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The Quality of Corporate Annual Reports: Evidence from Libya

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Ph.D. 2006

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Dedication

This thesis is dedicated to my parents who I missed during the course of the study, may Allah have mercy on them. It is also dedicated to wife, children, brothers, sisters, friends, and teachers.

Abstract

It was not long before it became clear that the centralised economic planning and control of business and property had failed to improve the Libyan economy. The government began to introduce economic reforms, privatisation programs and started to move towards a market economy. Many business and investment barriers and limitations have been removed and more liberal economic policies have been adopted. Reforms have been aimed at boosting private sector activities and expanding the ownership structures of business. These have generated much local interest in corporate reporting and the need to assess corporate reporting disclosure. This study attempts to assess the quality of corporate annual reports published by Libyan companies. In other words, to what extent do financial reports published by Libyan companies meet their users' needs?

To achieve this objective, two research methods were undertaken. The first method was based on a survey questionnaire designed to explore the perceptions of several user groups of corporate reports. These include mainly the extent of use, the useful characteristics, the importance of different sections, information items and the user's needs and the understandability of corporate reports. The user groups included individual investors; academics (researchers); government employees; institutional investors; bank credit officers; chief executives; and accounting professionals. The second method was based on analysing a sample of corporate annual reports published by Libyan companies. The analysis aimed to identify the level of corporate disclosure as well as to what extent Libyan companies do comply with International Accounting Standards (IAS).

The results of the study revealed that the corporate annual report is the most important source of information relied upon to make informed decisions. The results also showed that the credibility and timeliness of the information source were the most important qualitative characteristics that might affect the usefulness of information sources. Although there are no accounting standards, the results demonstrated that Libyan companies strongly comply with International Accounting Standards. Employing regression analysis, the study also identified some differences in the level of annual disclosure. For example, Libyan manufacturing companies that have good sales figures and government organisation or their agents tend to disclose less information than other companies.

Acknowledgments

I would like to thank primarily the Almighty ALLAH for my creation and who gave me the ability to complete this study. I owe much to many people in the preparation of this research for their assistance. It is an extreme pleasure to express my sincere gratitude to them for their support and assistance during the course of this research.

I would like to express my special appreciation to my first supervisor Dr Atsede Woldie, Director of Study, who was exceptionally helpful and understanding. Sincere thanks also to my second supervisor Professor Neil Marriott for his help expertise, guidance and constant encouragement during the final stage of the study. I must acknowledge that whenever I need to discuss any issue or resolve any difficulty, my supervisors' doors were always open and they have given their time generously.

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My heartfelt thanks are due also to my parents for their endless prayers, encouragement and patience. Last but not my least, it would have been difficult to complete this research without the understanding, encouragement, and endurance of my wife Naima and daughters Tasnim, Safa, Rataj and Rayan throughout the course of the study.

List of abbreviations

ADGU	Accounting Department of Garyounis University
AICPA	American Institute of Certified Public Accountants
AR	Al-Fath from September Revolution
ABC	Arab Banking Corporation
ASB	Accounting Standards Board
ASC	Accounting Standards Committee
CBL	Central Bank of Libya
CCA&I	Champers of Commerce, Agriculture and Industry
CIA	Central Intelligence Agency
CICA	Canadian Institute of Chartered Accounting
CR	Commercial Registrer
DSE	Dhaka Stock Exchange
EU	Europe
FASB	Financial Accounting Standard Board
FEC	Faculty of Economic and Commerce
GASB	Governmental Accounting Standards Board
GDP	Gross Domestic Product
GMR	Great Man-Made River project
GPC	General People's Congress
GSPLAJ	Great Socialist People's Libyan Arab Jamahria
IMF	International Monetary Fund
IPCFU	Institution of People's Control and Follow-Up
IR	Industrial Revolution
KLSE	Kuala Lumpur Stock Exchange
LAFB	Libya Arab Foreign Bank
LAFICO	Libyan Arab Foreign Investment Company
LCC	Libyan Commercial Code
LYD	Libyan Dinar
NYSE	New York Stock Exchange
OIIC	Oil Investment International Company
OLS	Ordinary Least Square
RCC	Revolutionary Command Council
SAB	State Accounting Bureau
SOCPA	Saudi Organization of Certified Public Accountants
SR	Share Registry unit
UK	United Kingdom
UN	United Nation Security Council
USA	United State of America
WW II	World War II

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Chapter 1

Study objective and organisation

1.1 Introduction

During the last 50 years, Libya has made very considerable progress developing from one of the poorest countries in the world, particularly after discovering and producing the black gold, into one whose physical and human infrastructure compares favourably with that of its neighbours. Its economy is highly regulated by government and most economic activities are carried out through many large state owned companies and institutions. These state owned economic organisations are required to follow a uniform, highly standardised accounting system whose main objective is to provide government with information for centralised economic planning and control.

