylor (2007) argue, a commercial bank with higher profits feels more comfortable in disclosing additional information than does a bank with lower profits. However, there is no critical evidence to support the idea that a profitable commercial bank is more willing to provide more information in its annual reports to the general public than a commercial bank with lower or negative profit. Thus, the fourth research hypothesis can be formulated as follows:

H4: Commercial banks with higher profit are more likely to disclose greater voluntary information than are commercial banks with lower or negative profit.

Previous researchers in this area have suggested a number of measurements such as Return on Sales (ROS), Return on Total Assets (ROA), Return on Equity (ROA), and Return on Capital Employed (ROCE), for use as proxies for profitability. In this study, the commercial bank's profitability (**PRFT**) is measured by (ROA), the amount of profit after tax for a financial period as a percentage of the assets of a commercial bank (the net profits divided by total assets).

6.8.5 Government ownership (GOVR)

A number of empirical disclosure studies have tended to assess the influence of government ownership on the extent of corporate voluntary disclosure. As an example, Makhija and Patton (2004) investigated the effect of government ownership on the extent of voluntary financial disclosure by Czech firms. They found that government ownership is a significant determinant of the overall extent of disclosure. In other empirical evidence, Ghazali (2007) examined the impact of government ownership on corporate social responsibility disclosure in Malaysian company annual reports. He found that there is a significant positive relationship between the level of disclosure and government ownership.

A more recent study by Said et al (2009) examined the relationship between corporate governance characteristics, namely board size, board independence, duality, audit committee, ten largest shareholders, managerial ownership, foreign ownership and

government ownership, and the extent of voluntary disclosure. They found that the most significant variable that influences the level of voluntary disclosure is government ownership.

As separation of ownership and control increases, managers of companies are more likely to convene to provide additional information relevant to an assessment of their outcomes (Creswell and Taylor, 1992). In this regard, agency theory suggests that where there is a separation between company owners and control, the potential for agency costs arises because of incentive conflicts between managers and shareholders (Hossain et al., 1994; Raffournier, 1995). Hence, managers of companies with large shareholders would voluntarily disclose more information as a means to mitigate agency conflict with companies' shareholders.

Ghomi and Leung (2013) affirmed that a company with a lower ownership concentration has a larger number of shareholders than a company with a high ownership concentration. Thus, state-owned corporations are characterised as a high ownership concentration, so managers may have no incentive to disclose more information. It is because the determined ownership structure provides managers of state-owned companies with lower incentives to voluntarily disclose information to meet the needs of no dispersed shareholders groups (Rouf, 2011).

However, previous voluntary disclosure studies have shown a positive relationship between the extent of voluntary disclosure and government ownership, with the exception of Ghazali and Weetman (2006), who found a negative relationship between government ownership and the extent of voluntary disclosure.

It was commonly believed that government-owned commercial banks tend to be less competitive compared to privately owned commercial banks because government ownership often reduces profitable orientation. Accordingly, private commercial banks are expected to disclose more detailed information in their annual reports than government-owned commercial banks. However, it was argued that a company in which the government is a considerable shareholder will disclose more voluntary information in their annual reports (Ghazali, 2007). In addition, Naser et al (2002) pointed out that government participation in the ownership of a company's shares can be viewed as a

supervising mechanism that may affect the quality of information disclosure in the annual reports.

The government ownership variable has not yet really been tested in relation to the level of voluntary disclosure in the annual reports of listed and unlisted Libyan commercial banks. Thus, this study attempts to explore whether the overall level of voluntary disclosure of information is associated with the commercial bank government ownership structure. Hence, the fifth research hypothesis is formulated as follows:

H5: There is a significant association between the extent of information voluntarily disclosed in the annual report and government ownership.

In this study, a sample of commercial banks is divided into two main groups. The first group includes commercial banks in which the Libyan government and its agencies have ownership of more than 50% of the issued shares; these commercial banks are considered as being state-owned. Another group includes commercial banks in which the Libyan government and its agencies own 50% or less of the issued shares; these commercial banks are considered as being private.

6.8.6 Foreign ownership (FOWN)

Previous disclosure literature reports a strong relationship between the extent of disclosure in corporate annual reports and foreign ownership. Previous empirical voluntary disclosure studies (e.g. Haniffa and Cooke 2002; Haniffa and Cooke 2005; Barako et al., 2006; Wang et al., 2008; Huafang and Jianguo, 2007) found that companies with more foreign shareholding disclose more information voluntarily. For instance, Barako et al., (2006) examined the association between foreign ownership and the level of information voluntarily disclosed by listed Kenyan companies.

The result indicates that foreign ownership is significantly associated with the extent of voluntary disclosure. In addition, Wang et al., (2008) examined empirically the determinants of voluntary disclosure in the annual reports of Chinese listed firms; they found that the level of voluntary disclosure is positively related to the proportion of foreign ownership. More recently, Bokpin and Isshaq (2009) examined the relation between corporate voluntary disclosure and foreign share ownership on the Ghana Stock Exchange.

The results indicate a statistically significant interaction between corporate disclosures and foreign share ownership among the sample firms. In contrast, empirical research by Naser et al., (2002) found there was no association between foreign ownership and the extent of disclosure in corporate annual reports. Furthermore, Said et al. (2009) reported no association between the extent of voluntary disclosures and foreign ownership.

Agency theory argues that in a diffused ownership environment, companies have more incentives to provide additional financial and non-financial information in their annual reports to reduce agency costs and information asymmetry (Ho and Wong, 2001). It could be argued that companies with a greater number of shareholders might be expected to have more information in their annual reports, than those companies with a smaller number of shareholders.

In the Libyan commercial bank context, the banking sector liberalisation and privatisation recently undertaken by the Libyan government gave opportunities for foreign investors to buy shares in state-owned commercial banks. Owusu-Ansah (1998) suggests that companies with foreign ownership are likely to have more sophisticated financial reporting systems that facilitate greater disclosure in their annual reports than companies with non-foreign ownership. However, he argued that the capability of a block of foreign owners to positively influence disclosure practices depends on the size of other block holder stakes (Makhija and Patton, 2004). As appears from the above discussion, previous empirical studies that investigated the relationship between foreign ownership and the extent of disclosure have provided mixed results.

In Libya, totally foreign ownership is not allowed in the banking sector; as a part of the privatisation programme, in 2007 the CBL allowed foreigners to own up to 19% of the shares in two previously wholly government-owned commercial banks and one private commercial bank (Sahara Bank, Wahda Bank, and Commerce and Development Bank). Since then, there has been no empirical evidence reported relating to influence of the presence of foreign owners within Libyan commercial banking sector on the extent of voluntary disclosure.

Accordingly, in the current study it is expected that partially foreign ownership will be positively associated with the extent of voluntary information disclosure in annual

reports of Libyan commercial banks. Hence, the sixth research hypothesis is formulated as follows:

H6: there is a positive association between the extent of information voluntarily disclosed in the annual reports and foreign ownership.

Foreign ownership (**FOWN**) in this study will be represented by a dummy variable; if the commercial bank's shares are totally or partly foreign-owned, it takes a value of one, otherwise it takes a value of zero.

6.8.7 Listing status (LISTS)

Prior studies have argued that listed companies are more likely to disclose more financial and non-financial information in their annual reports than unlisted companies. Several empirical studies have shown that there is a positive relationship between listing status and disclosure levels (e.g. Singhvi and Desai, 1971; Cooke, 1989a; Cooke, 1991; Malone et al., 1993; Wallace et al., 1994; Hossain et al., 1995; Inchausti, 1997; Abdul Hamid, 2004). For instance, Wallace et al. (1994) reported that comprehensive disclosure increases with listing status. Further, Abdul Hamid (2004) provides empirical evidence that companies listed in the stock market disclose more detailed information than unlisted companies.

Additionally, Singhvi and Desai (1971) examined the relationship between listing status and the extent of corporate disclosure in the United States. Singhvi and Desai found that there is a significant association between the extent of information disclosure and listing status. Similarly, Cook (1989a) tested the association between listing status and extent of corporate annual disclosure in Sweden. He found that there is a significant association between the extent of disclosure and listing status.

Moreover, Malone et al. (1993) also find a significant positive relationship between listing status and the level of information disclosure by oil and gas companies. However, an empirical study conducted by Buzby (1975) indicated no significant positive association between listing status and the extent of information disclosure in the corporate annual reports.

Listed companies are likely to disclose more information than unlisted companies for two reasons (Raffournier, 1995); first, listed companies have to comply with minimum

disclosure requirements of market regulatory authorities; in addition to this mandatory disclosure, listed companies may also voluntarily provide extra information in order to give more confidence to investors and thus obtain better financing conditions.

Agency theory suggests that the extent of information disclosure in annual reports may vary with listing status (Cook, 1991). As Firth (1979) indicated that minimum disclosure requirements of listed companies in the stock exchange are slightly higher than non-listed companies. Therefore, this study attempts to examine the relationship between listing status in the LSM and the level of voluntary information disclosure in the annual reports of a commercial bank. The fifth research hypothesis is established as follows:

H7: There is a positive association between the commercial bank listing status in the Libyan stock market and the level of information voluntarily disclosed in the annual report.

The listing status (**LISTS**) variable will take the following values:

Listing = 1 if the commercial bank is listed in the LSM.

Listing = 0 if the commercial bank is unlisted in the LSM.

6.9 Statistical Analysis Techniques

A number of statistical techniques can be utilised to analyse data and to test the research hypotheses. Univariate and multivariate analysis techniques have been widely used by researchers in previous studies to test the relationship between the extent of disclosure in annual reports (dependent variable) and the company specific-characteristics (independent variables) (see e.g. Hossain et al. 1994; Cooke, 1989a; Akhtaruddin, 2005; Owusu-Ansah, 1998; Owusu-Ansah, 2005; Hossain and Reaz, 2007; Hossain, 2008). In this study, both univariate and multivariate statistical analyses are performed to investigate the correlation between the extent of voluntary disclosure and commercial bank attributes. The following subsections outline these statistical techniques.

6.9.1 Univariate analysis

Univariate analysis is used to examine the correlation between a single independent variable and the extent of voluntary disclosure (dependent variable). This study applies two types of univariate analysis, descriptive analysis for dependent and independent

variables which include mean, standard deviation, minimum, maximum, skewness, and Kurtosis. The second univariate analysis is a correlation analysis (i.e. Spearman's rank). Non-parametric univariate test, Spearman's rank (Spearman's rho) correlation coefficient is performed to investigate the significant relationship between the extent of voluntary disclosure in annual reports (dependent variable) and each of the commercial bank characteristics (seven independent variables). Correlation coefficient is the statistic tool that describes how strongly variables are related to one another (Brown et al. 1989 p. 255).

According to Marczyk et al. (2005, p. 219) Spearman rank-order (r_s) can be used to examine the relationship between two variables measured on ordinal scales (such as, a correlation of class rank (ordinal) and socioeconomic status (ordinal)). It is also a suitable measure of the correlation between two variables when outliers, non-normality, nonconstant variance, and nonlinearity may exist between the two variables being investigated (Hintze and Kaysville, 2007). An alternative parametric test, namely the Pearson correlation coefficient, is excessively influenced by outliers, unequal variances, non-normality, and nonlinearities (Hintze and Kaysville, 2007).

It is notable that prior disclosure studies which applied both non-parametric and parametric tests on the same data, yielded similar numerical results. For example, Hossin et al. (1994) employed both statistical tests in the univariate analysis, to examine the correlation between the extent of disclosure and a company's characteristics. They revealed that the results are similar to each other. As a result of these the Spearman correlation coefficient is chosen in this study to investigate the association between variables.

6.9.2 Multivariate analysis

Multivariate analysis "refers to a group of statistical techniques for handling three or more variables at a time" (Kervin, 1992, p. 614). More specifically, multivariate analysis is concerned with testing the linear relationship between a single (dependent or response variable) and a combined set of (independent or predictor variables). Multivariate techniques have emerged as a powerful tool to analyse data represented in terms of numerous variables (Kothari, 2004). According to Rencher (2002, p. xv) the multivariate analysis is more powerful than the univariate analysis and enables the

researcher to (1) explore the combined performance of the variables and (2) determine the impact of each variable in the presence of the others.

In this context, Hossain et al. (1995, p. 78) state that the multivariate analysis is considered to be more appropriate to assess the simultaneous effect of a company's characteristics on the extent of overall voluntary disclosure. The multivariate Ordinary Least Squares (OLS) model has been frequently used in many previous disclosure studies to assess the effect of corporate specific-characteristics on the extent of different disclosure levels (e.g. Hossain et al., 1994; Wallace et al., 1994; Hossain et al., 1995; Raffournier, 1995; Wallace and Naser, 1995; Owusu-Ansah, 1998; Depoers, 2000; Akhtaruddin, 2005; Hossain and Reaz, 2007; Kumar et al., 2008; Hossain, 2008). The OLS as defined by Hair et al. (2007, p. 374) "is a relatively simple mathematical technique that makes sure the straight line will best represent the relationship between the multiple independent variables and the single dependent variable".

It means that the multiple regression model can be used to predict a single dependent variable from a set of many independent variables. Hence, the multivariate OLS longitudinal panel model with robust standard errors is used in this study to test the simultaneous effect of seven commercial bank attributes (i.e. age of bank, size of bank, bank liquidity position, profitability, government ownership, foreign ownership, and listing status) on the extent of overall voluntary disclosure, and determine which of those seven independent variables are significant in explaining the variations in the voluntary disclosure levels among Libyan commercial banks. The multivariate OLS regression model will be represented by the following equation:

$$\mathbf{TVDIS} = \beta_0 + \beta_1\mathbf{AGE} + \beta_2\mathbf{SIZE} + \beta_3\mathbf{LQDP} + \beta_4\mathbf{PRFT} + \beta_5\mathbf{GOVR} + \beta_6\mathbf{FOWN} + \beta_7\mathbf{LISTS} + \epsilon$$

Where:

TVDIS = the total voluntary disclosure index score (dependent variable)

AGE = Age of commercial bank

SIZE = Size of commercial bank

LQDP = Liquidity position of commercial bank

PRFT = Profitability of commercial bank

GOVR = Government ownership, dummy variable

FOWN = Foreign ownership, dummy variable

LISTS = Listing status, dummy variables

β = regression model coefficients (parameters).

β_0 , = constant or intercept

ϵ = error term.

As discussed previously in this chapter in section (6.7.1.2), the dependent variable (TVDIS) is expressed as a ratio and is thus bound to lie within the range zero to one. Since the dependent variable is a dichotomy, using a dichotomous dependent variable in the OLS regression model is considered inappropriate because the model assumes an unconstrained dependent variable (Ahmed and Nicholls, 1994).

It means that when the dependent variable has values that fall between zero and one then the multivariate OLS model becomes an ineffective estimation technique. As noted by Garson (2012), a dichotomies dependent variable should not be used in procedures, such as OLS regression, which assume a normally distributed dependent variable.

A logit transformation of the dependent variable can be used to counter this issue. Cooke (1998, pp. 211-212) pointed out that “the dependent variable is a metric ratio and therefore can be legitimately transformed, where necessary, and used in regression analysis”.

In consistence with previous empirical disclosure studies (e.g. Cooke, 1998; Ahmed and Nicholls, 1994), before running the OLS linear regression analysis, the natural logarithmic transformations of the TVDIS is performed in order to satisfy the assumption of normality for the OLS linear regression model. As emphasised by Tabachnick and Fidell (2007, p. 92) transformation of variables is usually preferable and reduces the number of outliers; it is likely to produce normality, linearity, and homoscedasticity among the variables.

In addition, transformation of data as a common tool can be used to improve normality of a distribution and balancing variance to meet assumptions as well as improve effect sizes (Osborne, 2010). Additionally, Cooke (1998, p. 210) argues for the supportive use of data transformation:

Transformation of data is useful in regression analysis when the relationship between the dependent and independent variables is inherently non-linear, when the distribution of the errors is not approximately normal, and where there are problems of heteroscedasticity or non-independence of the error terms.

Table 6.7 represents the seven independent variables, their proxies and notations used in the OLS longitudinal panel regression model.

Table 6.7: Summary of independent variables, their proxies and notations used in the OLS regression model

Independent Variables	Proxies of Independent Variable	Notations	Source of Information
Age of Commercial Bank	Number of years it has been in operation since its inception up until 2011	(AGE)	Commercial bank annual reports
Size Commercial Bank	Natural logarithm of commercial bank's total assets	(SIZE)	Commercial bank annual reports
Commercial Bank Liquidity Position	Current Ratio (current assets divided by current liabilities)	(LQDP)	Commercial bank annual reports
Profitability	Return on Assets (ROA) (net profit divided by total assets)	(PRFT)	Commercial bank annual reports
Government Ownership	Dummy variable with one value if Libyan government or its agencies owned 50% or more of the capital; and 0 if not	(GOVR)	Central Bank of Libya
Foreign Ownership	Dummy variable with one value if the commercial bank's shares are totally or partly foreign-owned, or zero if not	(FORN)	Central Bank of Libya
Listing Status	Dummy variable with one value if the commercial bank is listed or zero if unlisted	(LISTS)	Libyan Stock Market

6.10 Summary and Conclusions

This chapter has discussed in detail the research methodology and methods employed in this study to answer research questions and also to test the research hypotheses. It has begun to explain the difference between research methodology and methods. Further, it has also discussed the research philosophy, approach and strategy, including justifying the reasons for the choices for the current study. It has also explained the process of

selection of the study sample and the method of collecting the annual reports as well as selection interviewees.

Moreover, it has described the research instrument and processes followed to measure the extent of voluntary disclosure in the annual reports for each sampled commercial bank. A self-disclosure scoring sheet comprising 63 voluntary disclosure index items is designed and then the dichotomous procedure is chosen to obtain a commercial bank's disclosure score for each year's period studied. The semi-structured interview process has also been outlined in this chapter.

Additionally, it has presented the development and formulation of the research hypotheses to be tested in the current study. Finally, it has briefly described and justified the statistical analysis techniques that have been adopted to test the research hypotheses.

The following two chapters, Seven and Eight, will include the analysis of the results of empirical research. Chapter Seven reports the results of the semi-structured face-to-face interviews; Chapter Eight is devoted to providing results of empirical analysis of measuring the extent of voluntary disclosure in the annual reports of Libyan listed and unlisted commercial banks over the period of 2006-2011, as well as the statistical results of the research hypotheses testing.

Chapter Seven

Views and Perceptions of Libyan Commercial Banks' Annual Reports Preparers Related to Financial Reporting and Voluntary Disclosure Issues

7.1 Introduction

The principal purpose of this chapter is to address the fourth research question i.e. what are the views and perceptions of Libyan commercial banks' annual reports preparers related to the current mandatory financial reporting and voluntary disclosure issues. Specifically, this chapter is devoted to the report and discussion of the results of the semi-structured face-to-face interviews with six directors of accounting departments in Libyan commercial banks who are involved directly in the preparation of Libyan commercial banks' annual reports.

This chapter has been organised as follows. Section (7.2) highlights the objectives of semi-structured face-to-face interviews. Section (7.3) presents and discusses the respondents' views and perceptions on the current Libyan commercial banking annual financial reporting and mandatory disclosure practices. Section (7.4) analyses and reports on the preparers' views of voluntary disclosure in commercial banks' annual reports. The final section of this chapter (7.5) provides the summary and conclusion of the chapter.

7.2 Objectives of Semi-Structured Interviews

The face-to-face semi-structured interviews were carried out to achieve the following key objectives:

1. To gain a deeper and further insight into the current annual financial reporting and mandatory disclosure practices.
2. To explore the respondents' views on factors influencing commercial banking voluntary disclosure.
3. To gather insight into significant issues that are not well understood related to the nature of commercial banking voluntary disclosure.

4. To apply the evidence assembled from the interviews to support the interpretation of the findings from the quantitative analysis.

7.3 General Views on Annual Financial Reporting and Mandatory Disclosure Practices

Interview questions were divided into two primary parts (see Appendix 3), the first part includes three main questions and purposes of exploring the views of the interviewees about the current state of financial reporting and mandatory disclosure practices by Libyan commercial banks. The following subsection will present and analyse the respondents of the interviewees to these questions.

7.3.1 Views on preparation and presentation of financial annual reports

This subsection reports the interviewees' responses to questions about preparation and presentation of Libyan commercial banks' financial annual reports. The interviewees were asked to explain how their commercial banks prepare their annual financial statements and other external financial reports, they were also asked to raise any other issues relating to financial reporting and mandatory disclosure practices. The key aim of this question is to gather more insight into the legal disclosure requirements concerning the form and content of financial statements and other annual financial reports that are required to be disclosed to external stakeholders.