In recent years, when it became clear that the centralised economic planning and control of business and property had failed to improve the economy, the government began introducing privatisation programmes and moved towards liberalisation. The Libyan government has indeed taken several steps to shift its economy in the direction of the free market. Many business and investment barriers and limitations have been removed and more liberal economic policies have been adopted. Of particular interest are the policies of restructuring and managing state owned companies in accordance with international market rules and competition rather than from dictated government policies. These business and economic reforms as well as the expansion of the private sector in the Libyan economy have generated much local interest in corporate reporting and the need to address the extent of transparency in corporate reports of Libyan companies.

1.2 Justification of the research

The usefulness and quality of corporate reporting in making informed decisions has been the subject of much academic research in both the developed and developing countries during the last four decades (see, Cerf, 1961; Singhvi and Desai, 1971; Anderson, 1981; Cooke, 1995; Al- Al-Khatib, 1999; Alrazeen, 1999; Al-Hussein, 2001 and Mirshekary and Sa dagaran, 2005).

In addition, it was subject to a number of accounting professional bodies. For instance, in May 2005 the Financial Accounting Standards Board (FASB) and International Accounting Standards Board (IASB) began a new joint agenda project. The purpose of the new project was to build on the two Boards' existing frameworks by refining, updating, completing, and converging them into a common framework that both Boards can use in developing new and revised accounting standards.

Prior research on perceptions as well as the attitude of users of corporate financial statements concentrates largely on developed countries than developing countries (Mirshekary and Saudagaran, 2005). These studies investigated the usefulness of financial reporting and have developed in every country based on the individual country's features. Among other items, these studies include the nature of the country's economy and its level of development, tax regulations, legal systems, the regulatory enforcement regime, level of inflation, the status of the accounting profession and quality of accounting education (Saudagaran, 2004). While most studies have stressed the need for comprehensive disclosure for achieving different objectives (see, Wallace and Naser, 1995), less is known about what should be disclosed in the published corporate reports to benefit user groups.

Corporate reporting has been found to be the most important source of information relied upon by user groups when making informed decisions (see for example, Anderson, 1981 and Alrazeen and Karbhari, 2004). Although recognising the importance of financial reporting, the literature review indicates that no prior studies have investigated the subject of corporate reporting practices in Libya.

The significance of the present research, however, stems from it being the first attempt to explore the perceptions of a number of user groups. These include individual investors, academics (researchers), government employees, institutional investors, bank credit officers, chief executives and accounting professionals. These users were selected for several reasons. First, these users are believed to be knowledgeable readers of financial information. Second, the different user groups use financial information for different purposes (Chang and Most, 1980).

Last, but not least, these users are interested in financial information. In addition, the significance of this research is that the history of the reform and liberalisation of the economy goes back to early 1990, which means that it is still in an early stage of development. Thus, empirical research studies are largely necessary to study the Libyan economy environments in different aspects, such as the quality of financial reporting and disclosure. Therefore, this study attempts to clarify the conflicting debate in existing empirical studies on the quality of corporate reports by various user groups.

Furthermore, research studies that identify the needs of the stakeholders, and that identify the factors that might affect the financial reporting practice of the companies would help both regulators authorities and researchers in the field of corporate reports to improve such reports.

1.3 The objective of the study

The main objective of this study is to investigate whether corporate annual reports published by Libyan companies are constructed to meet their users' needs. The objectives of this study are threefold. First, to explore the perceptions of various user groups of financial information about different aspects of corporate annual reports in Libya. This includes the following:

1) The extent of the use of corporate annual reports;
2) The important sources of corporate information;
3) The useful characteristics of corporate information;
4) The importance of different sections of corporate reports;
5) The information items and their user's needs, and
6) The understandability of information contained in corporate reports.

Second, to investigate the actual disclosure practices in corporate annual reports of Libyan companies. This includes the following areas:

1) The extent to which the current items disclosed satisfy the users' information needs, and
2) The extent to which the level of disclosure differs among the companies' sampled.

Third, to examine the factors that could influence the level of disclosure in the corporate annual reports; this includes the extent to which specific company's characteristics influence the quality of disclosure.

1.4 Hypotheses of the study

On the basis of the objectives of this study, two hypotheses have been developed to be tested.

1.4.1 Hypothesis 1

There is a difference in preferences, abilities and needs among the various groups of users of accounting information.

1.4.2 Hypotheses 2

There is an association between the extent of disclosure and a company's characteristics, for instance, size, industry type, or profitability.

1.5 Data collection and methodology

To achieve the above objectives and test the research hypothesis, the following steps have been taken. First, a review of previous related studies conducted in both developing and developed countries. This review of the literature is focused on the subjects of financial reporting, disclosure, the usefulness of annual reports information to investment decisions, and empirical studies that investigate the relationship between the extent of disclosure and company characteristics. Second, a survey questionnaire was designed to gather primary data to explore the perceptions of various user groups towards the usefulness of corporate annual reports in Libya. The survey questionnaire seeks to gather the respondents' perceptions about different aspects surrounding corporate reporting. This includes the usage of corporate information, the usefulness, importance, understandability, and other aspects of corporate information.

Third, secondary data that includes the published corporate annual reports of 45 Libyan companies, and how the current corporate annual reports seek to measure actual financial disclosure by examining the extent of level of disclosure and tests its relationship with a number of companies' characteristics. This study also constructs an index for measuring the information in annual reports published by Libyan companies, according to what should be disclosed, whether mandatory or voluntary disclosure. These items of disclosure were either required by law or optionally disclosed.

1.6 Organisation of the study

The study is organised in seven chapters. The second chapter provides comprehensive and essential background information on the Libyan political and economic state, the history of financial accounting in Libya, legal and regulatory framework of financial reporting in Libya, and describes the economic adjustment efforts undertaken by the Libyan government to improve the investment environment to attract more foreign investment. Chapter 3 provides comprehensive information on the objectives of corporate annual reports and their users, and a review of current literature on users' perceptions regarding the different aspects of corporate annual reports. Chapter 4 includes the research methodology and the processes of data testing and analyses. It presents the process employed in the design and execution of the present research study to achieve its objectives. The research process consists of a definition of the research objectives, hypothesis and questions, population and sample design, selection of the research method, development of the research instrument, data collection procedures, editing, coding and data entry and statistical analysis and findings.

The research objectives were achieved using both primary and secondary data sources. The primary data used in chapter five was directly obtained from respondents by means of a questionnaire distributed in Libya. All questionnaire stages were undertaken by the researcher, including the preparation, distribution and collection of the questionnaire forms. Chapter 5 presents empirical evidence on the perceptions of user groups towards different aspects of corporate annual report in Libya.

Chapter 6 analyses secondary data extracted from companies' annual reports published by Libyan companies at the end of the year 2003. Chapter 7 summarises the major findings of this research study, discusses its limitations and identifies areas that warrant further research.

Chapter 2

Libya background and economy reviews

2.1 Introduction

This chapter aims to provide a background to, and characteristics of Libya's economy. The chapter begins with reference to Libya's geographical location and significance, religion, language and population. Libyan political and economic elements throughout the ages are then presented. Finally, the legal and regulatory framework of financial reporting in Libya is reviewed.

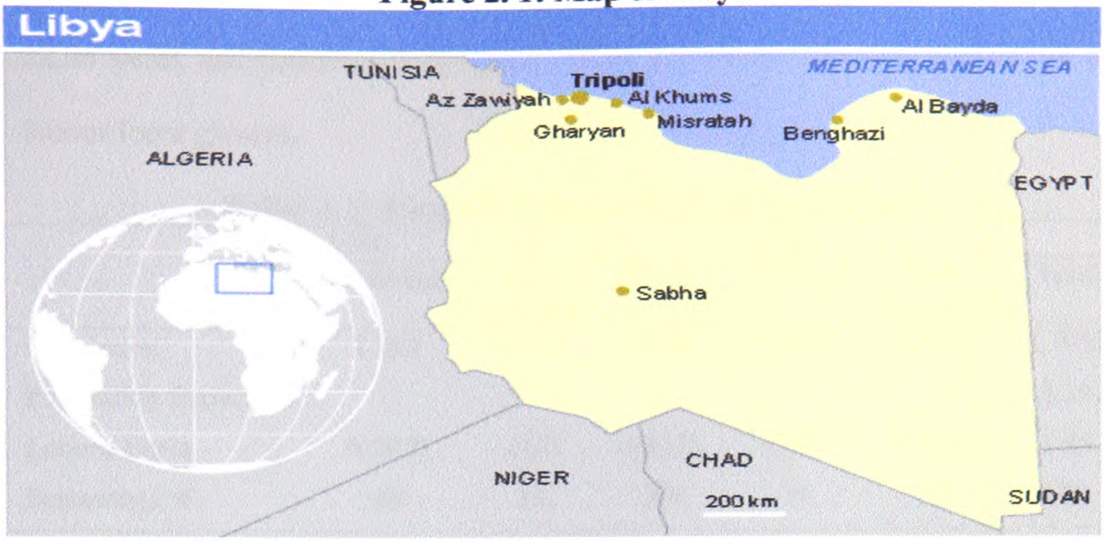
2.2 Bakground

It is important to view background information on the region before discussing the political and economic situation. The next subsection provides the background of the location, religion, language and the population of Libya.