The answers obtained from the participants in the interviews relating to preparation and presentation of commercial banks' financial statements and other external financial reports are represented in detail in the following paragraphs. Libyan commercial annual reports' preparers were asked whether their commercial banks consider specific national accounting standards laid down in national regulations or legislations when preparing annual accounts and financial statements.

All the six Libyan commercial bank annual reports' preparers who were interviewed indicated that they there are no specific national accounting standards laid down by national regulations or legislations required to be followed to prepare their annual financial reporting. However, they further stressed that there are a number of directives and resolutions issues promulgated from time to time by the Central Bank of Libya, which must to be taken into account when preparing the different commercial bank

accounts and reports. The following comment by CB1 indicates the interviewees' views regarding this issue,

“Until now there are no enforcement national accounting standards and no compulsory accounting rules to be followed by accountants to prepare the bank financial reporting...in some cases we have to follow the directives issued by Central Bank of Libya”.

In addition, the interviewees were asked whether they consider standards or disclosure requirements of international organisations (i.e. IASs/IFRSs, the Basel Committee's guidelines), at first no accurate answers were given by almost of the interviewees, after the researcher rephrased the question and provided them with further explanations, some of participants gave their answers with slight clarifications. For example, one of the participants in the interviews (CB6) said that

“International Financial Reporting Standards are not imposed on commercial banks by Libyan Banking Laws and therefore we have no obligation to apply them. From the other side the lack of accounting infrastructure and professionalism in Libya makes it difficult to be adopted at the present time”.

Most interviewees pointed out that they use Generally Accepted Accounting Principles (GAAP) to prepare their annual consolidated financial statements. In fact, GAAP were not specified or defined by either the Banking Law 2005 or the Libyan Commercial Laws. Furthermore, commercial banks annual reports' preparers were asked whether there are any compulsory disclosure items required for inclusion in the contents annual reports; all of the interviewees stressed that no particular information items were legally required to be published for external users of commercial banks' annual reports. One of the respondents, BC2 stated;

“At the present time...our commercial banks are legally required to submit a copy of its audited annual consolidated financial statements within four months of the end of the fiscal year with other statements and clarifications to Central Bank of Libya for its own purpose and use we are also required by Banking Law 2005 to display a copy of our consolidated financial statements to general public in the head office and at all of our branches,...I can say that commercial bank management is responsible for the preparation its consolidated financial statements in their own format, but from the financial year beginning on the first of January 2011, the management of the commercial bank were asked to prepare its consolidated financial statements according to the formats provided by Central Bank of Libya”.

It was clear from the interviews carried out with commercial banks' annual reports preparers that there is currently no applicable financial reporting framework identified in the Banking Law 2005 and other regulations can be adopted by Libyan commercial banks to prepare their annual accounts and financial statements.

7.3.2 Views on the publication of annual reports

The commercial bank accounts' preparers were also asked to provide their views on the types of financial statements and other sections of the annual report that they currently publish to the general public. The following Table 7.1 below displays different sections of financial annual report published by Libyan commercial banks as indicated by interviewees.

Table 7.1: Sections of annual report published by Libyan commercial banks

Sections of Financial Annual Report	CB1	CB2	CB3	CB4	CB5	BC6	(6)
Balance Sheet	✓	✓	✓	✓	✓	✓	6
Profit and Loss Account	✓	✓	✓	✓	✓	✓	6
Auditor's Report	✓	✓	✓	✓	✓	✓	6
Notes to the Financial Statements	✓	✓	✓	✓	✓	✓	6
Statement of Cash Flows		✓					1
Board of Directors' Annual Reports	✓	✓	✓	✓	✓	✓	6

Note:

1. BC1= a large state-owned commercial bank (listed); BC2= a medium state-owned commercial bank (listed); BC3= a medium state-owned joint-stock commercial bank (listed); BC4= a private medium-sized commercial bank (listed); BC5= a medium state-owned commercial bank (unlisted); BC6= a private small-sized commercial bank (unlisted).

Table 7.1 shows that all Libyan commercial banks (listed and unlisted) surveyed published annually to their shareholders, balance sheet, profit and loss account, auditor's report, notes to the financial statements, and board of directors' reports, only one of the interviewees, CB2 claimed that its commercial bank also prepares an annual statement of cash flow and publishes it to the bank's shareholders. However, all of the interviewees asserted that the audited annual consolidated financial statements (balance sheet and profit and loss account statement) are the only sections of financial annual report that are legally required by Banking Law, No 1 of 2005 to be published to the

general public within four months of the end of its fiscal year. Amongst others, for example, CB1 states:

“We are required each year by Banking Law, No 1, 2005 to prepare and publish annual audited consolidated financial statements to the general public no more than four months after the end of the fiscal year, but we also annually published other sections of financial annual report to our shareholders on a voluntary basis such as board of directors’ reports, auditor’s report, quarter-yearly balance sheet statement, and quarter-yearly profit and loss account statement”.

In addition, some of the respondents mentioned that listed commercial banks are required to prepare and submit their audited annual consolidated financial statements and must be accompanied with the auditor’s report, board of directors’ reports, quarter-yearly balance sheet statement, and quarter-yearly profit and loss account statement to LSM. They also asserted that there are no legal requirements as to the format and content of such statements by either the Banking Law 2005 or LSM rules.

Overall, it seems clear from the respondents’ answers that Libyan commercial banks were required by Banking Law 2005, publishing only their audited annual consolidated financial statements to the general public (i.e. balance sheet and profit and loss account statement) and no additional sections of annual financial report were subject to compulsory disclosure. Only listed commercial banks are required to prepare and submit their audited annual consolidated financial statements with the auditor’s report, board of directors’ reports, quarter-yearly balance sheet statement, and quarter-yearly profit and loss account statement to LSM.

As asserted by all the participants’ in the interviews there are no specific information items that are required to be revealed in the audited consolidated financial statements or other accounts either by Baking Law 2005 or LSM rules. Other sections of annual financial report were disclosed by the majority of Libyan commercial banks to their external stakeholders on a voluntary basis (i.e. auditor’s report, notes to the financial statements, and board of directors’ reports).

7.3.3 Views on the need for the development of the current financial reporting and mandatory disclosure practices

Commercial banks annual reports’ preparers were asked to provide their views on the need for the development of the Libyan’s commercial banking current financial

reporting and mandatory disclosure practices. The interview respondents mainly agreed that the current financial reporting and mandatory disclosure practices by Libyan companies in general and in the financial institutions in particular still did not reach the same level of development that was being achieved by the most of the Arabic countries which have similar socio-economic, environmental conditions. This was due to the absence of enforcement of national accounting standards and insufficient disclosure laws and regulations.

The majority of the participants in the interviews emphasised that more effort was urgently needed to be undertaken by Libyan authorities to provide the necessary laws and regulations in order to improve the system of financial reporting and financial disclosure. For example, one of the interviewees, CB2, stated:

“I can say that the existing financial reporting and disclosure practices in Libya still not regulated compared to other Arabic countries... no serious efforts have been taken until now to regulate the financial reporting and public disclosure practices”.

Another interviewee has shared the same view, CB4 stressed that

“Indeed, the absence of national accounting standards and a lack financial reporting system and disclosure regulations in Libya had a negative impact on the quality of the financial reports and I hope this matter will demand more attention by local authorities in the near future”.

This would suggest that there is no legal framework or guidelines for the preparation of Libyan’s commercial banks’ annual consolidated financial statements or other financial reports as well as a lack of national accounting standards that can be adhered to by banks or auditors. One interviewee (CB1) believes that *“...without sensational economic and legal environment reforms it would be difficult to improve the current banking financial reporting and public disclosure practices in Libya”.* This interviewee implies that establishing a good financial reporting system and disclosure practice is influenced by other country aspects.

In summary, this section has explored commercial banks’ annual reports preparers’ views and perceptions on the current financial reporting and mandatory disclosure practices. The interviewees were generally of the opinion that the current financial reporting and mandatory disclosure practices by Libyan commercial banks compared to other international practices are still not robust enough, regulated enough and display a

lack accounting regulation on the disclosure requirements to satisfy the information needs of external stakeholders. The following is a brief outline the key findings of the interviews:

- All of the interviewees indicated that only the audited consolidated financial statements (balance sheet statement and profit and loss account) annually must be published to the general public according to Banking law No 1, 2005. Listed commercial banks only were required by LSM rules and regulations to publish their annual audited consolidated financial statements with the auditor's report, quarter-yearly balance sheet statement, and quarter-yearly profit and loss account statement.
- The participants have pointed out that there is no required supplementary information to be disclosed with the audited consolidated financial statements to the general public.
- All of the respondents asserted that there is no specific information items required to be disclosed in the face of consolidated financial statements or other accounts either by banking law or LSM regulations.
- Most of interviewees mentioned that the Generally Accepted Accounting Principles (GAAP) are the only standards currently applied in preparing their consolidated financial statements.
- All of the participants in the interviews asserted that they voluntarily published auditor's report, notes to the financial statements, and board of directors' annual reports as well as quarter-yearly balance sheet statement and quarter-yearly profit and loss account statement.
- The participants revealed that Libyan's authorities needs to adopt more regulations to improve the financial disclosure within the commercial banking sector.

7.4 Preparers' Views on Voluntary Disclosures in Annual Reports

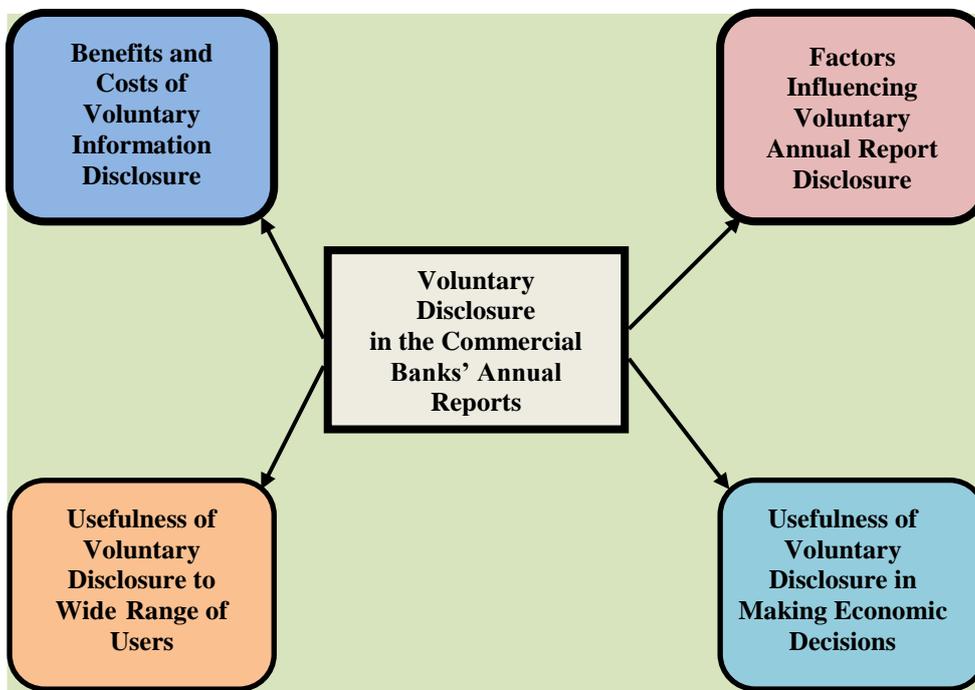
The preceding section has reported the interviewees' responses on a number of issues related to the current annual financial reporting and mandatory disclosure practices by Libyan commercial banks. Part two of the semi-structured interview questions guide contains six questions that were used to explore the interviewees' views and perceptions

about issues relating to voluntary disclosure in annual reports. It therefore the aim of this section to analyse and discuss the interview responses to these questions.

It should be noted that the questions included in the interview questions guide were not set to be answered by each question, in some cases there were more than two questions, aiming to gain more insights about the same theme. For example, questions two and three aim to explore the interviewees' perceptions related to the benefits and costs of voluntary disclosures in annual reports (see Appendix 3).

Part two of the interview questions were put forward to cover four themes as illustrated in Figure 7.1. The participants' answers to part two questions are presented in the following subsections. Subsection (7.4.1) reports the interviewees' responses about the factors influencing commercial banking voluntary disclosure. Subsection (7.4.2) analyses and discusses the participants' answers related the benefits and costs of voluntary disclosure for a commercial bank. Subsection (7.4.3) explores and presents preparers' views about the usefulness of voluntary disclosure in making economic decisions. Subsection (7.4.4) discovers and reports preparers' perspectives on the usefulness of voluntary disclosure to a wide range of users.

Figure 7.1: Voluntary disclosure in the commercial banks' annual reports



7.4.1 Factors influencing voluntary annual report disclosure

The participants in the interviews have suggested a number of institutional and environmental factors that have an influence on the level of voluntary information disclosed in the annual reports of Libyan commercial banks. The interviewees' responses related to factors influencing banking voluntary disclosure and are summarised in Table 7.2 and discussed in detail in the following subsections.

Table 7.2: Factors influencing voluntary annual report disclosure: preparers' views

	CB1	CB2	CB3	CB4	CB5	CB6	(6)
Competition in the banking industry	✓	✓	✓	✓	✓	✓	6
Commercial bank size	✓	✓	✓	✓	✓		5
Profitability	✓	✓	✓	✓	✓		5
Commercial bank age	✓	✓	✓				3
Government ownership	✓	✓	✓		✓		4
Liquidity position	✓	✓	✓				3
Foreign ownership			✓		✓		2
Listing status		✓		✓			2

7.4.1.1 Competition in the commercial banking industry

According to almost all of the interviewees' perspectives, increased competition among commercial banks had a major influence on the extent of voluntary information disclosure in annual reports. The majority of the respondents believed that Libyan commercial banks nowadays have large-scale worldwide operations and significant participation in the international markets. They are currently facing a greater and stronger competitive environment than ever before, which has had a great impact on the quality and quantity of information needed to be disclosed.

In addition to this, some of the interviewees indicated that as a result of recent worldwide economic and banking system changes, post the global financial crisis, the Libyan commercial banking sector has also been affected in terms of increasing information disclosure and to change their traditional disclosure policy. The following comments reveal these views:

"...as a result of worldwide economic and banking system changes after the financial crisis, it has become imperative for local our commercial banking sector to take into account these changes in order to develop its performance

and its business and maintain its ability to compete in global markets. This forced us to change our traditional disclosure policy and encouraged us to disseminate additional information to maximise returns and attract the largest possible number of clients” (CB3).

“I think that the globalisation of banking activity, banking liberalisation of services, and increasing the competition in the commercial banking industry have influenced the type and the extent of information disclosure. Indeed ...we paid more attention in the recent years to the quantity and quality of information published in our commercial bank’s annual financial reports” (CB6).

From another point of view, one of the interviewees (BC4) expressed that

“... There is no doubt that voluntary disclosure can help our commercial bank to increase its reputation among banks and enhance its competitive advantage... Nonetheless publishing more detailed information also may create very great risks to our bank competitive position”.

Although this factor tends to play a significant role in voluntary annual reports disclosure decisions, as perceived by all the participants in the interviews, it was not included in the statistical models because of the difficulty in finding a suitable proxy.

7.4.1.2 Commercial bank size

The size of the commercial bank was identified by almost all of commercial banks annual reports’ preparers interviewed (5 out of 6) as an additional key factor influencing the level of voluntary disclosure. The majority of the interviewees believed that large commercial banks are more motivated to provide more detailed information than smaller commercial banks because they have more institutional ownership and more public relations, as expressed in the following comments:

“...We have a larger number of branches, employees, clients, and shareholders and are providing a wide range of banking services which require us to provide a wide range of information and further detailed information in our published annual financial reports to satisfy the needs of all these groups” (BC2).

“I think that big commercial banks have more capacity than small banks to involve in the business of securities underwriting, granting real estate loans, and, granting of credit and advances...big banks also have a high number of depositors and shareholders, which puts more pressure on the management of these banks to provide more reliable information in the published annual reports in order to meet the information needs of these groups” (BC1).

That implies that the larger commercial banks are more willing to disclose additional voluntary information in their annual financial reports than smaller banks in order to meet the requirement of external stakeholders.

It is worth noting that all of the commercial banks' annual reports preparers interviewed have had different view about the terms of commercial bank size, some of them believe the size of commercial bank can be measured by the number of the bank's branches, others consider the number of employees working in the bank, but almost all of the interviewees agreed that the total assets possessed by a commercial bank is the most accurate representation of the commercial bank size. This quotation, for example is illustrative of this point of view, CB5:

“From my point of view, it is difficult to determine whether this commercial bank is small or big commercial bank because there is no definition in Libyan Banking Law that can be used to distinguish between them, but I believe the size of a bank can be measured by the total assets that bank owned in the certain year”.

From the interviews it is evident that a commercial bank size can be measured by a number of proxies to find out its impact on the voluntary disclosure level, but the total assets is a good proxy to represent the size of commercial bank as received by the majority of interviewees. In this study, the size of commercial bank was measured by total assets and the statistical results show a significant association between a commercial bank size and voluntary disclosure level.

7.4.1.3 Commercial bank's profitability

A commercial bank's profitability is perceived by all interviewees, as an important factor influencing the extent of voluntary disclosure in the commercial banking annual reports. One justification, was pointed out by BC3:

“According to my own banking experience I think that managers of profitable commercial bank are more involved in disclosing additional information in their annual reports to reveal their good financial performance...”

Similarly, another interviewee, CB1, stated that:

“From my personal view I believe that managers of a larger profitable commercial bank are more likely to disclose voluntary information than less profitable bank, because they have the enough financial resources and expertise necessary for the preparation and publication of such kind of information and also to demonstrate that they are capable of managing their banks”.

The above responses infer that management in highly profitable commercial banks are motivated to disclose more detailed information in the annual reports to external stakeholders than smaller commercial banks. It could be noted that managers of commercial banks signal detailed financial and non-financial information when they are achieving good performance. The statistical results of this study show, however, an insignificant association between profitability and the extent of voluntary disclosure in Libyan commercial banks' annual reports.

7.4.1.4 Commercial bank age

The respondents in the interview hold mixed views with regard to the influence of commercial bank age on the amount of information voluntarily disclosed in annual reports. For example, an opinion was expressed by one of the commercial banks annual reports' preparers interviewed, CB5:

“It would seem to me that a long established a bank does not mean that it reveals much detail information than a new founded bank such as our bank which was established in the recent years when it compared with other currently Libyan commercial banks, ... we have adopted the latest technology, our employees have a high skills, ...we are exposed to competitive behaviour, ... we have more motivation to publish more information about the services we provided and our performance to attract new customer and to enhance our reputation in the market” .

However, one interviewee, CB2, expressed that older commercial banks are more likely to provide additional information in their annual reports to the general public. The following excerpt is illustrative of this view:

“It seems to me that older commercial banks mean that they have got more experience and more skills which give them the ability to prepare and provide more detailed information through their published annual reports” .

In general, the interviewees' responses provided different views regarding the effect of a commercial bank age on the extent of voluntary disclosure in annual reports. Some of the interviewees believe that the age of a commercial bank may not be a significant factor in determining the voluntary disclosure level. Others view that the age of commercial bank could be an important factor determining the extent of voluntary disclosure in the annual reports. According to the statistical results reported by a current study, the age of the commercial bank was found not to be positively associated with the extent of voluntary disclosure.

7.4.1.5 Liquidity position

With regard to the impact of the liquidity position on the amount of information voluntarily disclosed in commercial banks' annual reports, almost of the responses believed that there is no direct association between liquidity positions and information voluntarily provided in annual reports. The interviewees indicated that high liquidity may negatively affect commercial bank profitability and also can reflect poor management performance.

They mostly suggested that, a management of commercial bank with high level of liquidity has no motivation to disclose additional information in their annual reports. The statistical result of this study did not show a robust relationship between liquidity and the extent of voluntary disclosure in annual reports.

7.4.1.6 Government ownership

A number of explanations for the significance of government ownership factor in influencing the extent of voluntary disclosure in annual reports were expressed by interviewees. For example, one of the participants in the interviews, CB2, stated that:

“... government-owned commercial banks are subjected to extensive control by a larger number of government bodies than private-owned commercial banks and consequently will be exposed to greater demand for additional information”.

A similar view was expressed by another respondent CB1,

“...I can say that government-owned commercial bank have to provide extra reports and other financial information to a number of Libyan government agencies and other stakeholders whereas privately-owned commercial banks did not have to”.

The above preparers' perspectives would suggest that government-owned commercial banks are more likely to reveal more detailed information than privately-owned commercial banks because they are under the pressure of a large number of government agencies. However, the interviewees' views are inconsistent with the statistical results which are reported in Chapter Eight of this research.