2.2.1 Location, religion, language and population

Libya is an Arab state located in the centre of North Africa. Figure 2.1 (below) shows a map of Libya. To the north, the country is bounded by the Mediterranean Sea; to the east by Egypt and Sudan; to the South by Niger, Chad and Sudan; and to the west by Algeria and Tunisia. Thus, Libya is the gateway between Europe and Asia to Africa (see Figure 2.1). The total area of Libya is about 680,000 square miles (African Development Bank, 1995).

Figure 2. 1: Map of Libya



The area makes Libya one of the largest countries in Africa. It is approximately one-half the size of Europe (Bait-El-Mall, *et al*, 1973: 84). More than 90 per cent of Libya's land area is desert and of the remainder, a high percentage is used for grazing with only 1 per cent arable (UN, 1991: 34-35). The official language is Arabic, but the English and Italian languages are understood in the country's cities. Islam is the State religion and the vast majority, about 95 per cent, are Sunni Muslims. According to Wallace and Wilkinson (2004: 214) "*the country has small communities of Kharijites and Christians (Roman Catholics, Coptic Orthodox and Anglicans), who number around 50,000*".

According to data compiled from the Central Bank of Libya (CBL) Economic bulletin (2000) and Central Intelligence Agency (CIA) website (2005), the population of Libya increased considerably between 1970 and 2005. While the population of Libya in 1970 was about 2 million of whom 989,800 were males and 932,200 were females and 840,000 non nationals, a recent estimation numbered the population at 5,765,563 people, of which 2,958,106 were males and

2,807,457 were females. The population median age was 22.68 years; male were 22.84 years and females 22.56 years. Table 2.1 shows the total population and labour force growth.

Table 2. 1: Population and labour force (Million)

	1970			2005		
	National	Non national	Total	National	Non national	Total
Population	1.922	0.084	2.006	5.5995	0.166	5.7655
Population Growth %			4			2.33
Labour Force	0.3835	.050	0.4335	0.806	0.644	1.45
Percentage %	88	12	100	70	30	100

* *Estimated in 2001. Sources: Compiled from CBL (2000) and CIA (2005).*

A five year development plan arranged in 1985 reported that the population of Libya was 3,618,400 of which 1,697,700 were males and 1,625,700 were females (Secretariat of Planning, 1990). According to an assessment report prepared by a number of staff of the International Monetary Fund (IMF) (2003), Libya's population grew at a rate of about 4 per cent during the 1970s and the early 1980s. This percentage growth declined to fewer than 3 per cent in the 1990s.

The working-age population and the labour force have therefore been growing at the rate of 3.5 - 4.0 per cent per year in the 1990s. This growth is expected to continue at this rate well past the current decade (IMF, 2003). Economic bulletin, number 44 4th quarter, prepared by the research and statistics department of CLB (2005) reported that the total labour force in 2001 was 1, 458,400 people[1] and the workforce has increased by 1.14 per cent since 1970. This increase has taken place in most of the economic sectors. These include mainly: general services;

[1] The non national labour force number includes people who have work contracts only.

trade and tourism; financial insurance and ownership of state houses; electricity and water and mining and the quarrying sector. Table 2.2 shows the development of the labour force through 1999-2001 according to economic activities.

Table 2. 2: Development of labour force according to economic sectors (thousand)

Economic Sector	1999		2000		2001	
	Number	%	Number	%	Number	%
Agriculture, Forestry and Fishing	232.0	16.8	239.1	16.5	103.4	7.1
Oil and Natural Gas	38.7	2.8	39.9	2.8	40.0	2.7
Mining and Quarrying	12.0	0.9	12.5	0.9	28.9	2.0
Manufacturing	163.7	11.8	169.6	11.7	172.1	11.8
Electricity and Water	39.6	2.9	41.0	2.8	50.9	3.5
Construction	207.9	15.0	222.0	15.4	45.2	3.1
Trade and Tourism	66.7	4.8	69.5	4.8	161.2	11.1
Transport and Communication	132.2	9.6	143.4	9.9	55.5	3.8
Finance Insurance and Ownership of Dwellings	30.1	2.2	33.0	2.3	38.1	2.6
General Services (including Education and Health)	391.3	28.2	403.2	27.9	743.0	50.9
Other services	69.6	5.0	71.8	5.0	20.1	1.4
Total	1383.8	100	1445.0	100	1458.4	100

Source: CBL (2005).