7.4.1.7 Foreign ownership

The impact of the foreign ownership on the general level of voluntary disclosure was not considered by some annual reports' preparers interviewed an important influential factor. As shown in the following example:

"I doubt that the foreign investors who hold a small portion of shares in Libyan commercial banks will have an impact on the level of information provided in annual financial reports positively" (CB2).

Another annual report prepare, CB4, shared the same view:

"I do not believe that a commercial bank with a small percentage foreign ownership disclosed more voluntarily information, since the foreign investors do not have a significant degree of influence on the commercial bank's management"

On the other hand, two interviewees mentioned that the influence of foreign ownership on the amount of voluntary information disclosed in the published annual reports to be significant, as stated by CB5;

"...allowed to foreign institutional investors to buy shares of some local commercial banks, encouraged the management of these banks to change their traditional disclosure policy".

Another participant, CB3, said that:

"In general I think that a commercial bank with a higher a proportion of foreign ownership is motivated to disclose more information because the foreign institutional investors are supposed to play a positive role in controlling commercial bank management and encouraging more information disclosure".

The above responses imply that the commercial banks with a higher share of foreign ownership are motivated to disclose more information in their published annual reports. On the other hand, as perceived by some interviewees, commercial banks with a smaller a proportion of foreign ownership have no motivation to disclose additional information in the annual reports. Notwithstanding that, the interviewees' opinions relating to the influence of the foreign ownership factor on the extent of voluntary disclosure are mixed; the statistical results reported in Chapter Eight of the present study showed that the foreign ownership factor is not significantly associated with the level of voluntary disclosure.

7.4.1.8 Listing status

The listing status was also perceived by two interviewees as is a significant factor that determines the extent of voluntary information disclosure. They indicated that commercial banks listed in the stock market would disclose more detailed information in their annual reports while unlisted banks tend to reveal less information to external stakeholders, because they are subjected to further reporting requirements and continuously under capital market pressure. The following quotation illustrates one of the interviewee's views:

“I think that commercial banks listed in the stock market are more driven to disclose more information in their annual reports than unlisted commercial banks, because they are subjected to further reporting requirements and continuously under capital market pressure...I would also say that listed banks have a large number of shareholders but also they seek to attract more new investors into the banks business through revealing more reliable information in their annual reports” (BC2).

The interviewees' perceptions related to the influence of listing status factors to the extent that voluntary disclosures in annual reports were consistent with the statistical results reported in chapter eight of the present study.

In summary, the interview respondents have suggested a number of influential factors influencing the extent of voluntary disclosure in the annual reports of commercial banks. The most frequently occurring factors as perceived by almost of the interviewees were competition in the commercial banking industry, commercial bank size, profitability, and government ownership. While other influential factors namely liquidity position, foreign ownership, commercial bank age, and listing status were perceived by some interviewees as being influential factors influencing voluntary annual report disclosure.

With the exception of competition in the commercial banking industry, these factors (the independent variables) have been tested in the statistical models in chapter eight of this study. Despite that, competition in the commercial banking industry tend to play a significant role in voluntary annual reports disclosure. It was not included in the statistical models because of the difficulty in finding a suitable proxy. The interviewees' perceptions were consistent with some of the statistical results of the current study (see chapter nine).

7.4.2 Benefits and costs of voluntary information disclosure

This section analyses and reports on the interviewees' responses to interview questions relating to benefits and costs of voluntary information disclosure in commercial banks' annual reports. The following subsections will discuss and presents the benefits and costs of voluntary disclosure for a commercial bank from an interviewees' perspective.

7.4.2.1 Perceived benefits of voluntary disclosure in annual reports

The general belief amongst commercial banks' annual reports preparers who participated in the interviews that the analysis of the benefits and costs associated with voluntary disclosure decisions have to be made with more consideration. Reasonably, a commercial bank's management would choose to provide additional detailed information to the general public when they feel that the advantages/benefits from disclosure outweigh the costs. The following quote is representative of the responses from commercial banks' annual reports preparers. When discussing the benefits and costs associated with voluntary disclosures decision, CB3 offered:

“In the banking industry in particular, a decision to voluntarily disclose additional information to external users is not simple and is more complicated than other industries... we aware that there are some benefits we can gain from disclosing additional information in our commercial bank annual reports, but as always there is a risk and therefore we take enough time before the decision is made in order to weigh the advantages and costs associated with such a decision”.

The following table 7.3, below, summarises the main advantages/benefits of voluntary disclosure in annual reports as perceived by preparers of Libyan commercial banks' annual reports.

Table 7.3: Perceptions on benefits of voluntary disclosure in annual reports

Benefits of voluntary disclosure	CB1	CB2	CB3	CB4	CB5	CB6	(6)
Enhanced the commercial bank's reputation	✓	✓	✓	✓	✓	✓	6
Give positive impressions of a commercial bank's prospects	✓	✓	✓	✓	✓	✓	6
Gaining the trust of stakeholders	✓	✓	✓		✓	✓	5
Improved investor relations/ increase investor confidence	✓	✓	✓		✓		4
Lower average cost of capital				✓			1

Table 7.3 shows that all of the interview participants perceived that enhancing the bank's reputation is one of the key benefits to a commercial bank of disclosing information voluntarily in the annual reports. It gives a positive impression of a commercial bank's prospects it is also perceived by all interviewees as another foremost benefit to a commercial bank of having voluntarily information disclosed in the annual reports. As expressed by one of the interviewees, BC1:

“Providing general public and shareholders with more useful information in annual reports can help the commercial bank management improve the bank's reputation and also will give optimistic impression about the future of the bank”.

The interviewees mostly suggested that gaining the trust of stakeholders was another benefit that can be expected from disclosing additional information voluntarily in the annual reports of commercial banks. One of them, CB5, stated:

“I think that lack level of financial and non-financial information provided in the commercial banks annual reports is more likely to be interpreted by many external stakeholders as a less transparent,... thus I believe that more detailed information disclosed in annual reports strengthens the trust of stakeholders in commercial bank management”.

Some of the interviewees indicated that disclosing more information in annual reports can help the management of the commercial bank to improve investors' relations as well as increase investors' confidence. As stated by BC2 *“...providing relevant and accurate information in annual reports can help the managers of a commercial bank to keep and to build strong relationships with its investors and shareholders”.*

One of the participants, BC4, said that: *“a commercial bank can reduce its cost of capital by increasing the annually financial disclosure level”.* However, some of the interviewees would argue that most commercial banks do not rely on external capital and they are considered as the main money sources for funding different companies' schemes. That would imply that disclosing additional information voluntarily in the annual reports is not motivated by a commercial bank's need to reduce its cost of equity capital.

7.4.2.2 Perceived costs of voluntary disclosure in annual reports

From the face-to-face semi-structured interviews, it is apparent that there is also strong evidence that making voluntary disclosure decisions may involve costs for a commercial bank. Table 7.4 displays the costs of voluntary disclosure in annual reports as perceived by the participants in the interviews.

Table 7.4: Perceptions on costs of voluntary disclosure

Costs of voluntary disclosure	CB1	CB2	CB3	CB4	CB5	CB6	(6)
Preparatory costs: the cost of gathering, processing, disseminating the information	✓	✓	✓	✓	✓	✓	6
Competitive disadvantages	✓	✓	✓	✓		✓	5
Potential legal responsibility	✓	✓		✓	✓		4

As apparent in Table 7.4, the most frequent costs mentioned by all of the participants in the interviews is preparatory costs which includes cost of gathering, processing, and disseminating the information in the annual reports of commercial banks.

A second potential cost for making voluntary disclosure decisions as perceived by almost of the interviewees is competitive disadvantage. Almost of the interviewees indicated that disclosure of too much detailed information in annual reports can be used by competitors of a commercial bank, as a result, it negatively influences a commercial bank position.

As expressed by BC1 “...the disadvantage of disclosure of too much information about all a commercial bank activities can be used by competitors of a commercial bank”. Most of the participants in the interviews believed that disclosing detailed information about commercial bank projects or strategies, research and development plans as well as information about the mergers and acquisitions, and the sale of assets can be harmful to the commercial bank position.

Some of the interviewees perceived that providing detailed financial and non-financial information to the general public can expose the management of a commercial bank to potential legal responsibility. For example, one of the interviewees, BC4, stated:

“I believe that the costs or disadvantages of offering too much detailed information by the commercial bank may encourage the customers or stakeholders of the commercial bank to take a legal action against the bank when

they feel that information is not true or misleading, and such information may be utilised by them as evidence against the bank”.

Another participant in the interviews, BC2, shared the same view,

“In fact, our commercial bank has its own strict disclosure rules and therefore we have to follow it when disclosing banking financial and non-financial information to external users in order to avoid any potential legal action against us due to publishing such details information”.

In summary, the participants in the interviews believed that the analysis of benefits and costs associated with voluntary disclosure decisions have to be made with more consideration. Enhancing the commercial bank’s reputation is one of the key benefits to a commercial bank of disclosing information voluntarily as suggested by interviewees. Furthermore, it gives a positive impression of a commercial bank’s prospects. It was suggested as another foremost benefit to a commercial bank of having voluntarily information disclosed in the annual reports.

Additional benefits of participating in the voluntary disclosure were considered to be gaining the trust of stakeholders in the commercial banking managers, improved investor relations, and lower average cost of capital. While the most important costs of voluntarily disclosing information were preparatory costs, competitive disadvantages, and potential legal responsibility.

7.4.3 Views on the usefulness of voluntary disclosure in making economic decisions

This section presents and discusses interviewees’ perceptions’ concerning to what extent that information voluntarily disclosed in the Libyan commercial banks’ annual reports is useful or essential for economic decision-making. Table 7.5 below displays the preparers’ perceptions on the usefulness of voluntary disclosure in making economic decisions.

Table 7.5: Perceptions on the usefulness of voluntary disclosure in making economic decisions

	CB1	CB2	CB3	CB4	CB5	CB6	(6)
Very useful	✓	✓	✓		✓		4
Partial useful				✓		✓	2

The participants in the interviews held mixed views regarding the usefulness of voluntary disclosure in the commercial banks' annual reports in making economic decisions. As seen in Table 7.5, the majority of the interviewees (4 out of 6) believed that voluntary disclosure in the commercial banks' annual reports is very useful and can be used for decision-making purposes. For example, as commented by CB2, *“we annually publish additional information in annual reports and I believe most of information is relevant and useful for making economic decisions”*.

While, two of the interviewees suggested that the information disclosed voluntarily in the commercial bank's annual reports may not be very useful, due to the fact that the vast majority of external stakeholders are not reliant or not relying on the information voluntarily revealed by commercial banks in making their vital economic decisions. In addition, such voluntary disclosures may not satisfy all the external users' needs in practically making economic decisions.

As stated by CB6, *more voluntary information provided in commercial bank annual reports may help some sophisticated users in their investment decisions, but for other external users it is not very helpful*". The second of the interviewees CB4 stated:

“I believe that voluntary disclosures provided in the commercial banks' annual reports... from viewpoint of many external stakeholders are not very useful for their decision-making purpose, because the most of these users are not relying on these disclosures when they take their vital investment decisions, since voluntarily information is not approved or audited by the external auditors of commercial banks”.

Overall, the majority of the interviewees believed that voluntarily information disclosed in the commercial banks' annual reports is useful and helpful in making economic decisions. However, some would argue that voluntary disclosures are not very useful, since the vast majority of external stakeholders do not rely on these disclosures and are not using them in making their economic decisions, because, the majority of user groups would rely on audited financial information and consider it more trustworthy for their decision making purpose. This would suggest that the balance sheet and profit and loss account statement disclosed annually by Libyan commercial banks are more important for making economic decisions rather than other sections of the annual report.

7.4.4 Views on the usefulness of voluntary disclosure to a wide range of users

This section reports and discusses the interviewees' responses to what extent that they perceived that voluntary information disclosure in the commercial banks annual reports is useful to a wide range of users (i.e. bank's shareholders, government agencies, individual investors, institutional investors, stock market brokers, researchers and other scholars, bank's employees, and general public).

Table 7.6: Perceptions on the usefulness voluntary disclosure to wide range of users

Useful to:	CB1	CB2	CB3	CB4	CB5	CB6	(6)
Bank's shareholders	✓	✓	✓	✓	✓	✓	6
Government agencies							0
Individual investors		✓	✓		✓	✓	4
Institutional investors		✓	✓		✓	✓	4
Stock market brokers	✓	✓	✓		✓		4
Bank's employees	✓	✓	✓	✓	✓		5
Researchers and other scholars	✓	✓	✓		✓	✓	5
General Public	✓			✓			2

The interviewees hold mixed feelings about the usefulness of voluntary information disclosure in the annual reports of commercial banks to a wide range of users, in the sense of requiring to make decisions about commercial banks. As seen in Table 7.4, all of the interviewees believed that additional information provided in the annual reports is useful to commercial banks' shareholders. This would suggest that a commercial bank annual report to be the only means of communicating with shareholders.

In contrast, all interviewees argue that the financial and non-financial information disclosed voluntarily in their commercial banks' annual reports may not be useful to government agencies since they already have the legal power to access to vital information before it is published in the annual reports, such as tax authorities, Central Banks' officers, and other supervising governmental bodies. They usually do not rely on voluntarily disclosed information for government purpose uses. For example, CB1 states:

“In fact, the majority of government agencies do not legally recognise or rely on voluntary information published by the commercial bank, they frequently ask the management of the bank to provide them with accurate and up-to-date information directly, and use for official purposes”.

Five of the interviewees believed that voluntary information disclosed in annual reports is useful to the commercial banks' employees, because the commercial bank's annual reports contains comprehensive information on the bank's various business which including employees welfare, new services offered, change in the salaries, pensions, changes in information technology, application of a new technology changes in existing legislation, and administration changes. This viewpoint was apparent in the following response by CB3:

“...our employees mainly relied on information published annually in our bank's annual reports for their own use, they are particular interested in profitability information, and other information such as employee welfare, training, wages, pensions, health care, and the future plans”.

Furthermore, the majority of the respondents (4 out of 6) asserted that voluntary disclosures provided in the commercial banks' annual reports can be useful to stock market brokers if they use and interpret these disclosures in a proper way depending on whether or not they have a fair degree of financial sophistication.

Four of the interviewees believed that information provided on the voluntary basis is useful to individual and institutional investors for their investment decisions. Nonetheless, others (2 out of 6) indicated that the majority of individual and institutional investors seek private disclosure from commercial banks' managers via telephone communications or face-to-face meetings, because they have no confidence in the information voluntarily disclosed in a commercial bank's annual reports.

Additionally, they mentioned that individual and institutional investors rely heavily on the financial information disclosed in the audited consolidated financial statements (balance sheet statement and profit and loss account statement), rather than other information published in other forms of financial reporting, since the audited consolidated financial statements including accurate and reliable information about the financial performance and financial position of commercial banks.

Almost all of the participants in the interviews (5 out of 6) suggested that information provided in their commercial banks' annual reports is valuable and useful to researchers and other scholars, since the information published annually in annual reports including financial statistical data and other financial information is expected to be very useful in conducting different kinds of academic research or other types of research.

Only two interviewees asserted that additional information disclosed in the commercial banks' annual reports is useful and can be used by general public such as students, teachers, farmer, traders, and local media. For example, CB4 said,

“From my view, I strongly believe that voluntary financial and non-financial information published in the commercial bank's annual reports is useful to the wider community which includes for example students, teachers, farmers, traders, and local media, ... who are usually trying to get more detailed information on all the banking facilities such as credit facilities, social loans, bank's home loans, and car loans”.

In summary, almost all of participants in the interviews believed that the provision of voluntary information in the annual report of commercial banks is useful for a wide range of users, in the sense of requiring to make decisions about commercial banks. However, the interviewees would argued that voluntary disclosures provided in their commercial banks' annual reports may not be useful to government agencies since they have legal power to access vital information about the financial performance and financial position of commercial banks before it is published in the annual reports.

7.5 Summary and Conclusions

This chapter has reported and reviewed the results of the face-to-face semi-structured interviews conducted with six Libyan commercial banks annual reports' preparers related to two main issues: first their views and perceptions about the current financial reporting and mandatory disclosure practices; second their perceptions about a series of issues relating to voluntary disclosure practices in the annual reports of Libyan commercial banks.

Overall, the key objectives of carrying out the interviews was to gain a deeper insight into the current annual financial reporting and mandatory disclosure practices. Also, to gather an insight into significant issues that are not well understood related to the nature

of commercial banking voluntary disclosure which includes factors influencing the extent of voluntary disclosure, benefits and costs of voluntary disclosure, the usefulness of voluntary disclosure in economic decision making and the usefulness of voluntary disclosure to a wide range of users.

In general, the interview respondents mainly agreed that the current financial reporting and mandatory disclosure practices in Libya in general and in the financial institutions in particular still do not reach the same level of development that is currently achieved by the most of Arabic countries which have a similar socio-economic environmental conditions. Also some respondents expressed concerns about the absence of enforced national accounting standards and insufficient financial disclosure laws and regulations.

The interview results also indicated that in respect of the legal disclosure requirements, that the consolidated balance sheet and profit and loss account statement were the only two sections of financial report required to be annually disclosed to the general public. While, listed commercial banks were required to submit their audited annual consolidated financial statements and must be accompanied with the auditor's report, quarter-yearly balance sheet statement, and quarter-yearly profit and loss account statement to LSM.

Furthermore, the results of the interviews revealed that there is no legal requirement for supplementary information to be disclosed with the audited consolidated financial statements to the general public. In addition to this specific information is not required to be disclosed in the face of consolidated financial statements or other financial reports either by banking law or the LSM regulations.

Participants in the interviews have perceived that many factors influence the decision to disclose voluntary information in the annual reports. The most frequently influential factors were perceived to be, the competition in the commercial banking industry, commercial bank size, profitability, and government ownership. Other factors namely liquidity position, foreign ownership, commercial bank age, and listing status were also suggested by some interviewees as being some of the influential factors influencing voluntary annual report disclosure. Almost of these influential factors were tested in the

quantitative study of this research, some, including the statistical results reported in the chapter eight, were consistent with the interviewees' perceptions.

Commercial banks annual reports' preparers emphasised that the analysis of benefits and costs associated with voluntary disclosure decisions have to be made with more consideration. Enhancing the commercial bank's reputation is one of the key benefits to a commercial bank of disclosing information voluntarily as suggested by interviewees. Furthermore, giving a positive impressions of a commercial bank's prospects was also suggested as another foremost benefit to a commercial bank of having voluntarily information disclosed in the annual reports.

Additional benefits of participating in voluntary disclosure are; gaining the trust of stakeholders, improved investor relations, and lower average cost of capital. While the most significant costs restricting the amount of information voluntarily disclosing in commercial banks' annual reports were preparatory costs, competitive disadvantages, and potential legal responsibility. Once again, the respondents in the interviews believed that voluntarily information disclosed in the commercial banks' annual reports is useful and helpful in making economic decisions. They also indicated that the provision of voluntary information in the annual report of commercial banks is useful for a wide range of users, in the sense of helping them to make decisions about commercial banks.

Chapter Eight

The Extent of Voluntary Disclosure and its Relationship with Commercial Bank-Specific Attributes: Analysis and Findings

8.1 Introduction

This chapter specifically aims to address the first three research questions of the current study, which were clearly posed in Chapter One (section 1.3). The first three research questions are restated here again:

1. To what extent have Libyan listed and unlisted commercial banks voluntarily disclosed information in their annual reports during the period between 2006 and 2011?
2. Has there been any significant improvement in the extent of overall voluntary information disclosures in the published annual reports of Libyan listed and unlisted commercial banks over the period of the study?
3. Is there any association between the extent of voluntary information disclosure by Libyan listed and unlisted commercial banks and each of the bank attributes (age of bank, size of bank, bank liquidity position, profitability, government ownership, foreign ownership, and listing status)?

The chapter will therefore provide and discuss the results of the measurement and analysis undertaken to pursue answers to the research questions above. The remainder of the chapter has been divided into four main sections. The first section (8.2) deals with the descriptive information and statistics for the extent of total voluntary disclosure and its developments over a period of six years (2006-2011). The second section (8.3) presents the descriptive statistics for the extent and trend of voluntary disclosure by information categories. The third section (8.4) discusses the descriptive statistics for the extent to which each individual item of information is disclosed in the annual reports of Libyan commercial banks. The following section (8.5) is devoted to discussion and analysis of the key empirical findings of the univariate and the multivariate analyses of the testable hypotheses for research question three, which have been developed in

Chapter Six. The final section of the chapter (8.6) provides a summary and conclusion of the chapter.