Table 2.2 shows that the percentage of employed labour force in the general services sector increased by just over 60 per cent during the period 1999-2001. This sector includes education and health organisation services. In addition, the percentage of the labour force employed in trade and tourism, mining and quarrying, along with the electricity and water sectors rose to 11.1, 2 and 3.5 per cent respectively during the same period. The rise of manual labour force was as a consequence of the demand for employment in those sectors. The increase was also as a result of more licenses issued by authority regulation bodies to establish non-governmental organisations as well as restructuring of the current trade and tourism ownership organisations. This restructuring created opportunities for a large number of unoccupied jobs to be taken up. By contrast, the number of the employed labour force in agriculture, forestry and fishing as well as transport and communications sectors decreased. This decline was consistent with the drop in public expedient. The decline of the labour force was also evident in the construction sector. This decrease was coherent with the completed first phase of the most important construction project[2] in 1991, the Great Man-Made River (GMR). The percentage of the labour force declined in this sector by 12 per cent to reach 3.1 per cent in 2001.

2.2.2 Political

The significantly important location of the country, see Figure 2.1, has attracted different invaders and, therefore, it has passed through a number of political and economic changes. The key characteristics of Libyan factors are reviewed in two main stages: before and after the country's independence and the discovery of oil.

2.2.2.1 Prior to the independence period

Libya was subjected to colonisation for a long period of time. The colonisation can be traced back to the medieval period or before. Further, the existence of the ancient monuments of the Phoenicians, the Greeks and the Romans is significant evidence that Libya was occupied during this particular time. The Arabic language and the Islamic religion, as shown above, are also clear evidence that Libya was subject to Arab invaders. Steel (1967: 191) stated that

> *"With the Arab conquest, beginning in 643 AD, the history of Libya took an entirely different course. Its culture was changed and so were its language, religion and population. In a few*

[2] The Great Man - Made River aims at the mass transfer of waters from the Kufra and Sareer Basins beneath the earth surface to the coastal concentration of population in Benghazi, Sirte and Tripoli. Upon completion the huge network of pipelines will extend to about 3,380 km.

> years *Arabs were able to do in Libya and the rest of North Africa what neither the Romans nor the Byzantines had been able to do in centuries"*

According to Buzied (1998) the colonising power which controlled the country for the longest period was Turkey, ruling from 1551 to 1911. Throughout this time, Libya was a very poor country. There was no sign of any infrastructure having been built. Segre (1974: 82) describes the country during the Turkey period as having *"no roads, no ports, no rail roads, no building, nothing, nothing, and nothing"*.

In 1911, Libya was invaded by Italy and for the following thirty years engaged in a popular armed struggle against the colonial occupation. This liberation war imposed heavy losses on the already affected Libyan economy, both in terms of squandered resources and in terms of limited economic development. After the Axis countries[3] defeat in the World War II (WW II), the country was administered by new occupation forces of the British and French armies during the period of 1942-1951 (Abdussalam, 1979). These consecutive waves of wars and foreign invasions left the country without identity until December 1951.

[3] The Axis countries are Germany Italy, and Japan.

2.2.2.2 Post the independence period

The United Nation (UN) set subsequent negotiations regarding Libya's independence on 21st November 1949. King Idris I represented the country. The negotiation declared Libya's independence on 24th December 1951. Accordingly, Libya was the first country to achieve independence through the UN and one of the first former European possessions in Africa to gain independence. The most important development of the new State was its admission to the Arab League in March 1953. The foremost development was also the State's close links with Western Europe.

On 1st September 1969, a military coup d'etat took over the ruling of Libya from King Idris I. The event is known as the Al-Fath from September Revolution (AR). The AR revolution was notable for the absence of adversaries; thus, no fighting and no death occurred. The Revolutionary Command Council (RCC) announced the creation of the Libya Arab Republic. The RCC aims were to promote major social, economic and political changes to enhance the economic development of the country.

To achieve these objectives, they took certain measures. These included accelerating investment and infrastructure, as well as developing education at a more rapid rate. The goals have been to provide local people with relevant skills for development. They also widened public participation in planning endeavours, including the 'Libyanisation' of all financial institutions, and they aimed to eliminate corruption.