8.2 The Extent of Total Voluntary Disclosure and its Development over Time

The first part of this section is devoted to addressing the first research question posed by the present study i.e. ‘to what extent have Libyan listed and unlisted commercial banks voluntarily disclosed information in their annual reports during the period between 2006 and 2011’. In addition, the second part of this section aims to address the study’s second research question i.e. ‘has there been any significant improvement in the extent of overall voluntary information disclosures in the published annual reports of Libyan listed and unlisted commercial banks over the period of the study’.

8.2.1 The extent of total voluntary information disclosure

In order to be able to measure the extent of voluntary information disclosure (i.e. TVDIS) in annual reports for each of the nine listed and unlisted commercial banks for the six years of the study, a self-disclosure scoring sheet comprising 63 voluntary disclosure index items divided into five information categories was designed and then the dichotomous procedure was applied to get a commercial bank’s disclosure score, i.e. TVDIS for each year studied (more details are provided in section 6.7.1.2).

The dichotomous scoring grants one if a commercial bank discloses a certain item or grants zero if it do not disclose it. Subsequently, a relative voluntary disclosure index (representing dependent variable in this study) was then calculated for the individual commercial bank for every year by the ratio of the actual number of items disclosed by a commercial bank to the maximum number of items (63) expected to be disclosed by each commercial bank in its annual reports. The voluntary disclosure scores per commercial bank for each year are displayed in Table 8.1 as percentages of the total voluntary disclosure index scores (TVDIS) measured in each commercial bank’s annual report for the six years (2006-2011). Descriptive statistics of TVDIS for each year are presented in Table 8.2.

Table 8.1: The TVDIS for each commercial bank over the six-year period

No.	Commercial Bank Name	MVDS	TVDIS%**						Pooled TVDIS %
			2006	2007	2008	2009	2010	2011	2006-2011
1.	Sahara Bank	63	32	33.3	54	56	56	57.1	48
2.	Gumhouria Bank	63	41.2	44.4	60.3	67	70	70	59
3.	National Commercial Bank	63	22.2	25.4	41.2	65.1	65.1	67	48
4.	Wahda Bank	63	40	41.2	59	62	62	63.4	55
5.	Commerce and Development Bank	63	22.2	26	49.2	54	56	56	44.1
6.	Alsaraya Trading and Investment Bank	63	8	11.1	19.1	24	24	25.4	19
7.	Mediterranean Bank	63	19.1	19.1	24	25.4	30.1	37	26
8.	Alwaha Bank*	63	16	16	22.2	24	29	32	23
9.	Alwafa Bank*	63	10	10	25.3	27	27	32	22
Total			23.3	25.4	39.3	45	46.4	49	38

* Unlisted commercial banks

**TVDIS% = (Actual voluntary disclosure score (AVDS)/ Maximum voluntary disclosure score (MVDS) %), which means the relative disclosed scores received by each commercial bank.

Table 8.1 shows that the highest mean disclosure index score over the six years was 59%, achieved by Gumhouria Bank (listed), and the second mean highest index score was 55%, again reported by listed commercial bank (i.e. Wahda Bank). As also shown in the table, the lowest mean voluntary disclosure index score during the six years surveyed was reported by Alsaraya Trading and Investment Bank (listed), which obtained 19%. Remarkably, in 2006, National Commercial Bank and Commerce and Development Bank both obtained the same disclosure scores (22.2%). Again, in 2009, Alsaraya Trading and Investment Bank (listed) and Alwaha Bank (unlisted) reported the same disclosure level (24%).

In addition, in 2010 Sahara Bank and Commerce and Development Bank gained the same disclosure score (56%). Interestingly, in 2011, Alwaha Bank and Alwafa Bank (unlisted) reported the similar disclosure level (32%) out of 63 voluntary disclosure index scores. In short, the analysis of voluntary disclosure scores suggests that the extent of voluntary disclosure by Libyan commercial banks has increased noticeably during the six years studied (see Figure 8.1).

Figure 8.1: The extent of TVDIS during the six-year period (2006-2011)

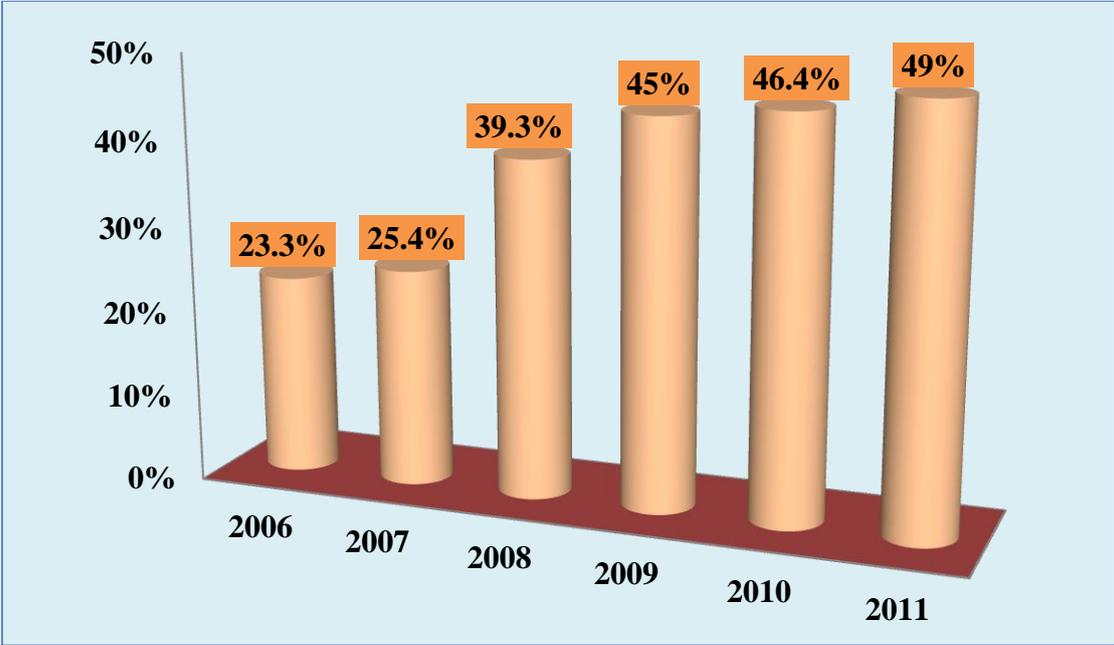


Table 8.2: Descriptive statistics of TVDIS over the six years

Total Voluntary Disclosure Index Scores over the Six Years (TVDIS %)							
Years	2006	2007	2008	2009	2010	2011	Pooled %
Mean	23.3	25.4	39.3	45	46.4	49	38
Standard Deviation	12.1	12.6	16.9	19.2	18.6	17.2	18.6
Median	22.2	25.4	41.3	54	56	56	42.3
Minimum	8	10	19.1	24	24	25.4	8
Maximum	41.3	44.4	60.3	67	70	70	70

Table 8.2 shows that the mean total voluntary disclosure index score (TVDIS) for the total sample of Libyan commercial banks across the six years is approximately 38%, with a minimum of 8% and a maximum of 70%. In 2006, the mean and median values for the TVDIS score were 23.3 % and 22.2% respectively, with standard deviation of 12.1. However, the TVDIS shows increases in the mean and median values of 49%, and 56% in 2011, with minimum and maximum at 25% and 70% respectively. It is also interesting to note that most of the listed commercial banks have improved the extent of their voluntary disclosure levels after their listing in the LSM (2007).

Overall, there is a fair variation in the voluntary disclosure scores obtained by Libyan commercial banks over the six-year period. Analysis also suggests that there is wide variation in the voluntary disclosure scores for listed commercial banks compared to the disclosure scores for unlisted commercial banks over the period under investigation. However, such a conclusion should be taken with more caution since the unlisted commercial banks number only two, which represented 20% of the total sample.

In order to gather additional insights on the voluntary disclosure practice by Libyan commercial banks, Table 8.3 displays the frequency distribution of the voluntary disclosure scores among commercial banks over the period covered by the current study.

Table 8.3: Frequency distribution of voluntary disclosure scores among commercial banks

TVDIS %	Number of Commercial Banks					
	2006	2007	2008	2009	2010	2011
Greater than 50%	0	0	3	5	5	5
41%-50%	1	2	2	0	0	0
31%-40%	2	1	0	0	1	3
21%-30%	2	2	3	4	3	1
11%-20%	2	3	1	0	0	0
≤10%	2	1	0	0	0	0
Total	9	9	9	9	9	9

It can be seen from Table 8.3 that in 2006, only one commercial bank (11%) out nine sampled commercial banks received a voluntary disclosure score value of more than 41%. Three commercial banks out of nine banks, representing 33 % of the study sample, obtained scores greater than 50% in 2008. In addition, from Table 8.3, it is possible to observe that since 2009 there has been no change in the number of commercial banks which achieved a voluntary disclosure score value higher than 50%; it remained consistent at just five commercial banks, representing 56% of those sampled. Overall, from 2006 to 2007, all sampled commercial banks scores ranged between less than 10% to 50%, but in the following years (2008 to 2011), the total voluntary disclosure scores of all sampled commercial banks fell within 11% and more than 50%.

8.2.2 The development of the extent of total voluntary disclosure over time

As indicated earlier in this section, the second part of this section aims to address the study's second research question. To address research question two, comparisons of the mean of ratio TVDIS over the six years studied will be undertaken in this subsection, to explore whether there were any significant developments in the quantity of information provided voluntarily by Libyan commercial banks in their annual reports during the time from 2006 to 2011. Table 8.4 illustrates developments and changes in the commercial banks' extent of voluntary disclosure over the period of the six years.

Table 8.4: Developments in the extent of TVDIS over the period 2006-2011

Year	TVDIS (Mean scores %)	Differences among years	Changes in TVDIS % (Yt-Yt-1)*
2006	23.3	2006-2007	2.1
2007	25.4	2007-2008	13.9
2008	39.3	2008-2009	5.7
2009	45	2009-2010	1.4
2010	46.4	2010-2011	2.6
2011	49	2006-2011	25.7

***Y_t**: Mean total voluntary disclosure score (TVDIS) in the following year, whereas
Y_{t-1}: Mean total voluntary disclosure score (TVDIS) in the previous year.

As can be observed from Table 8.4, the mean score of the TVDIS for each of the years covered by this study has increased from 23.3% in 2006 to reach 49% in 2011, meaning that the TVDIS improved over the six years by approximately 25.7%, which seems to be less satisfied. However, it was observed that the mean change in the TVDIS was only 2.1% (2006-2007), 13.9% (2007-2008), 5.7% (2008-2009), 1.4% (2009-2010), and 2.6% (2010-2011) of the observed 25.7% total mean changes in the TVDIS over the period under study 2006-2011. Moreover, as Table 8.4 shows, the mean score of the TVDIS was less 40% in 2006, 2007, and 2008, then just over 40% in the final three years (2009-2011).

The above analysis revealed that the quantity of voluntary information provided by Libyan commercial banks in their annual reports to the public has increased progressively over the six years studied. In other words, according to figures displayed in Table 8.4, the positive increase in TVDIS occurs during the whole years of the study. Throughout the six-year period (2006-2011), changes in mean scores of the TVDIS are within a range of 2.1% to 25.7%. A noticeable change occurred between 2007 and 2008; the mean change in the TVDIS was 13.9%. Possible explanations for the evolving upward trend in the TVDIS include the economic liberalisation and reforms undertaken by Libyan government at that time, which had an influence on the voluntary disclosure practices by commercial banks.

8.3 The Extent of Voluntary Disclosure by Information Categories

As was explained in the research methodology and methods, section (6.7.1.1) of Chapter Six, the 63 voluntary disclosure index items were classified into five information categories according to their nature. This was done in order to review the extent of voluntary disclosure in the annual reports of Libyan commercial banks in more detail. These information categories are (A) background about the commercial bank/ general information (11 items); (B) social responsibility information (4 items); (C) financial ratios and other statistics information (21 items); (D) accounting policies (8 items), and (E) corporate governance information (19 items).

The highest possible disclosure score for each of the categories measured is eleven for background about the commercial bank/ general information category, four for social responsibility information category, twenty-one for financial ratios and other statistics information category, eight for accounting policies category, and nineteen for corporate governance information category. The following subsections will provide descriptive statistics for the five categories of voluntary information disclosed in annual reports of Libyan commercial banks during the period 2006-2011.

8.3.1 Category A: Background about the commercial bank/ General information

This first information category (A) displayed in the voluntary disclosure index contains 11 voluntary disclosure items expected to be disclosed in the commercial bank's annual reports. As can be seen in the Table 8.5, the total average disclosure score for this information category over the six years was 62.4%. The average disclosure score ranged from 28.8% (Alsaraya Trading and Investment Bank) to 84.8% (Gumhouria Bank). The table also shows that two listed commercial banks have achieved the same score value over the survey period, namely Sahara Bank and Commerce and Development Bank (75.7%).

Moreover, Table 8.5 indicates that the average of items disclosed by all Libyan commercial banks in the sample was about seven disclosure items in 11 information category items, which is considered reasonably acceptable. More specifically, Gumhouria Bank (listed bank) disclosed the highest number of information items at around nine items, followed by Sahara Bank and Commerce and Development Bank (listed banks) which on average disclosed eight items of this category. In contrast, the lowest disclosed information items was 3 items made by Alsaraya Trading and Investment Bank (listed bank), followed by Alwaha Bank (unlisted), 4 items. Again, as seen in Table 8.5, during 2006-2011, there were slight improvements in the

overall average disclosure scores over the six years from 46.4% in 2006 to 71.7% in 2011. It is worth mentioning here that there was no change in the total average disclosure score value achieved by disclosing commercial banks (71.72%) between 2010-2011.

In addition, over the period of six years, the average voluntary disclosure scores for each of the commercial bank sampled had increased, excepting one bank i.e. Alwaha Bank (unlisted), whose voluntary disclosure score remained the same value (36.3%) throughout the period studied. In general, the majority of Libyan commercial banks provided information on background about the commercial bank (general information) to external users in their published annual reports. However, there were many very large variances among the commercial banks' disclosure levels relating to the background information.

Table 8.5: Descriptive statistics: Background about the commercial bank/ General information (A)

No.	Commercial Bank Name	Number of Disclosed Items by each Commercial Bank out of 11 Items						Disclosure Score %						Pooled	
		2006	2007	2008	2009	2010	2011	2006	2007	2008	2009	2010	2011	Average Number of Items Disclosed	Average Disclosure Score%
1.	Sahara Bank	7	7	9	9	9	9	63.6	63.6	81.8	81.8	81.8	81.8	8.3	75.7
2.	Gumhouria Bank	8	8	10	10	10	10	72.7	72.7	90.9	90.9	90.9	90.9	9.3	84.8
3.	National Commercial Bank	5	5	8	9	9	9	45.4	45.4	72.7	81.8	81.8	81.8	7.5	68.1
4.	Wahda Bank	6	8	10	11	11	11	54.5	72.7	90.9	100.0	100.0	100.0	9.5	86.3
5.	Commerce and Development Bank	7	7	9	9	9	9	63.6	63.6	81.8	81.8	81.8	81.8	8.3	75.7
6.	Alsaraya Trading and Investment Bank	2	2	3	4	4	4	18.2	18.2	27.2	36.3	36.3	36.3	3.1	28.8
7.	Mediterranean Bank	4	4	7	7	9	9	36.3	36.3	63.6	63.6	81.8	81.8	6.6	60.6
8.	Alwaha Bank*	4	4	4	4	4	4	36.3	36.3	36.3	36.3	36.3	36.3	4	36.3
9.	Alwafa Bank*	3	3	6	6	6	6	27.2	27.2	54.5	54.5	54.5	54.5	5	45.4
Total		5.1	5.3	7.3	7.6	7.8	7.8	46.4	48.4	66.6	69.7	71.7	71.7	6.8	62.4

*Unlisted commercial banks

8.3.2 Category B: Social responsibility information

Social Responsibility is the second information category (B) appearing in the self-constructed voluntary disclosure index; it comprises four voluntary disclosure items expected to be reported by management of Libyan commercial banks in their annual reports. Social responsibility disclosure, according to Branco and Rodrigues (2006, p. 245) “refers to the disclosure of information about companies’ interactions with society, and it is an important instrument in the dialog between business and society”.

Overall, the study found that Libyan listed and unlisted commercial banks did not release any social disclosure information to the general public over the six year period studied in their published annual reports, with one exception: one commercial bank out of nine banks (Commerce and Development Bank) had disclosed one information item out of four items in this category during the six years. More precisely, the total average social disclosure score value of all sampled commercial banks over the six years studied was relatively very poor (0.5%), with the voluntary average disclosure score value ranging from the lowest at 0.00 % to the highest at 4.2%. One of the possible reasons for this very poor level of social responsibility disclosure is that the top management of Libyan commercial banks do not seem to accept the policy of revealing social information to external stakeholders.

Generally, this suggests that those preparing Libyan commercial banks’ annual reports are not paying any attention to this type of information when preparing their external annual reports, in spite of the fact that prior research has demonstrated that banks and other financial companies provide social responsibility information in their annual reports. For instance, Douglas et al. (2004) found that Irish and international banks disclose different volumes of social responsibility information on their published annual reports and their websites as well. Abdul Hamid (2004) has also found that banks and finance companies in Malaysia reported adequate social responsibility information in their annual reports.

A further empirical study by Branco and Rodrigues (2006) revealed that the Portuguese banks disclose a considerable amount of social responsibility information in their annual reports and their websites. A more recent study by Hossain and Reaz (2007), who empirically investigated the extent of voluntary disclosure by listed banking companies

in India, found voluntary information such as corporate social disclosure disclosed in the annual reports in the Indian banks to an acceptable level.

8.3.3 Category C: Financial ratios and other statistics information

This third information category (C) within the voluntary disclosure index includes 21 items of information. All of these information items are applicable to disclosing commercial banks and are expected to be revealed in their annual reports to the public. Table 8.6 displays descriptive findings about the extent of disclosure of the financial ratios and other statistics information (category, C).

From the table 8.6, it can be seen that the total average disclosure score over the period of the study (2006-2011) for the entire sample was 41.3% (an average of 8.7 items of the 21 category items). In particular, in 2006 (24.8%), 2007 (25.9%), 2008 (41.8%), 2009 (49.7%), in 2010, (51.8 %), and 2011 (54.5%) it was the highest total score. Gumhouria Bank has the highest disclosure score (65.8%), followed by Wahda Bank (57.9%), Sahara Bank (55.5%), and National Commercial Bank (53.1%).

The remaining sampled commercial banks have average disclosure scores ranged between 16.6% and 41.2%. The lowest average disclosure score (16.6%), was reported by Alwafa Bank (unlisted) over the six years studied. Table 8.7 also shows that Libyan commercial banks, over the period of the study, disclose on average about nine items of the 21 category information items. Specifically, the average of disclosed items for all sampled banks in 2006 and 2007 was about five items, but in 2008 was around nine items, and in 2009, 2010, and 2011 was approximately 11 information items.

In general, the average value score for this category varied between 16.67% and 65.8% for the lowest and highest Libyan commercial banks' disclosures respectively. In addition, the scoring results point out that the highest disclosure scores were attained over the study period by listed commercial banks. Thus, Libyan listed commercial banks appear to voluntarily disclose in their annual reports more on financial ratios and other statistics information than unlisted.

Table 8.6 Descriptive statistics: Financial ratios and other statistics information (C)

No.	Commercial Bank Name	Number of Disclosed Items by each Commercial Bank out of 21 Items						Disclosure Score%						Pooled	
		2006	2007	2008	2009	2010	2011	2006	2007	2008	2009	2010	2011	Average of Number Items Disclosed	Average Disclosure Score%
1.	Sahara Bank	7	7	13	14	14	15	33.3	33.3	61.9	66.6	66.6	71.4	11.6	55.5
2.	Gumhouria Bank	8	11	14	16	17	17	38.1	52.4	66.6	76.2	80.9	80.9	13.8	65.8
3.	National Commercial Bank	5	5	9	16	16	16	23.8	23.8	42.8	76.2	76.2	76.2	11.1	53.1
4.	Wahda Bank	11	9	13	13	13	14	52.4	42.8	61.9	61.9	61.9	66.6	12.1	57.9
5.	Commerce and Development Bank	4	4	9	11	12	12	19.1	19.1	42.8	52.4	57.1	57.1	8.6	41.2
6.	Alsaraya Trading and Investment Bank	3	4	8	9	9	9	14.2	19.1	38.1	42.8	42.8	42.8	7	33.3
7.	Mediterranean Bank	5	5	5	6	7	8	23.8	23.8	23.8	28.5	33.3	38.1	6	28.5
8.	Alwaha Bank*	2	2	4	5	6	7	9.5	9.5	19.1	23.8	28.5	33.3	4.3	20.6
9.	Alwafa Bank*	2	2	4	4	4	5	9.5	9.5	19.1	19.1	19.1	23.8	3.5	16.6
Total		5.2	5.4	8.7	10.4	10.8	11.4	24.8	25.9	41.8	49.7	51.8	54.5	8.7	41.4

*Unlisted commercial banks

8.3.4 Category D: Accounting policies

Accounting policies is the fourth information category (D) in the self-constructed voluntary disclosure index, and includes eight voluntary disclosure items which are expected to be disclosed by those preparing Libyan commercial banks' annual reports. The commercial banks' accounting policies are essential to understanding and interpreting the financial results reported in the annual report (Scotiabank Annual Report, 2012).

As seen in Table 8.7, the Libyan commercial banks disclose over the six-year period on average 28.7%, with the total average number of disclosed items being 2.3 of the eight category items. The highest average score achieved was 64.5% (Gumhouria Bank (listed)), while the lowest score gained was 0.0% (Mediterranean Bank (listed)). The table also shows that over the six-year period (2006-2011), only four commercial banks in the sample (i.e. Sahara Bank, Gumhouria Bank, National Commercial Bank, and Wahda Bank) disclose at least one item related to their accounting policies. However, none of them disclosed the category's total information items (8 items) in their annual reports. It also indicated that no disclosure was made during the six years by Mediterranean Bank (listed) about its accounting policies.

Furthermore, Table 8.8 shows that another commercial bank (i.e. Alsaraya Trading and Investment Bank) did not disclose any information relating to its accounting policies within its published annual reports for the years 2006-2010, with the exception of the year 2011, when only one item out of eight information items was disclosed by the bank. From the above analysis, it is evident that most information items under this category were rarely disclosed by the sampled commercial banks in their annual reports.

There are certain reasons for low-level disclosure of these items in this category. The most important reason for those preparing Libyan commercial banks' annual reports not disclosing this type of information in the external annual reports might be a lack of regulatory enforcement in the country. In addition to this, the high cost of preparing and disclosing information to the public is also a possible reason that may prevent the management of commercial banks from providing such kind of information, as it was indicated by almost all responsible for preparing Libyan commercial banks' annual reports in Chapter Seven of this thesis.

Table 8.7: Descriptive statistics: Accounting policies (D)

No.	Commercial Bank Name	Number of Disclosed Items by each Commercial Bank out of 8 Items						Disclosure Score%						Pooled	
		2006	2007	2008	2009	2010	2011	2006	2007	2008	2009	2010	2011	Average Number of Disclosed Items	Average Disclosure Score%
1.	Sahara Bank	1	1	3	3	3	3	12.5	12.5	37.5	37.5	37.5	37.5	2.3	29.1
2.	Gumhouria Bank	4	4	5	6	6	6	50.0	50.0	62.5	75.0	75.0	75.0	5.1	64.5
3.	National Commercial Bank	1	1	2	6	6	6	12.5	12.5	25.0	75.0	75.0	75.0	3.6	45.8
4.	Wahda Bank	3	2	4	4	4	4	37.5	25.0	50.0	50.0	50.0	50.0	3.5	43.7
5.	Commerce and Development Bank	0	0	2	2	2	2	0.0	0.0	25.0	25.0	25.0	25.0	1.3	16.6
6.	Alsaraya Trading and Investment Bank	0	0	0	0	0	1	0.0	0.0	0.0	0.0	0.0	12.5	0.1	2.1
7.	Mediterranean Bank	0	0	0	0	0	0	0.0	0.0	0.0	0.0	0.0	0.0	0	0.0
8.	Alwaha Bank*	0	0	1	1	3	3	0.0	0.0	12.5	12.5	37.5	37.5	1.3	16.6
9.	Alwafa Bank*	0	0	4	5	5	5	0.0	0.0	50.0	62.5	62.5	62.5	3.1	39.5
Total %		1	0.8	2.3	3	3.2	3.3	12.5	11.1	29.1	37.5	40.2	41.6	2.3	28.7

*Unlisted commercial banks

8.3.5 Category E: Corporate governance information

This is the final information category (E) appearing in the self-constructed voluntary disclosure index; it contains nineteen items of information which are expected to be disclosed voluntarily in the annual reports of Libyan commercial banks. Disclosing information on corporate governance can be used as a signal of the transparency of commercial bank management to external stakeholders.

Table 8.8 indicates that listed and unlisted Libyan commercial banks on average voluntarily disclosed about six items of the total of this category's information items (19 items). The average highest number of disclosed items was about 9 items out of 19 information items, which was reported by Commerce and Development Bank (listed), while a lower average number of disclosed items was about one item (Alsaraya Trading and Investment Bank (listed)).

Table 8.8 also shows that over the period of the study (2006-2011), the average total scores regarding the disclosure of corporate governance information was relatively low (31.6%). The highest disclosure score value (49.1%) was achieved by Commerce and Development Bank (listed), while the lowest value score (7%) was attained by Alsaraya Trading and Investment Bank (listed).

It is clear from Table 8.8 that, during the six years studied (2006 -2011), there were moderate increases in both the average disclosure scores and the average number of disclosed items within this category. More precisely, the total average disclosure score and the total average number of disclosed items were 17.5% (3 items) in 2006, 22.8% (4 items) in 2007, 32.7% (6 items) in 2008, 36.8% (7 items) in 2009, 38% (7 items) in 2010 and 42.1% (8 items) in 2011. It can be concluded that the majority of the sampled commercial banks (listed and unlisted) do not disclose adequate corporate governance information in their published annual reports.

This outcome is not surprising as it results from a lack of financial reporting and disclosure regulation as well as the absence of legal enforcement in the country. In comparison with similar prior studies in other countries, the quantity of corporate governance information provided in the annual reports of Libyan commercial banks from

2006 until to 2011 was not encouraging. For example, in a developing country, Hossain and Reaz (2007) reported that listed banking companies in India disclosed an adequate level of voluntary information related to corporate governance in their annual reports. A more recent relevant study in a developed country by Maingot and Zeghal (2008) indicated that Canadian banks disclose a large volume of information related to corporate governance, covering a total of 54 items.

Table 8.8: Descriptive statistics: Corporate governance information (E)

No.	Commercial Bank Name	Number of Disclosed Items by each Commercial Bank out 19 Items						Disclosure Score %						Pooled	
		2006	2007	2008	2009	2010	2011	2006	2007	2008	2009	2010	2011	Average of Number Items Disclosed	Average Disclosure Score%
1.	Sahara Bank	5	6	9	9	9	9	26.3	31.5	47.3	47.3	47.3	47.3	7.8	41.2
2.	Gumhouria Bank	6	5	9	10	11	11	31.5	26.3	47.3	52.6	57.9	57.9	8.5	45.6
3.	National Commercial Bank	3	5	7	10	10	11	15.7	26.3	36.8	52.6	52.6	57.9	7.6	40.3
4.	Wahda Bank	5	7	10	11	11	11	26.3	36.8	52.6	57.9	57.9	57.9	9.1	48.2
5.	Commerce and Development Bank	3	7	11	11	12	12	15.7	36.8	57.9	57.9	63.1	63.1	9.3	49.1
6.	Alsaraya Trading and Investment Bank	0	1	1	2	2	2	0.0	5.2	5.2	10.5	10.5	10.5	1.3	7.0
7.	Mediterranean Bank	3	3	3	3	3	6	15.7	15.7	15.7	15.7	15.7	31.5	3.5	18.4
8.	Alwaha Bank*	4	4	5	5	5	6	21.1	21.1	26.3	26.3	26.3	31.5	4.8	25.4
9.	Alwafa Bank*	1	1	2	2	2	4	5.2	5.2	10.5	10.5	10.5	21.1	2	10.5
Total %		3.3	4.3	6.3	7	7.2	8	17.5	22.8	33.3	36.8	38.0	42.1	6.0	31.7

*Unlisted commercial banks

Table 8.9 summarises the descriptive statistics of voluntary disclosure scores of the five information categories over the six-year period of the study, while Figure 8.2 illustrates the extent of voluntary disclosure of the five information categories over the study years, 2006-2011. From Table 8.9 and Figure 8.2 it can be noted that there is a varied dissimilarity in the range of the voluntary mean disclosure scores in each of the five information categories over the six years.

Among the five categories of voluntary disclosure, background about the commercial bank/ general information (category A) has the highest overall mean disclosure score, which was approximately 62.4%; it was followed by financial ratios and other statistics information (category C, 41.4%), corporate governance information (category E, 31.7%), and accounting policies (category D, 28.7%), but social responsibility information category (B) has the lowest average voluntary disclosure score of 0.5%.

More specifically, the background about the commercial bank/ general information (category A) has a minimum disclosure score of 28.8% and a maximum disclosure score of 86.3%, while social responsibility information (category B) has a minimum disclosure score of 0.0% and a maximum disclosure score of 4.1%. Financial ratios and other statistics information (category C) has a minimum disclosure score of 16.6 %, and a maximum disclosure score of 65.88 %.

Accounting Policies (category D) has a minimum disclosure score of 0.0 % and a maximum disclosure score of 64.5 %. The minimum voluntary disclosure score for the final category (E) i.e. corporate governance information was 7 % and a maximum disclosure score was 49.13 %. In general, the disclosure of the five information categories has improved over the six-year period of the study; however, the variances between them were relatively much greater.

As can be seen from Table 8.9 and Figure 8.2, there is a slight improvement in the extent of general information disclosure (Category A) over the six years; the mean disclosure score value is 46.4 %, 48.4%, 66.6%, 69.7%, 71.7% and 71.7% for the six-year period from 2006 to 2011, respectively. On the other hand, the extent of the social responsibility information disclosure has shown no improvement during the six years, and remained the lowest disclosed category in the current study.

In addition, the extent of voluntary disclosure related to financial ratios and other statistics information, as illustrated in Figure 8.2, has improved over the six years; the mean disclosure score was 24.8% in 2006, but in 2011, the disclosure score value reached 54.5%.

It can also be seen from Figure 8.2 that the extent of annual voluntary disclosures about the accounting policies over the period of the study has increased, with the exception of the fiscal year (2007); the voluntary mean disclosure was 12.5% in 2006, but in 2007 its score has dropped to 11.1%, then it improved continually to reach the score value 41.6% in 2011. Moreover, as could be seen from Figure 8.2, there was a reasonable increase in the extent of corporate governance information disclosure over the six years, with its score ranging from 17.5 % in 2006 to 42.1% in 2011.

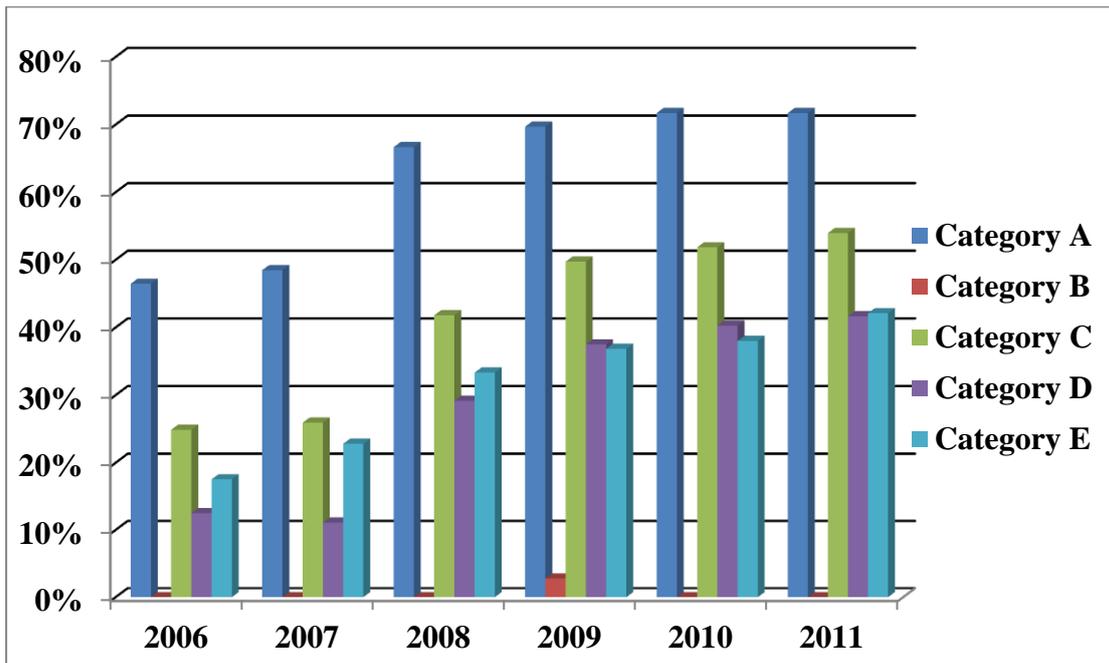
In summary, the previous five subsections have analysed the extent of voluntary disclosure by information categories. Overall, there were gradual increases in the quantity of the voluntary information provided by those preparing Libyan commercial banks' annual reports over the six years studied. However, the credibility of such information is still in doubt and is difficult to determine without further examination.

It is appears from the analysis that the Libyan commercial banks' managers are more motivated to disclose additional information related to the background about the commercial bank/ general information than others types of information. In contrast, they have no incentive to provide social information in their published annual reports. The analysis also shows that those preparing Libyan commercial banks' annual reports disclosed certain information voluntarily about financial ratios and other statistical information, their accounting policies, and corporate governance, but the amount of information they provided in their published annual reports to the public is still insufficient.

Table 8.9: Summary of the descriptive statistics of voluntary disclosure scores by information categories

Information Categories	Mean percentage score						Pooled	Minimum Score%	Minimum Score%
	2006	2007	2008	2009	2010	2011			
A. Background about the Commercial Bank/ General Information	46.4	48.4	66.6	69.7	71.7	71.7	62.4	28.8	86.3
B. Social Responsibility Information	0 . 0	0 . 0	0 . 0	2 . 7	0 . 0	0 . 0	0.46	0.0	4.1
C. Financial Ratios and Other Statistics Information	24.8	25 . 9	41.8	49.7	51.8	54.5	41.4	16.6	65.8
D. Accounting Policies	12.5	11.1	29.1	37.5	40.2	41.6	28.7	0.0	64.5
E. Corporate Governance Information	17.5	22.8	33.3	36.8	38.1	42.1	31.7	7.1	49.1

Figure 8.2: Extent of voluntary disclosure information categories



8.4 Comparison of the Results of this Study with Previous Studies

This section compares the analysis findings reported in the current study with the results reported in similar studies conducted in different countries, either developing or developed. As has been indicated in the literature review chapter, very few previous empirical disclosure studies have focused on the extent of banking voluntary disclosure, since most of the prior earlier disclosure studies have excluded banks and other financial institutions from their samples.

“Financial services companies such as banks and insurance companies were excluded because their specific financial characteristics, affect their information disclosure” (Hassan et al., 2009, p. 88). However, comparison with other studies will not be realistic for some reasons. First, these prior empirical studies have had different numbers of information items in the self-constructed disclosure index and different information categories items, as pointed out by Citro (2013, p. 200)

Prior studies have showed a great variation in the construction of a disclosure index, principally referred to the type of information disclosed and the number of items of information included in the index.

In addition, most previous research evaluated the aggregate disclosure level (mandatory and voluntary) in the annual reports of listed banking companies only, and no clear results about the extent of voluntary disclosure were reported (e.g. Hossain, 2008). More importantly, the majority of prior relevant research measured the extent of banking voluntary disclosure for one year only (e.g. Hossain and Taylor, 2007; Hossain and Reaz, 2008).

In addition, as pointed out in the literature review chapter of this thesis, there are very limited academic studies assessing the extent of voluntary disclosure in annual reports of banks and investigating its relationship with bank-specific characteristics; however no results have been reported by some of these published studies relating to general levels of voluntary disclosure scores. For example, Hossain and Taylor (2007) investigate the relationship between firm-specific characteristics and the extent of voluntary disclosure of a sample of banking companies in Bangladesh, but no results were reported relating to the voluntary disclosure score.

Furthermore, a study by (Kribat, 2009) examined empirically the extent of aggregate financial disclosure (mandatory and voluntary) in Libyan banks' annual reports. This study found that only 54% of information items were disclosed on average by sample banks (with a range of 39% to 67%). However, as a study result it can hardly be interpreted since there was no clear distinction made between the results of the extent of mandatory and voluntary disclosure levels. Only two studies found in the empirical disclosure literature reported direct evidence about the extent of banking voluntary disclosure (i.e. Hossain and Reaz, 2008; Agyei-Mensah, 2012). Hossain and Reaz (2008) found that, on average, the extent of voluntary disclosure in annual reports of Indian's banks was 34.7%, while Agyei-Mensah (2012) found that the mean value of the disclosure index score was 71%.

However, the empirical results of these studies cannot be directly compared with the results of the current study because of the time period and the different types and number of information items measured. As the above discussion attests, the results of the current study can be seen as primary evidence taking into account the development of voluntary disclosure practices by listed and unlisted banks over a period of time.

8.5 Examining the Relationship between a Commercial Bank's Attributes and the Extent of Voluntary Disclosure

As was mentioned previously at the beginning of this chapter, this section is devoted to discussion and analysis of the key empirical findings of the testable hypotheses for research question three, which was developed in Chapter Six. Specifically, it aims to investigate whether there is an association between the extent of total voluntary disclosure as the dependent variable (i.e. TVDIS) and a number of commercial banks' attributes (independent variables).

The independent variables expected to have an effect on the extent of total voluntary disclosure investigated in the current study are: commercial bank size (SIZE), commercial bank age (AGE), profitability (PRFT), bank liquidity position (LQDP), government ownership (GOVR), foreign ownership (FOWN), and listing status (LISTS).

This section was divided into two subsections; subsection (8.5.1) provides the result of univariate analysis. Subsection (8.5.2) discusses and reports on the results of multivariate analysis, and also compares the current study findings with results from previous relevant studies.

8.5.1 Univariate analysis

As has been pointed out in Chapter Six in section (6.9.3), two types of univariate analysis are performed in the current study: descriptive analysis for dependent and independent variables was first undertaken, which includes mean, standard deviation, minimum, maximum, skewness, and Kurtosis. The second univariate analysis is a correlation analysis, which was conducted to investigate the relationship between the dependent variable and each of the independent variables.

8.5.1.1 Descriptive statistics

Table 8.11 displays the descriptive statistics for dependent and independent variables used in this study. The descriptive statistics show that the mean value of the extent of voluntary disclosure is relatively low (38%), with S.D 18%, and a range from 8% to 70%. This implies that none of the Libyan listed and unlisted commercial banks disclosed all index voluntary information items. An analysis of this table also showed that the four continuous commercial bank attributes (i.e. age of the bank (AGE), commercial bank size (SIZE), profitability (PRFT), and bank liquidity position (LQDP)), had varied ranges.

From the descriptive statistic in Table 8.11, it can be observed that the average age of the commercial banks is about 23 years, with minimum 2 years and maximum 43 years from date of commencement to 2006. The mean value of commercial bank size is 20.908 (as represented by log of total assets), with ranges from 17.501 to 24.081, with S.D (2.061). As shown also in the table, commercial banks' profitability (PRFT) ranges from -0.0179 to 0.048, with average of 0.0075, and commercial bank liquidity position (LQDP) has a mean value 1.15 and a range from 0.96 to 1.58.

Remarkably, the standard deviations (S.D.) do not show a large range in most of the continuous independent variables, with the exception of one independent variable (i.e. AGE); the standard deviation of this variable is 15.78. The mean value of government ownership (GOVR) is approximately 55 %, with a S.D of 0.501, while foreign ownership (FOWN) value has a mean of 33%, with a S.D of 0.475. Listing status (LISTS) has a mean value of 77 %, with a S.D of 0.503. This shows a huge variability between the commercial banks in the sample concerning their listing status.

Table 8.10: Descriptive statistics for dependent and independent variables

Variable	Mean	S.D.	Min.	Max.	Skewness	Kurtosis
TVIDS	0.38	0.185	0.08	0.70	0.2476	1.7253
GOVR*	0.55	0.501	0.00	1.00	-0.2236	1.05
FOWN*	0.33	0.475	0.00	1.00	0.7071	1.5
AGE	23.27	15.780	2	43	0.1512	1.2609
LISTS*	0.77	0.503	0.00	1.00	-0.1485	1.0221
SIZE *	20.908	2.061	17.501	24.081	-0.1329	1.5255
PRFT	0.0075	0.0095	-0.0179	0.048	1.4043	8.3795
LQDP	1.1596	0.1427	0.96	1.581	1.3328	4.1388

Note:* **LISTS** (% of total banks listed on LSM), **GOVR** (% of total banks owned by government), **FOWN** (% of total banks owned by government), and **SIZE** (Log of total assets).