By the early 1970s, a new political, administrative and legislative system was introduced as part of the AR, which established a socialist state, to be governed only by the people. Since 1977, in accordance with the Third Universal Theory propounded in the Green Book[4], the RCC transferred its authority to the General People's Congress (GPC) and became the highest legislative body in the State. Further, the Great Socialist People's Libyan Arab Jamahria (GSPLAJ) became the official name of Libya.

The Libyan government was implicated in two airliner bombings in the late 1980s; the 1988 bombing of Pam Am Flight 103 over Lockerbie, Scotland, that killed 270 people and the 1989 bombing of a French UTA airliner over the Niger desert, which killed 170. During 1992 and 1993, the UN imposed a number of sanctions on Libya to press Tripoli to hand over two suspects wanted for trial in a special court in connection with the bombings.

Suspended later in 1999, the sanctions included a ban on military sales, air communications and certain oil equipment. In addition, they froze Libya's assets abroad and prohibited most transfers of money or assets to the Libyan government or its agents. The UN sanctions were lifted after the Libyan government reached a settlement[5] with the families of the Lockerbie victims in mid-August 2003.

[4] The Green Book is a work edited by Colonel Muammer Alqadhafi, the leader of Libya, covering political, economic and social problems and solutions in Libya. The English version was published in 1981.
[5] The settlement is an agreement between Libyan government and the families of the Lockerbie victims. On the grounds of the agreement, the Libyan government took responsibility for the bombing and agreed to pay up to US$10 million each to the families of the 270 victims.

Since lifting the UN sanctions, the Libyan government has attempted to consolidate its relationship with the international community, which is now well established. These remaining sanctions on Libya imposed by the United State of America (USA) and Europe (EU) have been removed and Tripoli now hosts most of Europe's senior leaders and is frequently visited by key US politicians.

With its rehabilitation, the Libyan government is attempting to play a more high-profile role on the world. After the announcement in December 2003 that Libya would abandon its weapons of mass destruction programmes and accept more stringent weapons inspections than would ordinarily occur for a signatory state of the Nuclear Non-Proliferation Treaty, Libyan economic growth started to take shape.

2.2.3 Economic development

Libyan economy change between the independence period and the 21st century was dramatic. In a relatively short space of time, Libya had turned into a rapidly developing country with accumulated gross international reserves equivalent in 2003 of USA$24.6 billion and income from oil revenues of USA$14.2 (CLB, 2005). It had hitherto been one of the poorest countries in the world with agricultural, grazing and primeval industries, which represented the primary occupation for the vast majority of the population, being at subsistence level. Among a number of factors that contributed to this situation were the adverse climatic conditions and the lack of any form of natural water resources. There are no permanent lakes, rivers, streams or other natural sources of water meaning that agricultural crops are at the mercy of rainfall. These conditions led the population to accept a nomadic lifestyle and earn their living by raising livestock. In addition, a small portion of the country was involved in a few primeval industries. These industries comprised mainly of handicraft activities. Such activities were established by the Italian authorities to carry out the processing of domestic agricultural products (Abdussalam, 1979).

2.2.3.1 Economic development prior to independence period

Prior and during the time of independence, Libya was very poor. The Libyan economy was based mainly on primitive agriculture. The agricultural activity was divided more or less evenly between field crops (including trees) and livestock products. Further, a small industry was based on agricultural raw materials. Shortage of water and lack of funds were the main drawbacks to the expansion of cultivable land, but reclamation and irrigation schemes and the introduction of modern farming techniques held promise for the future.

Benjamin Higgins, a noted economist specialising in economic development who worked as an economic adviser to Libya in the early 1950s (Bait-El-Mall *et al*, 1973: 84-85), had this to say about the country's economic condition and its economic prospects at that time:

> *"Libya's great merit as a case study is as a prototype of a poor country. We need not construct an abstract model of an economy where the bulk of the 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 [....] Libya is at the bottom of the range in income and resources and so provides a reference point for comparison with all other countries".*

In addition, WW II had contributed to worsening the Libyan economy seriously damaging to factories, farms, livestock and infrastructure were the results.

2.2.3.2 Economic development post independence

On the eve of independence in 1951, Libya's economy was immature and lagged behind other countries. It depended on a very simple industrial sector and foreign aid. The iindustrial sector was confined to small manufacturing engaged in processing local agricultural products into goods such as flour, textiles, tobacco, footwear and clothing. This sector was hampered by a number of factors, such as the lack of indigenous supplies of raw materials, a skilled workforce, and capital investment.

Additionally illiteracy was widespread and technical and management expertise and organisational skills were very low. These factors determined Libya's dependence on international and other foreign agencies, mainly the USA and UN, to finance the gap between its needs and its domestic resources. Experts predicted that the country would have to be supported for years by international grants-in-aid while it organised itself to try to live within its own meagre means.