8.5.1.2 Correlation analysis

The results for the Spearman's rank correlation matrix for the dependent variable (TVIDS) and independent variable are exhibited in Table 8.11.

Table 8.11: Spearman's rank correlation matrix

Spearman's rank correlations between variables								
	TVDIS	AGE	GOVR	FOWN	LIST	SIZE	PRFT	LQDP
TVDIS	1.0000							
AGE	0.5455** (<0.0001)	1.0000						
GOVR	0.5121** (0.0001)	0.0000 (1.0000)	1.0000					
FOWN	0.4061** (0.0023)	0.0000 (1.0000)	0.1581 (0.2535)	1.0000				
LIST	0.6034** (<0.0001)	0.5545** (<0.0001)	0.0664 (0.6331)	0.2626 (0.0551)	1.0000			
SIZE	0.8726** (<0.0001)	0.2571 (0.0606)	0.7747** (<0.0001)	0.3756** (0.0051)	0.4015** (0.0026)	1.0000		
PRFT	-0.1805 (0.1914)	-0.2901* (0.0333)	-0.4711** (0.0003)	0.0769 (0.5806)	0.0036 (0.9795)	-0.3241* (0.0168)	1.0000	
LQDP	-0.3611** (0.0073)	0.0017 (0.9900)	-0.1232 (0.3750)	-0.1979 (0.1515)	-0.0775 (0.5777)	-0.3264* (0.0160)	-0.0811 (0.5599)	1.0000

* Correlation is significant at the 0.05 level.

** Correlation is significant at the 0.01 level.

P-values are given in parentheses: ().

Table 8.12 indicates a number of significant correlations between the commercial bank characteristics (independent variables) and the extent of voluntary disclosure in annual reports (TVDIS). The univariate analysis shows that the TVDIS variable is positively correlated with AGE ($r = 0.545$), GOVR ($r = 0.512$), LISTS ($r = 0.603$), and FOWN ($r = 0.406$) and these correlations are statistically significant at ($P < 0.01$) level. The extent of voluntary disclosure also shows a significant positive association with commercial bank size (SIZE) ($r = 0.873$) at ($P < 0.01$) level.

In contrast, the extent of voluntary disclosure is negatively associated with the profitability variable (PRFT) ($r = -0.180$, $p = 0.191$) and bank liquidity position (LQDP) ($r = -0.361$, $p = 0.073$). Overall, almost of these findings are in agreement with research hypotheses concerning the association between the extent of voluntary disclosure in annual reports and commercial banks' attributes.

8.5.2 Multivariate analysis

In the previous section (8.5.1), the univariate statistical analysis was conducted to investigate the correlations between dependent variables and each independent variable. As has been discussed in section (6.9.2), Chapter Six, the multivariate analysis is considered

to be more appropriate to assess the collective effect of the commercial bank attributes on the general level of voluntary disclosure. Thus, this section reports and interprets the results for the multivariate test of the research hypotheses developed in Chapter 6, using the Ordinary Least Squares (OLS) longitudinal panel regression model with robust standard error squares. Before running the multiple linear regression analysis, the assumptions underlying the OLS regression were tested for not being seriously violated. Results of these tests are summarised and briefly discussed in the following subsections.

8.5.2.1 Assessing the assumption of normality

From the descriptive analysis for the dependent and independent variables reported in Table 8.11, it can be observed that the value of standard kurtosis of TVDIS was not significant at the 0.05 level. While commercial bank profitability, and liquidity variables were, the kurtosis statistics confirmed that the variables are not distributed normally, because the standard kurtosis for these variables exceed the normality range of ± 3 (Haniffa and Hudaib, 2006). In addition, a Shapiro-Wilk test also applied and rejected the assumption of normality ($p = 0.00774$). Further test concerns regarding normality of the residuals are performed in this study using Kernel density estimation; a histogram with narrow bins and a moving average (see Appendix No.7).

The results of this test showed a lack of normality in the residual errors. As a consequence, before running the OLS linear regression analysis, in line with prior research (e.g. Ahmed and Nicholls, 1994; Wallace et al., 1994; Wallace and Naser, 1995; Hossain, Perera and Rahman, 1995; Raffournier, 1995; Inchaust, 1997; Depoers, 2000) the natural logarithmic transformations of the TVDIS and two explanatory variables was performed in order to satisfy the assumption of normality for the multivariate OLS linear regression model. The safest approach is to use transformations of variables to improve their normality (Tabachnick and Fidell, 2007, p. 78).

8.5.2.2 Multicollinearity diagnostics

Another important issue that should be considered before the OLS regression model is performed is multicollinearity. Multicollinearity is a problem which occurs if one of the independent variables is exactly, or nearly, a linear combination of the other independent variable. As pointed out by Cooke (1989a), one of the problems in undertaking any multiple regression analysis is that there may be multicollinearity between independent

(predictor) variables. In other words, a multicollinearity problem arises when there is a high degree of correlation among independent variables.

As the amount of multicollinearity increases, estimation of the model coefficients becomes unstable and the standard errors can be excessively large. As stated by Garson (2012), a high multicollinearity leads to large standard errors, large confidence intervals, and diminished power. Although the regression software program (STATA) ignores explanatory variables resulting in serious multicollinearity, however, it was essential to inspect whether collinearity is a problem before running the regression model, using Variation Inflation Factor (VIF).

The VIF indicates how much the variance of the coefficient estimate has been inflated by multicollinearity, although there is no formal VIF value for determining the presence of multicollinearity. However, O'Brien (2007) suggested that if the VIF is >10 there is robust evidence that collinearity is affecting the OLS estimates. Table 8.13 shows that all the independent variables had VIF values of less than 10, while the mean of VIF is 3.22. Thus, it can be concluded that the issue of multicollinearity does not exist among the present study's independent variables. Consequently, the results of the regression analysis can be interpreted with a high degree of confidence.

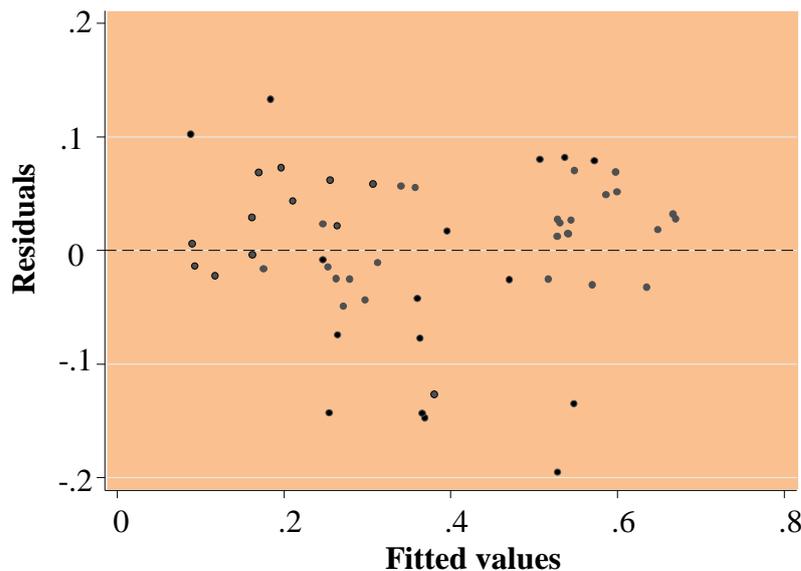
Table 8.12: Multicollinearity test results (VIF)

Variable	VIF	Results
SIZE	6.78	No Multicollinearity presents
AGE	5.78	No Multicollinearity presents
LQDP	1.2	No Multicollinearity presents
PRFT	1.56	No Multicollinearity presents
LISTS	1.64	No Multicollinearity presents
GOVR	4.15	No Multicollinearity presents
FOWN	1.41	No Multicollinearity presents
Mean VIF		3.22

8.5.2.3 Checking the homoscedasticity of residuals

Another key assumption for multivariate OLS model is homogeneity of the variance of the residuals. The failure of homoscedasticity can be caused either by non-normality of one of the variables or by the fact that single variable is linked to some transformation of the other (Tabachnick and Fidell, 2007). A commonly used graphical method is to plot the residuals versus fitted (predicted) values. If the multivariate OLS model fits well, the residual errors should be equally distributed about zero when plotted against the fitted values of disclosure and against each independent variable. From Figure 8.3, it is evident that a greater number of points lie above the reference line than below, but a number of the points below the line represent a greater magnitude of residual error. Therefore, the data does not have equal dispersion about the fitted values.

Figure 8.3: A plot of the residuals against the fitted values



To validate the visual evidence of heteroscedasticity, White's test and the Breusch-Pagan test were applied. Both of these test the null hypothesis that the variance of the residuals is homogenous. Therefore, if the p -value is very small, then the hypothesis has to be rejected and the alternative hypothesis that the variance is not homogenous must be accepted. These tests are very sensitive to model assumptions. Therefore, it is advisable to combine the tests with the diagnostic plots in Figure 8.3 to make a judgment on the severity of the heteroscedasticity and to decide if any correction is needed.

Although neither test results in a rejection of the null hypothesis (White's test: $p = 0.3006$, Breusch-Pagan test: $p = 0.2131$), both are based on the assumption that the errors are normally distributed, which has already been seen is not the case when the graphical method is used. Accordingly, the regression assumption has not been violated and the multivariate OLS model can be used with more confidence. However, in the case with heteroscedasticity, transformation of the variables leads to reduction or elimination of heteroscedasticity (Tabachnick and Fidell, 2007).

8.5.2.4 Results of OLS regression analysis

After the basic assumptions for the OLS regression model are tested and the validity of analyses was confirmed by using statistical software, STATA 12, the results of the OLS longitudinal panel regression with clustered robust standard error is presented in Table 8.13.

Table 8.13: Results of the OLS longitudinal panel regression with clustered robust standard error

Independent Variables	Coefficient	Robust SE	t-statistic	p-value	[95% Confidence Interval]
AGE	-0.002	0.001807	-1.1	0.302	-0.00616 0.002173
GOVR	-0.03972	0.055928	-0.71	0.498	-0.16869 0.089253
FOWN	-0.01184	0.037775	-0.31	0.762	-0.09895 0.07527
LISTS	0.125019*	0.042574	2.94	0.019	0.026844 0.223195
SIZE	0.087948**	0.019015	4.63	0.002	0.044099 0.131797
PRFT	1.098793	1.140526	0.96	0.364	-1.53126 3.72885
LQDP	-0.04419	0.102415	-0.43	0.677	-0.28036 0.191976
Adjusted $R^2 = 0.8404$					$p < 0.0001$
R -squared = 0.8615					
Prob > F = 0.0000					
Number of obs = 54					
SE= Standard Error					
- means negative effect, + means positive effect. * means significant at 0.05 ($p \leq 0.05$)					
** means significant at 0.01 ($p \leq 0.01$)					

The OLS regression longitudinal panel results presented in Table 8.14 show that the regression model with robust standard error is highly significant ($p < 0.0001$). The adjusted R square correlation is 0.84, which means that the OLS regression model is capable of explaining 84% of variation in the TVDIS of the selected commercial banks throughout this study period. This value of adjusted R^2 compares with that obtained in the prior relevant disclosure studies. It is higher than Hossain and Taylor (2007) at 24%, Hossain and Reaz (2007) at 25%, Agyei-Mensah (2012) at 8%, but the explanatory power of this model is lower than Hassan et al. (2009) in respect of non-financial companies (87.3%). A detailed discussion of the further regression result on the basis of research hypotheses is presented in the following paragraphs.

Hypothesis (H1): Age of the commercial bank (AGE)

Although the Spearman correlation matrix results show that commercial bank age has a positive correlation with the extent of voluntary disclosure (TVDIS), the results of OLS regression model as presented in Table 8.14 show no significant relationship between the age of a commercial bank and TVDIS. The regression coefficient for the predictor variable (AGE) is -0.002.

As a result, *H1*: “*There is a significant positive association between the extent of voluntary information disclosure in annual reports and the age of a commercial bank*” is rejected. In brief, according to the OLS regression results, it can be inferred that there is no significant positive relationship between a commercial bank’s age and the level of voluntary disclosure in annual reports.

The result of this study is consistent with Hossain and Reaz (2007), who found that bank age is not statistically significant in explaining the level of voluntary disclosure in India. Hossain (2008) also found no relationship exists between Indian banking companies’ age and the extent of disclosure. A more recent study by Galani et al. (2011), found the age of the company to be insignificant in explaining the variation of disclosures in the annual reports of non-financial Greek companies. In contrast, a significant positive relationship between the company’s age and the extent of disclosure has been found by Owusu-Ansah (1998; 2005).

Hypothesis (2): Size of commercial bank (SIZE)

The regression results as shown in the Table 8.14 revealed that the most important commercial bank attributes that helps explain variations in the extent of voluntary disclosure in the annual reports of Libya's commercial banks is size. The regression coefficient for the variable is 0.087948, which is positive and very significant at the 0.002 level ($p \leq 0.01$). As a result, *H2: "There is a significant positive association between the size of a commercial bank and the extent of its voluntary information disclosure in the annual reports"* is strongly accepted.

Overall, it can be concluded, based on the statistical results displayed in Table 8.14, that there is a significant positive relationship between a commercial bank's size as represented by total assets (log of assets) and voluntary disclosure level in annual reports. This result is line with the outcomes from prior relevant disclosure studies. For instance, in Bangladesh, Hossain and Taylor (2007) found a significant positive relation between the bank size (as measured by log of assets) and the extent of voluntary disclosure. In India, Hossain and Reaz (2007) also found a positive association between the size of the bank and annual reports voluntary disclosures. By contrast, Agyei-Mensah (2012), found no significant relationship between the voluntary disclosure level and bank size as represented by value of net assets.

Hypothesis H3: Commercial bank liquidity position (LQDP)

The regression result indicated that the effect of bank liquidity position on TVDIS, as represented by current ratio is generally negative, with the coefficient of -0.04419. Therefore, *H3: "Commercial banks with higher liquidity position disclose more information voluntarily than do commercial banks with lower liquidity position"* is not accepted. In short, the OLS statistical analyses show that a commercial bank's liquidity position has no statistically positive relationship with voluntary disclosure levels.

This result coincide with Agyei-Mensah (2012), who found no relationship between liquidity and the extent of voluntary disclosure in annual reports of rural banks in the Ashanti region of Ghana. Galani et al. (2011) also found the firm liquidity to be insignificant in explaining the variation of the disclosure levels. Nevertheless, the finding of the current study disagrees with the findings of Owusu-Ansah (2005) and Alsaeed (2006).

Hypothesis H4: Profitability of the commercial bank (PRFT)

According to the OLS regression results, the influence of profitability on the extent of voluntary disclosure is not statistically significant ($p = 0.364$). This is inconsistent with the a priori expectation of signalling theory and agency theory. As a result, **H4**: “Commercial banks with higher profit are more likely to disclose higher voluntary information than are commercial banks with lower or negative profit” cannot be accepted.

The current result is consistent with the findings in Hossain and Taylor (2007). They found the profitability variable, as measured by return on assets (ROA), is not significant in determining the extent of voluntary disclosure in annual reports of Bangladeshi commercial banks. Another researcher, Rouf (2010), found that the extent of voluntary disclosure by listed non-financial companies of Bangladesh is not positively associated with the profitability variable.

By contrast, the finding of this study contradicts the finding of Agyei-Mensah (2012). He found that the association between profitability variable as presented by return on capital employed (ROCE) and voluntary disclosure level in Ghana is statistical positive. Hossain (2008) also found a significant positive relationship between profitability and the disclosure levels in the annual reports of listed banking companies in India.

Hypothesis H5: Government ownership (GOVR)

The results of the OLS model as shown in Table 8.14 indicate that the variable of government ownership is negatively associated with voluntary disclosure level. The regression coefficient for the government ownership variable is -0.03972 and negative. Thus, **H5**: “There is a significant association between the extent of information voluntarily disclosed in the annual report and government ownership” is not statistically supported.

In sum, the regression results confirmed a negative association between government ownership and the extent of voluntary disclosure in annual reports of Libya’s commercial banks. This result is similar to Ghazali and Weetman (2006), who found a negative relationship between government ownership and the extent of voluntary disclosure. In contrast with the current study result, a number of studies have found a positive relationship between government ownership and the level of disclosure in annual reports. Scholars such as, Makhija and Patton (2004) found that government ownership is a

significant determinant of the overall extent of disclosure. Ghazali (2007) also found a significant positive relationship between the level of disclosure and government ownership. These findings were found typically by using a number of alternative definitions for government ownership.

Hypothesis H6: Foreign ownership (FOWN)

The statistical results show that foreign ownership is negatively associated with the extent of voluntary disclosure in the commercial banks' annual reports, with the coefficient of -0.01184. This empirical result does not coincide with agency theory explanations. Accordingly, *H6: "there is a positive association between the extent of information voluntarily disclosed in the annual reports and foreign ownership"* is not supported in this study. In summary, the statistical tests performed reveal that there is an insignificant association between foreign ownership and the extent of voluntary disclosure provided in the annual reports.

The current result of this study is consistent with empirical research by Naser et al. (2002), who found that there was no association between foreign ownership and the extent of disclosure in corporate annual reports. Furthermore, Said et al. (2009) report no association between foreign ownership and the voluntary disclosure level. In contrast, researchers such as Haniffa and Cooke (2002), (2005); Barako et al. (2006); Wang et al. (2008) find a positive relationship between foreign ownership and companies' voluntary disclosures.

Hypothesis H7: Listing status (LISTS)

The OLS statistical results show that listing status has a positive association with commercial banks' voluntary disclosure levels. The correlation coefficient for the variable is 0.125019, which is positive and at the level of significance 0.019 ($p \leq 0.05$). Thus, *H7: "There is a positive association between the commercial bank listing status in the Libyan stock market and the level of information voluntarily disclosed in the annual report"* is strongly accepted. In short, the results of the tests support the hypothesis that there is a positive significant association between a commercial bank's listing status and voluntary disclosure level.

This result is similar to prior empirical studies which have shown that there is a positive relationship between listing status and disclosure levels (e.g. Singhvi and Desai, 1971;

Cooke, 1989a; Cooke, 1991; Malone et al., 1993; Wallace et al., 1994; Hossain et al., 1995; Inchausti, 1997; Abdul Hamid, 2004). The current study result contrasts with the finding by Buzby (1975), who reported no significant positive association between listing status and the extent of information disclosure in the corporate annual reports.

8.6 Summary and Conclusions

The purpose of this chapter has been to empirically investigate the extent of overall voluntary information disclosed in the annual reports of Libyan listed and unlisted commercial banks during the period 2006-2011 (the first objective); their trend across time (the second objective); and whether an association exists between seven commercial banks' attributes (bank size, bank age, bank liquidity position, profitability, government ownership, foreign ownership, and listing status); and the level of voluntary disclosure (the third objective).

The results of the descriptive analysis showed that the extent of overall of voluntary disclosure in annual reports of Libyan's listed and unlisted commercial banks is a relatively low (38%) with a range from 8% to 70 %. However, there were slight improvements (the average was 25.7%) in the extent of overall voluntary disclosure in the annual reports of Libyan commercial banks between 2006 and 2011.

The empirical results also indicated that there have been variations in the general level of voluntary disclosure among Libyan commercial banks over the six-year period covered by the current study, ranging from a low of 19% (Alsaraya Trading and Investment Bank (listed)) to a high of 59 % (Gumhouria Bank (listed)). Furthermore, this chapter has analysed the extent of voluntary disclosure by information categories.

The 63 information items comprising a self-constructed voluntary disclosure index were grouped into five information categories: (A) background about the commercial bank/ general information (11 items); (B) social responsibility information (4 items); (C) financial ratios and other statistics information (21 items); (D) accounting policies (8 items), and (E) corporate governance information (19 items).

The analysis showed that there is a varied difference in the mean voluntary disclosure scores amongst the five information categories over the six years. Among the five

information categories forming the index, the background information category had the highest disclosure level (62.4%), followed by financial ratios and other statistics information (41.4%), corporate governance information (31.7%), accounting policies (28.7%); lastly, the social responsibility information category (B) had a low level of voluntary disclosure score (0.46%).

The chapter also reported the results of testing the hypotheses which were developed in Chapter Six; two statistical tests were performed, univariate and multivariate tests. In general, univariate and multivariate tests provided inconsistent results. Univariate analysis was conducted to ascertain whether there are significant correlations between the extent of voluntary disclosure and each single commercial bank's attributes (independent variables).

The univariate test results showed that the voluntary disclosure level was positively significant when correlated with commercial bank age, bank size, government ownership, foreign ownership, and listing status. In contrast, the extent of voluntary disclosure was negatively associated with the profitability variable and bank liquidity position.

A second multivariate statistical analysis was carried out, using a multivariate OLS longitudinal panel regression model with robust standard error, which was applied after underlying assumptions were tested to examine the simultaneous effect of commercial bank-specific characteristics on the general level of voluntary disclosure. The results of multivariate analysis show a significant positive association between the extent of overall voluntary disclosure and commercial bank size and listing status. However, no significant association was found between the voluntary annual disclosures and other explanatory variables.

The following chapter will summarise the current study and indicates the implications, contributions, limitations, and the suggestions that flow from it.

Chapter Nine

Summary, Conclusions, Implications, Contributions, Limitations and Suggestions for Further Research

1. Introduction

The last chapter of this thesis is devoted to giving a brief a summary of the research, including the research methodology and methods, main conclusions of the current research, and indicates its implications, contributions, and limitations. Further, the suggestions for further research are also provided in this chapter. This chapter has been organised into five sections. Section (9.2) outlines the research methodology and methods. Section (9.3) summarises the main findings and conclusion of the current study. Section (9.4) discusses the implications of research findings. Section (9.5) presents the main contributions of this study. Section (9.6) highlights the limitations of the study, and the final section (9.7) provides suggestions for further research.

9.2. Research Methodology and Methods

In this study, a mixed methods research approach-a mixture of both quantitative research and qualitative research has been adopted in order to gain a better understanding of voluntary disclosure issue in the context of the banking sector, rather than applying either approach alone. The decision behind integrating both approaches within the current study was justified in the methodology and methods chapter. In line with the objectives of the study, four main research methods have been used in the current study. These were:

- Self-constructed un-weighted disclosure index method, to measure the total level of voluntary disclosure in annual reports.
- Longitudinal research approach, to investigate whether there have been any significant changes or developments in the extent of voluntary disclosure over the six-year period.
- Univariate and multivariate analyses, to test the hypotheses developed in this study.

- Face-to-face semi-structured interviews, to obtain accurate and more detailed information about current commercial banking financial reporting and disclosure practices.

9.3 Conclusions of the Study

This section summarises, in the following subsections, the main empirical findings reported in Chapters Seven and Eight of this thesis.

9.3.1 The interviews results

To gain a deeper insight into current financial reporting and disclosure practices by Libyan listed and unlisted commercial banks, face-to-face semi-structured interviews with those responsible for preparing Libyan's commercial banks annual reports were conducted to capture their opinions and views, mainly about two issues. Firstly, their views about current financial reporting and mandatory disclosure practices; Secondly, their perceptions about a series of issues relating to voluntary disclosure practices, which include factors influencing the extent of voluntary disclosure, benefits and costs of voluntary disclosure, the usefulness of voluntary disclosure in economic decision-making, and the usefulness of voluntary disclosure to a wide range of users.

According to the interviewees, the current financial reporting and mandatory disclosure practices in Libya in general, and in the banking sector in particular, still do not reach the same level of development currently achieved by most Arabic countries with similar socio-economic environmental conditions. In particular, interviewees raised concerns about the absence of enforced national accounting standards and insufficient financial disclosure laws and regulations.

In respect of the legal disclosure requirements, the interviewees indicated that the consolidated balance sheet and profit and loss account statement were the only two sections of a financial report required to be annually disclosed to the general public. However, listed commercial banks were required to submit their audited annual consolidated financial statements, which must be accompanied with the auditor's report, quarter-yearly balance sheet statement, and quarter-yearly profit and loss account statement to the LSM.

Furthermore, the results of the interviews indicated that there is no legal requirement for supplementary information to be disclosed with the audited consolidated financial statements to the general public. In addition to this, no specific information items are required to be disclosed in the face of consolidated financial statements or other financial reports, either by banking law or the LSM regulations.

Libyan commercial bank annual reports' preparers have suggested a number of factors that influence the decision to disclose voluntary information in the annual reports of commercial banks. The most frequently influential factors were perceived to be the competition in the commercial banking industry, commercial bank size, profitability, and government ownership. Some interviewees suggested other factors, namely bank liquidity position, foreign ownership, commercial bank age, and listing status, as influential factors influencing the extent of voluntary disclosure.

The possible effects of these influential factors were tested in the quantitative study of this research, with the exception of the competition in the commercial banking industry; the statistical results reported in Chapter Eight showed that only size of commercial bank and listing status are significant factors associated with extent of voluntary disclosure in Libyan commercial banks' annual reports.

Enhancing a commercial bank's reputation and giving a positive impression of its prospects were the key benefits to a commercial bank of disclosing information voluntarily as suggested by interviewees. Additional benefits from participating in the voluntary disclosure in annual reports suggested during the interviews were gaining the trust of stakeholders, improved investor relations, and lower average cost of capital, while the most significant costs restricting the amount of information voluntarily disclosed in commercial banks' annual reports were preparatory costs, competitive disadvantages, and potential legal responsibility.

Finally, the respondents in the interviews believed that information voluntarily disclosed in the commercial banks' annual reports is useful and helpful in making economic decisions. Interviewees also perceived that the provision of voluntary information in the annual reports of commercial banks is useful for a wide range of users, in the sense of helping them to make decisions about those commercial banks.

9.3.2 Measuring the extent of voluntary disclosure in the annual reports

The extent of voluntary disclosure in the annual reports of Libyan listed and unlisted commercial banks was measured over the six years period (2006-2011) by developing a self-constructed un-weighted disclosure index comprising 63 voluntary information items, in which was consistent with prior research. The index items were classified into five information categories, namely (A) background about the commercial bank/ general information; (B) social responsibility information; (C) financial ratios and other statistics information; (D) accounting policies, and (E) corporate governance information. Selecting the information items included in the voluntary disclosure index was based on their relevance to the commercial banking sector.

To measure the extent of overall voluntary disclosure for every commercial bank in the sample for each year, a scoring sheet instrument (see Appendix Two) was designed, including the all voluntary disclosure index items (63) and using a dichotomous approach score, in which an item was given 1 if disclosed and 0 if not disclosed. The main reason for adopting this approach in the current study was to avoid the subjectivity inherent in using a weighted scoring approach. The total voluntary disclosure score (TVDIS), for each of the 54 annual reports from two unlisted and seven listed commercial banks in the sample, was calculated as the ratio of the actual voluntary disclosure score divided by the maximum voluntary disclosure score which that particular commercial bank is expected to earn.

The findings of the analysis showed that the average score of the overall voluntary disclosure in the annual reports of Libyan commercial banks over the six year period was low (38 %), with a range between 8% and 70%. In 2006, the extent of the voluntary score was 23.3%, but in 2011 the average score of voluntary disclosure increased by 49%. The results of this study also revealed that there was a greater variation in the voluntary disclosure scores obtained by Libyan commercial banks over the six year time period; the highest disclosure score over the six years was 59 %, achieved by Gumhouria Bank (listed), while the lowest disclosure score was 19%, reported by Alsaraya Trading and Investment Bank (listed).

Analysis also reveals that there was wide variation in the voluntary disclosure scores for listed commercial banks compared to the disclosure scores for unlisted commercial banks over the period under investigation. It is also interesting to note that most of the listed

commercial banks have improved the extent of their voluntary disclosure levels after their listing in the LSM. In addition, the analysis of voluntary disclosure scores suggests that the extent of voluntary disclosure by Libyan commercial banks has increased noticeably during the six years studied.

Furthermore, to satisfy the second research objective and answer the relevant research question, the study has also examined whether there were any significant developments in the extent of voluntary disclosure in the annual reports of Libyan listed and unlisted commercial banks during the time from 2006 to 2011. The results indicated that the changes in the extent of voluntary disclosure scores during the six-year period (2006-2011) were within a range of 2.1% to 25.7%. This means the quantity of voluntary information provided by Libyan commercial banks in their annual reports to the general public has increased progressively over the six years studied.

9.3.3 Evaluating the extent of voluntary disclosure by information categories

For further interesting results, the study has analysed the extent of voluntary disclosure by information categories. As discussed in the methodology chapter, the 63 information items included in a self-constructed voluntary disclosure index were grouped into five information categories according to their nature. The study found that there is a difference in the extent of the voluntary disclosure scores in each of the five information categories over the six years.

Among the five information categories forming the index, the background information category had the highest disclosure score value, which was approximately 62.5%, followed by financial ratios and other statistics information (41.5%), corporate governance information (31.8%), and accounting policies (28.7%), but the social responsibility information category (B) had the lowest average voluntary disclosure score, at 0.5%.

9.3.4 Examining the relationship between a commercial bank's attributes and the extent of voluntary disclosure

Seven hypotheses were formulated in section 6.8 of Chapter Six to examine the association between the extent of voluntary disclosure in annual reports and the commercial bank's attributes (i.e. bank size, bank age, profitability, bank liquidity position, government ownership, foreign ownership, and listing status).

Both univariate and multivariate analyses were applied to test these hypotheses. The results of the univariate analysis indicate that the extent of voluntary disclosure is positively correlated with commercial bank size, bank age, government ownership, foreign ownership, and listing status. However, the voluntary disclosure level was found to be negatively associated with the profitability variable and commercial bank liquidity position.

On the other hand, the result of multivariate OLS model shows that only two explanatory variables, namely commercial bank size and listing status, were found to be significant in explaining the variations in the extent of voluntary disclosure in the annual reports of Libyan listed and unlisted commercial banks over the study period, while the other variables were found to be insignificant. Overall, the results of the current study are consistent with the evidence documented by most prior research.

9.4 Implications of Research Findings

One of the objectives of the current study was to measure the extent of voluntary disclosure provided in the annual reports of Libyan listed and unlisted commercial banks over the six-year period. Findings from this investigation showed that the amount of financial and non-financial information disclosed in the annual reports of listed and unlisted commercial banks was very low, specifically in some categories of information.

This may offer suggestions for improving the extent of financial and non-financial information provided in the commercial banks' annual reports for their external users (i.e. shareholders, depositors, investors, stock brokers, government bodies, academics, and other users) in order to be able to make wise economic decisions. It also enables them to evaluate the commercial banks' activities and risk management practices, since the annual report published by a commercial bank is considered an important means of communicating financial and non-financial information between the bank's management and outsiders.

Overall, the research findings of this study have implications to various stakeholders of the commercial banks. More importantly, this knowledge provides a significant benefit to the LCB (as the government agency responsible for all banks) to adopt more regulations to

increase the extent of information disclosure in the commercial banks' annual reports and to improve disclosure transparency in the banking sector. Poor transparency banks are not likely to voluntarily disclose additional information about their management performances. It is widely recognised that increased transparency leads to a reduction in the frequency and magnitude of commercial bank difficulties.

Additionally, the present study also gives a better understanding and more insights into financial disclosure practices in the commercial banking sector in a developing country. It also provides beneficial insights to international institutions, especially those that are more interested in enhancing the regulatory framework for financial reporting and corporate governance in the emerging economies, such the BCBS, the IASB, the WB, and the IMF.

Generally, this study has found that more efforts from regulatory authorities must be undertaken to improve qualitative and quantitative disclosures in the commercial banks' annual reports in a way that better enables various stakeholders to assess management performance and risks. Undoubtedly, disclosing sufficient information in the annual reports may assist to advantage the management of commercial bank, in building customer confidence and profitable customer relationships.

Furthermore, findings from the qualitative study of this thesis revealed that the current financial reporting and mandatory disclosure practices by Libyan commercial banks compared to other international practices are still not robust enough, regulated enough and display a lack accounting regulation on the disclosure requirements to satisfy the information needs of external stakeholders. Therefore, commercial banks regulators should consider issuing a set of accounting and financial reporting standards or guidelines for the preparation of annual reports, which seem to be demanded from commercial banks annual reports preparers' viewpoints.

The findings of this study further indicate that the preparatory cost which includes cost of gathering, processing, and disseminating the information in the annual reports of commercial banks, and also costs of competitive disadvantage and potential legal responsibility are the major barriers that discourage managers of commercial banks from providing additional information in their annual reports.

Besides, the qualitative study found that the enhancing the commercial bank's reputation is one of the key benefits to a commercial bank of disclosing information voluntarily. Also, having voluntarily information disclosed in the annual reports, gives a positive impression of a commercial bank's prospects.

Additional benefits from participating in the voluntary disclosure were considered to be gaining the trust of stakeholders in the commercial banking managers, improved investor relations and lower average cost of capital. This would suggest that managers of commercial banks need to consider the costs and benefits of additional information disclosure in the annual reports before making them available to public.

Among other findings, the present study provides empirical evidence supporting the applicability of agency and signalling theories which were selected as the underlying theoretical framework in this research to explain voluntary disclosure in annual reports of commercial banks. Application of these theories in explaining factors influencing voluntary disclosure in the commercial banks' annual reports, however, was limited.

Another primary objective of this study was to determine whether there is any significant association between the extent of voluntary disclosure and commercial banks specific-attributes. This study has provided important empirical evidence related to the impact of commercial banks specific-attributes on the extent of voluntary disclosure provided in annual reports. For example, commercial bank size measured by total assets was found in this study to be the most significant variable in explaining variations in the voluntary disclosure levels. Hence, the nature of this empirical evidence suggests that larger commercial banks are motivated to disclose more information voluntarily in their annual reports than smaller banks.

This confirms the results obtained in Kahl and Belkaoui (1981), Hossain and Taylor (2007) and Hossain and Reaz (2007) and adds to the evidence that commercial bank size is an important explanatory variable for establishing an association with the overall level of information voluntarily disclosed by commercial banks in their annual reports. For practical implications of this finding, the regulatory bodies may pay specific attention to small commercial banks to enhance the extent of disclosure in their annual reports.

The empirical results in this study also showed the listing status to be a significantly and positively associated variable with the extent of voluntary disclosure in the annual reports. This provides evidence that the extent of voluntary disclosure by listed commercial banks is generally greater than other banks.

9.5 Contribution to the Knowledge

This study contributes to the limited academic literature in the area of banking industry disclosure and to the growing accounting literature on the association between corporate specific-attributes and the extent of voluntary disclosure in the following aspects:

- This study contributes to the academic disclosure literature by providing new empirical evidence of the relationship between certain corporate characteristics and the extent of voluntary disclosure in annual reports. To date, there is very little existing empirical evidence about the impact of commercial bank specific-attributes such as bank size, age of the bank, profitability, bank liquidity position, government ownership, foreign ownership, and listing status on the extent of annual voluntary disclosure. The empirical findings of this study indicate that the commercial bank size and listing status are significantly and positively related to the extent of voluntary disclosure.
- The study contributes to the existing literature by providing a longitudinal investigation of the extent of voluntary disclosure in the annual reports of Libyan listed and unlisted commercial banks over a six-year period, to determine whether the voluntary disclosure level has improved over time. Most prior empirical research has examined the commercial banking voluntary disclosure practices of only one year (cross-sectional), and hence, this study can be considered as an additional contribution to the body of knowledge.
- This the first empirical study that has investigated the level of information voluntarily disclosed by listed and unlisted Libyan commercial banks, and its relationship with corporate attributes. Examining voluntary disclosure practices in a country with different governance, economic conditions, social cultural characteristics, and dominant religion (Islam) has shed further light on the

external factors influencing corporate voluntary disclosure practices. A study of financial reporting and voluntary disclosure practices by the Libyan commercial banking sector will, therefore, contribute to the limited academic disclosure literature relating to banking sector disclosure and represent an addition to that body of knowledge.

- This study contributes to the academic accounting literature by attempting to confirm or disprove the findings reported in prior empirical disclosure studies concerning the relationship between the extent of voluntary disclosure in annual reports and bank specific-characteristics; it also provides a basis for the undertaking of future research. The findings of the current study provide support to prior empirical relevant research that has found a significant positive association between the extent of voluntary disclosure and bank size and listing status. The results of this study also provide evidence that age of the bank, profitability, bank liquidity position, government ownership, and foreign ownership do not have any significant relationship with the general level of voluntary disclosure. This result is inconsistent with some prior disclosure studies.
- Quantitative and qualitative methods (mixed methods research) were adopted in this study to investigate the voluntary disclosure behaviour in the Libyan banking sector, in order to gain a better understanding of voluntary disclosure issues in the context of the banking sector than by applying either approach alone. Prior studies that examined the extent of voluntary disclosure in the annual reports and its relationship with banks' attributes, have used only quantitative analysis and relied on information from banks' annual reports as a data source. Combined qualitative analysis in the study gives further insights into different disclosure issues and identifies other aspects that may not simply be obtained from the quantitative analysis. The use of mixed methods research in the current study is therefore considered as a further contribution to the body of knowledge.

- The findings of this updated study provide significant information for commercial banking management, banking regulators, the Central Banks, the accounting profession, potential local and foreign investors, researchers, international institutions, and other government agencies to help them to assess the transparency level and the amount of information available from Libyan commercial banks for the decision-making processes, especially since there is no enforcement of accounting and auditing standards in the country.

9.6 Limitations of the Study

There are some limitations of the current study, which can be summarised as follows:

Firstly, a self-constructed disclosure index, which was developed to measure the extent of voluntary disclosure in annual reports. In spite of the self-constructed index being widely used in prior empirical disclosure studies as an appropriate research instrument for measuring the level of information disclosed in the corporate annual reports, this instrument has its limitation. One possible limitation of studies using self-constructed disclosure indices to measure the extent of disclosure is that the results are only valid to the extent that the disclosure index used is appropriate (Hassan et al., 2009).

Secondly, the current study has focused on the voluntary information published in annual reports of Libyan commercial banks; other types of information sources were omitted from the investigation, such as commercial bank circulars, financial press releases and the bank websites that might be used by the managers of Libyan commercial banks to communicate their information to the general public.

Thirdly, this study has measured the extent of voluntary disclosure in the annual reports of both listed and listed Libyan commercial banks. The sample size was 9 commercial banks, 2 unlisted and 7 listed. Listed commercial banks in the LSM were all represented in the current study sample, while only two unlisted commercial banks out of eight were represented in this study population sample, because there was difficulty obtaining six years' worth of annual reports for the six unlisted commercial banks at the time of the study. Hence, the conclusions and implications extracted from the empirical evidence in the present study may not be generalised to the rest of Libya's unlisted commercial banks.

Finally, the small sample size of the participants in the interviews (six interviewees), was due to the difficulty in obtaining official permission in time and the limited time given to the researcher to conduct the interviews; this reduced the opportunity to explore further interesting issues about financial reporting and voluntary disclosure practices in Libyan commercial banks.

9.7 Suggestions for Further Research

This research has acknowledged its limitations, but it is believed that the current research results provide a useful insight into the voluntary disclosure practices by commercial banks and give a starting point for future academic research. Thus, a number of suggestions for possible further research are highlighted by the results of this study, namely:

Firstly, this study has only focused on the voluntary information disclosed in the commercial banks' annual reports, though commercial banks may use other means to disclose their financial and non-financial information, such as quarterly and interim reports, the Internet, bank circulars, and financial press releases. Thus, further research can be undertaken to investigate the extent of voluntary disclosure published in quarterly financial reports or on the level voluntary information provided through commercial banks' websites.

Secondly, this research was limited only to one particular country. Thus, further research could be undertaken to compare the extent of voluntary disclosure practices in Libyan commercial banks with the voluntary disclosure practices of commercial banks in other countries in general, and in developing countries in particular.

Thirdly, the current research has investigated the impact of seven commercial banks' attributes on the extent of voluntary disclosure in their annual reports. Further research could extend this investigation to include other explanatory variables such as board composition, complexity of business, assets in-place, and cultural factors examined for their potential influence on the extent of voluntary disclosure in the Libyan commercial banks' annual reports, since no prior studies have attempted to test the association between the extent of voluntary disclosure and these factors in Libya.

Fourthly, concerning the reliability of the proxies for commercial bank attributes (independent variables) included in the multivariate OLS regression model. In this study, the rate of return on assets has been used as a measure of profitability, and the ratio of

current assets to current liabilities used as proxy for liquidity variable, while the total assets are used to measure commercial bank size. Prior literature suggests that variables can be represented by many different proxies. Further research can use other proxies, such as the rate of return on capital employed as a profitability variable and market value of the commercial bank as the measure of bank size to confirm correlation results of the present study.

Lastly, consideration of the usefulness of voluntary disclosure in the annual reports of commercial banks for a wide range of users, such as customers, investors, government agencies , shareholders, employees, academics, and other interested parties. Future research based on the results of this study could be conducted to survey the views and perceptions of listed and unlisted commercial banks' annual report users in Libyan or another country's context.