Post independence, the main problem for the new regime was to ensure that enough funds from abroad should be available to meet the normal expenses of the State and to pay for much needed improvements. Thus, three agreements were signed between the government and several western countries. The first agreement was in July 1953 with the United Kingdom (UK). In return for a number of military air bases granted to the UK in Barga, in the eastern part of the country, the UK agreed to grant the new State an annual sum of £2.7 million to meet budgetary deficits and a further £1 million annually for economic development (Buzied, 1998). In 1953, a similar agreement was concluded with the USA. Permission to maintain military bases in the north west of the country, Tripolitania, was granted to the USA in return for economic aid over a period of 20 years. The aid was significantly increased during the following years. The third agreement was signed with France in 1955. According to this agreement, military bases in the west and south west of Libya, Fezzan, were authorised to France in order for more income and economic support.

2.2.4 Economic growth

Libya's economy is almost unique in North Africa. It differs from Algeria, Egypt, Morocco, and Tunisia, and others Maghreb Arab countries. All these countries have a substantial agricultural sector and well-established industrial bases. Libya possesses few of these resources. The economy does, however, have abundant energy resources primarily of light low-sulphur crude oil as well as natural gas. Libya has indeed made very considerable progress, developing from one of the poorest countries in the world, particularly after discovering and producing the black gold, into one whose physical and human infrastructure compares favourably with that of its neighbours.

Libyan economic growth progress can be divided into three periods. The first period began with oil discovery and ended in 1969. The oil discovery moved the country into the forefront of the world's economy. The September 1, 1969, AR marked the beginning of the second period, a period that saw Libya change from a Western oriented capitalist country into a strong supporter of independence, and an anti Western, socialist state. This period also saw the government's growing intervention in the economy, which was largely financed by the booming oil revenues of the 1970s. Falling world oil prices in the early 1980s eliminated the whole private sector.

The first and second periods have dramatically reduced government revenue and caused a serious decline in economic activity. The third period is the economic reform which started in the mid 1990s, when it became clear that the centralised economic planning and control of business and property had failed to improve the economy.

2.2.4.1 Oil discovery

Oil was discovered in 1953 in western Fazzan, in the south western part of the country, and the first oil was struck in 1957. Table 2.3 shows the production and sale of petroleum through the 1960s. Since the early 1960s, the income from petroleum sales enabled what had been one of the world's poorest countries, depending on foreign financial aid, to become extremely wealthy. Consequently, foreign financial aid was no longer needed and the government started to build the State through self finances.

Table 2. 3: Production and sale of petroleum during 1960s

year	Production(Barrels)	Exports (LYD)	Revenue (Million USA$)
1961	6,642	4,097	-
1962	66,543	46,984	39
1963	161,272	116,861	109
1964	313,796	216,400	197
1965	445,252	280,331	371
1966	550,505	351,441	476
1967	632,601	416,426	631
1968	951,345	664,287	952
1969	1,225,436	771,857	1,132

Sources: Bait-El-Mall et al (1981 : 86).

The income figures, as can be seen from Table 2.3, increased dramatically during the decade after the discovery of oil. The Libyan economy became dominated by the hydrocarbons sector, which accounts for one-third of national output and generates more than 95 per cent of total foreign exchange earnings.

2.2.4.2 Al-Fath of September revolution

On 1st September 1969, the name of the country changed to Libya Arab Republic. The preceding government's personnel and much of its administrative framework were suspended, and the important sectors such as oil and financial companies were put on notice. The RCC declared three principles, which are freedom, socialism, and unity.

The overall objectives of the new regime were to accelerate the rate of growth to break the weakness of the economy outside the oil industry and to promote social welfare. The new government took certain measures including accelerating investment in infrastructure and developing education at a more rapid rate to provide people with relevant skills for development. The government launched five plans to develop the country. The first and second 3 year plan (1970-1972) and (1973-1975), were called Economic and Social Development Plans and the third, fourth and fifth were 5 year plans (1976-1980), (1981-1985), (1986-1990) called Transformation Plans. The main objectives of these five plans were to expand the country's production sectors, reduce the country's dependence on oil, decrease imports, and increase non-oil exports with more emphasis on the agriculture and manufacturing sectors (Buzied, 1998).

Therefore, a number of factories have been built. Millions of Libyan Dinar[6] (LYD) was allocated to agriculture, with the main purposes being to expand the area of cultivable land and to develop land already cultivated (Bait-El-Mall *et al*, 1973). Table 2.4 illustrates that millions of LYD have been spent in different sectors during the various development plans.