Appendix No. 1: Disclosure Index of Voluntary Information Items

A. Background about the Commercial Bank/ General Information (11)	
A1.1	Brief narrative history of the bank
A1.2	Description of bank Structure
A1.3	Description of major services produced
A1.4	The legal form of the bank
A1.5	Address of Bank/telephone/fax
A1.6	Bank Website address
A1.7	Email address
A1.8	Date and details of establishment
A1.9	General outlook of business activities
A1.10	List of branches location
A1.11	Information on branches/telephone/fax/ adders for correspondence
B. Social Responsibility Information (4)	
B1.1	Sponsoring public health, sporting of recreational projects
B1.2	Information on donations to charitable organisations
B1.3	Supporting national pride/government.-sponsored campaigns
B1.4	Information on social banking activities/banking for the society
C. Financial Ratios and Other Statistics Information (21)	
C1.1	Brief discussion of the bank's operating results
C1.2	Analysis of bank's liquidity position
C1.3	Return on assets
C1.4	Return on equity
C1.5	Liquidity ratios
C1.6	Earning per share
C1.7	Capital adequacy ratios
C1.8	Loan to deposit ratio
C1.9	Total dividends
C1.10	Dividends per share for the period
C1.11	Breakdown of employees by geographic area
C1.12	Categorise of employees by gender
C1.13	Number of branches extension during the current fiscal year
C1.14	List of top five shareholders of the bank
C1.15	Financial statistics for more than two years
C1.16	Comparative Income statement for 2 years
C1.17	Comparative balance sheet for 2 years
C1.18	Comparative current year and previous year figures
C1.19	Disclosure half-yearly Balance Sheet statement
C1.20	Disclosure half-yearly profit and loss account statement
C1.21	Cash flow statement
D. Accounting Policies (8)	
D1.1	Accounting Valuation of fixed assets (e.g., fair value or historical cost)
D1.2	The depreciation methods used
D1.3	Foreign currency transactions, translation and differences treatment
D1.4	Events after the balance sheet date

D1.5	Disclosure of accounting standards uses for its accounts
D1.6	Statements of compliance with approved IFRS/IASs
D1.7	Treatment of Tax
D1.8	Treatment of contingent liabilities.
E. Corporate Governance Information (19)	
E1.1	Chairman of the board identified
E1.2	List of board members
E1.3	Disclosure information on board members' qualifications and experience
E1.4	Duties of board of members
E1.5	List of senior managers (not on the board of members)/ senior management structure
E1.6	Disclosure information on senior managers' qualifications and experience
E1.7	Managers' engagement/directorship of other companies
E1.8	Picture of all senior managers/ board of members
E1.9	Picture of chairperson
E1.10	Information about changes in board members
E1.11	Classification of managers as executive or outsider
E1.12	Details of senior managers and board of members remuneration
E1.13	Statement of percentage of total shareholder of 20 largest shareholders
E1.14	A review of shareholders by type
E1.15	Number of shares held by managers
E1.16	Bank policy on employee training
E1.17	Number of board of members meetings held and date
E1.18	List of audit committee
E1.19	Chairman's statement
63	Total

Appendix No. 2: Scoring Sheet of Libyan Commercial Banks Voluntary Annual Disclosure

Scoring Sheet No.

A. Commercial Bank Demographic Data:

Name of the Commercial Bank:	
Established in Year:	

B. Commercial Bank Characteristics:

Variable No 1: Bank Age (AGE):

Number of Years since Date of commences

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Variable No 2: Bank Size (SIZE):

Total Assets (LD)	2006	
	2007	
	2008	
	2009	
	2010	
	2011	

Variable No 3: Liquidity (LQDP):

Current Ratio (Current Assets/Current Liabilities)	2006	
	2007	
	2008	
	2009	
	2010	
	2011	

Variable No 4: Profitability (PRFT):

Return on Assets (Net Profit/Total Assets):	2006	
	2007	
	2008	
	2009	
	2010	
	2011	

Variable No 5: Government Ownership (GOVR):

Government Ownership	2006	2007	2008	2009	2010	2011
Yes						
No						

Variable No 6: Foreign Ownership (FORN):

Foreign Ownership	2006	2007	2008	2009	2010	2011
Yes						
No						

Variable No 7: Listing Status (LISTS):

Listing Status	2006	2007	2008	2009	2010	2011
Listed in LSM						
Unlisted in LSM						

C. Disclosure Scores:

1. Total Actual Score:	2006	
	2007	
	2008	
	2009	
	2010	
	2011	

2. Total Maximum Score:	2006	
	2007	
	2008	
	2009	
	2010	
	2011	

3. Relative Score (Total Actual Score ÷ Total Maximum Score):	2006	
	2007	
	2008	
	2009	
	2010	
	2011	

D. Voluntary Information Disclosure Items in Annual Reports:

A. Background about the Commercial Bank/ General Information (11)		2006	2007	2008	2009	2010	2011
A1.1	Brief narrative history of the bank						
A1.2	Description of bank Structure						
A1.3	Description of major services produced						
A1.4	The legal form of the bank						
A1.5	Address of Bank/telephone/fax						
A1.6	Bank Website address						
A1.7	Email address						
A1.8	Date and details of establishment						
A1.9	General outlook of business activities						
A1.10	List of branches location						
A1.11	Information on branches/telephone/fax/ adders for correspondence						
B. Social Responsibility Information (4)		2006	2007	2008	2009	2010	2011
B1.1	Sponsoring public health, sporting of recreational projects						
B1.2	Information on donations to charitable organisations						
B1.3	Supporting national pride/government.-						

	sponsored campaigns						
B1.4	Information on social banking activities/banking for the society						
C. Financial Ratios and Other Statistics Information (21)		2006	2007	2008	2009	2010	2011
C1.1	Brief discussion of the bank's operating results						
C1.2	Analysis of bank's liquidity position						
C1.3	Return on assets						
C1.4	Return on equity						
C1.5	Liquidity ratios						
C1.6	Earning per share						
C1.7	Capital adequacy ratios						
C1.8	Loan to deposit ratio						
C1.9	Total dividends						
C1.10	Dividends per share for the period						
C1.11	Breakdown of employees by geographic area						
C1.12	Categorise of employees by gender						
C1.13	Number of branches extension during the current fiscal year						
C1.14	List of top five shareholders of the bank						
C1.15	Financial statistics for more than two years						
C1.16	Comparative Income statement for 2 years						
C1.17	Comparative balance sheet for 2 years						
C1.18	Comparative current year and previous year figures						
C1.19	Disclosure half-yearly Balance Sheet statement						
C1.20	Disclosure half-yearly profit and loss account statement						
C1.21	Cash flow statement						
D. Accounting Policies (8)		2006	2007	2008	2009	2010	2011
D1.1	Accounting Valuation of fixed assets (e.g., fair value or historical cost)						
D1.2	The depreciation methods used						
D1.3	Foreign currency transactions, translation and differences treatment						
D1.4	Events after the balance sheet date						
D1.5	Disclosure of accounting standards uses for its accounts						
D1.6	Statements of compliance with approved IFRS/IASs						
D1.7	Treatment of Tax						
D1.8	Treatment of contingent liabilities.						

E. Corporate Governance Information (19)		2006	2007	2008	2009	2010	2011
E1.1	Chairman of the board identified						
E1.2	List of board members						
E1.3	Disclosure information on board members' qualifications and experience						
E1.4	Duties of board of members						
E1.5	List of senior managers (not on the board of members)/ senior management structure						
E1.6	Disclosure information on senior managers' qualifications and experience						
E1.7	Managers' engagement/directorship of other companies						
E1.8	Picture of all senior managers/ board of members						
E1.9	Picture of chairperson						
E1.10	Information about changes in board members						
E1.11	Classification of managers as executive or outsider						
E1.12	Details of senior managers and board of members remuneration						
E1.13	Statement of percentage of total shareholder of 20 largest shareholders						
E1.14	A review of shareholders by type						
E1.15	Number of shares held by managers						
E1.16	Bank policy on employee training						
E1.17	Number of board of members meetings held and date						
E1.18	List of audit committee						
E1.19	Chairman's statement						
Total		63	63	63	63	63	63

Appendix No. 3: Participant Information Sheet

Research Title: An Evaluation of Voluntary Disclosure in the Annual Reports of Commercial Banks: Empirical Evidence from Libya

The principal aim of this research is to evaluate to what extent the Libyan listed and unlisted commercial banks provided voluntary information disclosure in their annual reports, between 2006 and 2011. The research is also intended to determine whether the extent of voluntary information disclosure is associated with commercial bank-specific characteristics (i.e. age, size, liquidity, government ownership, profitability, listing status, and auditor-type).

Your participation in the study would be to take part in an interview where we discuss some issues related to current commercial banking financial reporting systems and disclosure practice, which are attached to this sheet. The interview will last approximately forty-five to ninety minutes depending on how much time you have available. I will record the interviews with your permission; and I will also collect your bank's audited annual reports for 2006, 2007, 2008, 2009, 2010 and 2011 on the interview day. All interview recordings will be destroyed after the data has been analysed. The findings of this study will be utilised in my PhD thesis and also will be presented at academic conferences and in academic journals, although names and specific details will be removed to protect confidentiality .

If you have any questions or concerns about the interview, please contact me (*Email: A.Hawashe@edu.salford.ac.uk*).

Appendix No. 4: Management Letter (The Interview Permission)



The University of Salford

School of the Built Environment

To Directors of Accounting Department of-----

Dear Sir/Madam

I am a lecturer at the University of Sebha, Faculty of Economics, currently carrying out Ph.D. research, at the University of Salford, Manchester, UK. The objective of the research is to evaluate the extent of voluntary information disclosure in annual reports of Libyan commercial banks. This project requires interviewing Libyan commercial banks annual reports preparers and collecting the annual reports for 2006, 2007, 2008, 2009, 2010 and 2011.

As you are responsible for preparing your commercial bank financial statements and annual reports, you have been chosen as one of the research sample to participate in an interview, because of your duty related with banking financial reporting and disclosures.

I would be very grateful if you give me authorisation to conduct the interview at a time that is suitable for you, which should take no more than 90 minutes approximately. In addition, I would like to get a copy of your audited annual reports, from the year 2006 to the last issue, and if possible, supply me with these copies on the interview day.

May I thank you in advance for your cooperation in this matter, and please be aware that all information provided will be treated with complete confidentiality and will be used only for research purposes.

Yours faithfully

Abdallah AL-Mahdy Hawashe

PhD Candidate

Appendix No. 5: The Semi-structure Interview Questions Guide

Background Information :(Please provide the following information)

Commercial Bank name:

Year Establishment:

Ownership Structure:

Listing Status:

Name of participant:

Part One: About the Annual Financial Reporting and Mandatory Disclosure Practices in Libyan Commercial Banks:

1- Could you please explain how your commercial bank prepares their annual financial statements and other annual external financial reports?

- Did your commercial bank consider specific national accounting standards laid down in national regulations or legislations (e.g. the commercial code, banking law, the stock market law and government agencies, etc.) when preparing annual accounts and financial statements?
- Did your commercial bank consider standards or disclosure requirements of international organisations (i.e. IASs/IFRSs, the Basel Committee's guidelines)?
- Is there any legal disclosure requirement which should be considered by your commercial bank? If so, are these requirements set by your commercial bank management, internal accountants, or by the regulatory authorities? What is a minimum level of disclosure which must be disclosed by your bank?
- What is the procedure that you followed in identifying the format and contents of the financial statements and other annual reports including content of notes of financial statements?

2. What type of financial statements and other reports does your commercial bank publish annually to the public? (Profit and Loss Account, Balance Sheet, Cash Flow Statement, and other financial reports).

3. What is your view about the current state of financial reporting and disclosure practices in Libyan commercial banks? Do you see the need for the development of the current financial reporting and disclosure practices? Why or why not?

Part Two: Questions About Voluntary Information Disclosure:

1. In your opinion, do you think there is any association between the extent of voluntary information disclosure in the annual reports of a commercial bank and its attributes such as size, liquidity, profitability, age, government ownership, foreign ownership, listing status... etc.?
2. Are there any constraints or barriers that limit the amount of information you are prepared to voluntarily disclose in the annual reports to the general public? If so, please, explain.
3. What advantages/ benefits do you believe that your commercial bank will achieve from disclosing additional information voluntarily in the annual reports to external stakeholders?
4. To what extent do you think that information voluntarily disclosed by your commercial bank in its annual reports is useful or essential for economic decision-making?
5. In your view, do you think that the disclosure in the annual reports of a commercial bank needs to be sufficiently comprehensive to meet the needs of wide range of users? If so, please explain.
6. Do you think that financial information and non-financial information voluntarily disclosed by your commercial bank is useful to wide range of users such as bank's shareholders, government agencies, individual investors, institutional investors, stock market brokers, researchers and other scholars, bank's employees, and general public? If so, please explain?

Appendix No. 6: Representative Offices of Foreign Banks in Libya

No.	Representative Office	Approval Date	Opening Date
1	Arab Banking Corporation –Bahrain	1988/8/16	1988/8/16
2	Arab Bank for Investment & Trade	1994 /4/25	1994/4/25
3	Housing Bank Of Jordan	1998/6/18	1998/8/15
4	British Arab Commercial Bank	1998/4/18	1998/9/1
5	Arab Investment Bank Of Jordan	1997/6/30	1998/10/1
6	Italian Arab Bank/ UBAE	1999/8/26	2000/6/13
7	Bank Of Valletta	2000/8/27	2002/1/24
8	Suez Canal Bank	1999/12/28	2002/10/30
9	BAWAQ Bank – Austria	2005/2/20	2005/7/21
10	Calyon Bank	2005/12/12	2006/2/15
11	International Tunisian Bank	2005/10/22	2006/204
12	Piraeus Bank / Egypt	2005/10/22	2006/6/1
13	National Qatar Bank	2004/10/31	2007/4/19
14	HSBC Bank	2006/9/14	2007/6/10
15	International Arab Tunis Bank (BIAT)	2006/9/14	2007/9/12
16	Societe Generale Bank*	2007/3/14	2007/9/20
17	BNP PARIBAS Bank **	2006/9/14	2007/11/1
18	Fransa Bank / Lebanon	2007/4/30	2008/1/1
19	Wafa Bank / Morocco	2007/6/17	2008/5/30
20	National Abu Dhabi Bank	2008/5/11	2009/2/22
21	Commerz Bank / German	2008/8/13	2009/6/3
22	Uni Bank 'Representative Office' Credit	2009/4/22	2010/6/10
23	standard chartered Bank 'Representative Office'	2009/12/29	2010/10/1
24	Al-Baraka Group / Bahrain	2010/7/15	2011/1/31

* The representative office of Societe Generale Bank is frozen from 2009/07/01.

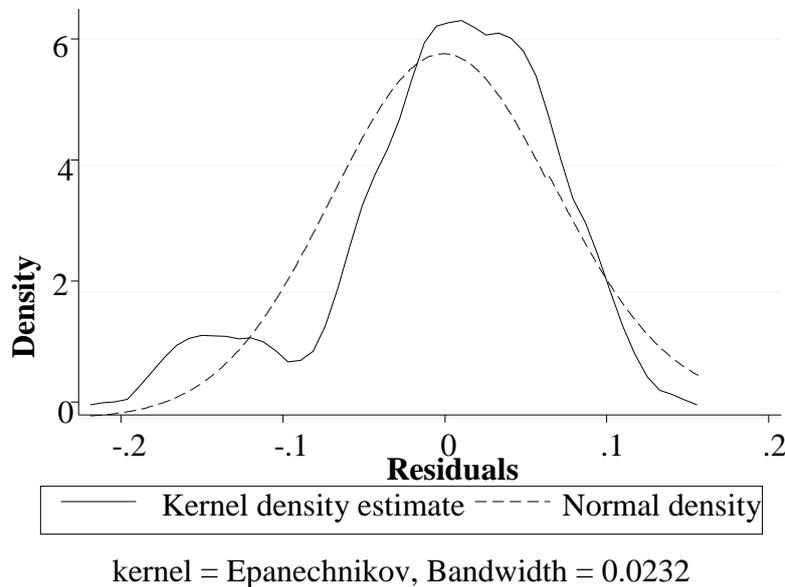
** The representative office of (BNP PARIBAS) is frozen from 2010/01/01.

Source: The third annual report of the Department of Bank Supervision and Monetary for the years 2010-2011.

Appendix No. 7: Graphical Examination of the Residuals

Figure 1 compares the distribution of the model residuals (using Kernel density estimation; a histogram with narrow bins and a moving average) against a normal distribution. It is clear from Figure 1 that we may have some issues with a lack of normality in the residual errors.

Figure 1: Comparing Kernel Density Estimates of the Model Residuals Against a Normal Distribution



The concerns regarding normality of the residuals are confirmed using a standardised normal probability (P-P) plot which is sensitive to a lack of normality in the middle of the data (Figure 2), and by plotting the quantiles of the residual errors against the quantiles of a normal distribution (known as a Q-plot) which is sensitive to a lack of normality near the tails/extremes (Figure 3).

Figure 2: A Standardised Normal Probability (P-P) Plot of the Model Residuals

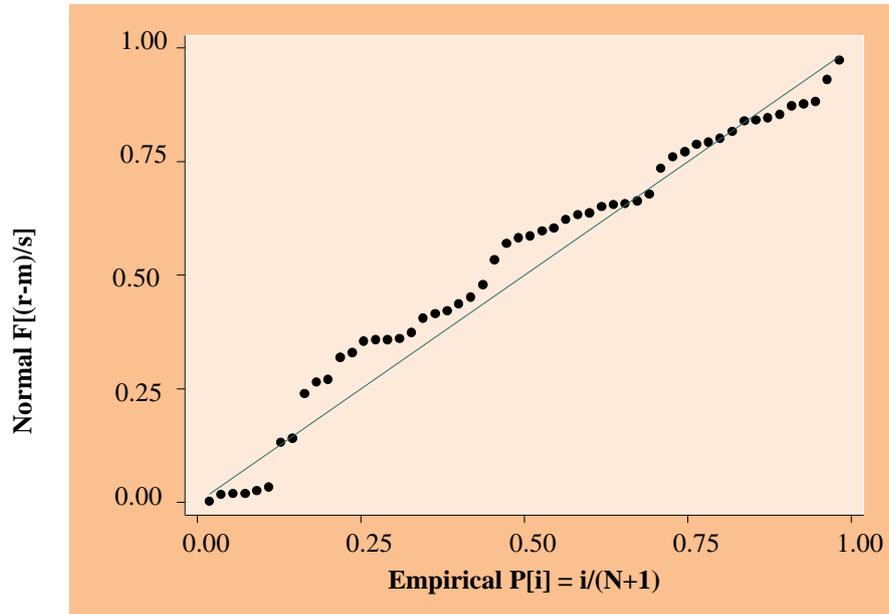
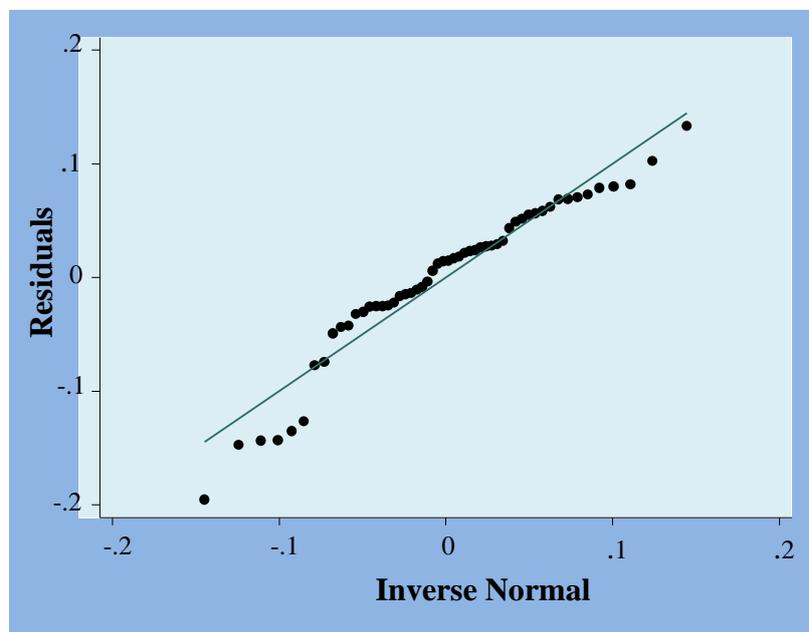


Figure 3: A Plot of the Residual Error Quantiles Against the Quantiles of a Normal Distribution



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