Table 2. 4: Development plan expenditure, 1970-1990 (LYD millions)

Economic Sector	1970-1972	1973-1975	1976-1980	1981-1985	1986-1990	1970-1990	%
Agriculture, Forestry and Fishing	136	555	1703	149	657	4545	18.7
Oil and Natural Gas	45	138	364	249	120	916	3.9
Manufacturing	109	269	1277	2067	835	4557	18.8
Electricity and Water	80	212	1053	982	414	2741	11.3
Education and Health	78	222	739	1076	452	2561	10.5
Information and Culture	5	14	113	94	37	262	1.1
Social security	-	16	16	40	12	85	0.3
Transportation and Communication	78	226	1126	1829	501	3759	15.5
Housing	149	336	888	1055	544	2973	12.2
Public utilities	92	177	731	127	753	1880	7.7
Total	772	2165	8010	7668	4325	24279	100

Source: Secretariat of planning (1990).

[6] LYD equal proximately US$ 3.3.

Table 2.4 shows that an average annual development spending, which amounted to about LYD 772 million (about USA$2412.5) during the period from 1970 to 1972; rose to LYD 2165 million (about USA$6765.6) under the Economic and Social Development Plan for 1973-1975; to about LYD 8010 million (about USA$27620.7) under the Transformation Plan for 1976-1980, and about LYD 7668 million under the Transformation Plan for 1981-1985.

During the period from 1986 to 1990, average annual expenditure amounted to about LYD 4325 (about USA$15446.4) million. The flow of oil revenue and the sharp rise in the international price of crude oil from USA$2.23 per barrel in 1969 to approximately USA$14 in 1977 were the most important factors that contributed to helping the government in raising funds for development plans during the 1970s (Buzied, 1998).

Much of the income from oil exports was used to improve the cities, modernise transportation, and housing. Meanwhile, the shortages of manpower and management skills were the most serious difficulties that led the country to remain heavily dependent on foreign labour to implement its plans. In 1976, business conditions in the country changed dramatically. The principles of socialism[7] guided the regulation of business activities. 'Partners not wage worker'[8] was the main pillar of business activities. Popular committees completely governed wholesale and retail trade. Further, a number of importing

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[7] Businesses activities are state owned and controlled.

[8] 'Partners not wage worker' is one of the *Green Book's* articles. According to this article, the economic unities are owned by all workers.

and exporting businesses were transferred to 62 public corporations. The issuing of trade licences was stopped completely by the end of 1979. Furthermore, a large number of private companies were taken over by workers' committees.

In March 1981, it was announced that all retail activities would be controlled by state administered and state owned supermarkets. The whole private sector was completely eliminated by the end of 1981. Consequently, the public sector became responsible for providing all the needs of society as well as planning, implementing and financing all the development programmes (Kezeiri, 1989:55). The world economic crisis that began in the early 1980s had a direct impact on petroleum markets. This crisis in the petroleum market included prices dropping to a very low level.

Marketing policy and the need to maintain prices and establish ceiling production levels inevitably caused a further deterioration in business activity. All this had a direct effect on the income of the petroleum exporting countries, including Libya. In 1989, GDP at current income factor cost was 7,223,500 LYD (about USA$15703.3) and the available statistics indicated that the contribution of non petroleum economic activities to GDP raise from 36.9 per cent in 1970 to 66 per cent in 2004, at current income factor cost (CBL, 2005).

2.2.4.3 Recent economic growth

Although, Libya is generously endowed with energy resources, it has one of the less diversified economies among the Maghreb Arab countries and even among the oil producing countries. The Libyan economy mainly depends upon revenues from oil and natural gas, and remains largely state controlled and regulated. Table 2.5 below shows the structure of Libya's GDP by economic sectors for the period 1998 to 2004. Total real GDP in Libya was estimated by the end of 2004 to be LYD 39,947,100 (about USA$31,942,347). This total revenue includes LYD 26,342, 000 (about USA$21,063,489) in the oil and natural gas sector or about 66 per cent, while the revenue from other sectors accounted for LYD 13,605,100 (about USA$10,878,858) or about 44 per cent (see Table 2.4).

Table 2. 5: Gross domestic product according to economic sectors at end of 1998, 2000, 2004 (LYD ıillion, at current factor income)

Economic sector	1998	2000	2004 *	%
Agriculture, Forestry and Fishing	1394	1438	1439	3.6
Oil and Natural Gas	2786	7081	26342	66.0
Mining and Quarrying	198	294	431	1.0
Manufacturing	779	890	761	1.9
Electricity and Water	260	270	334	0.8
Construction	713	1014	1495	3.7
Trade and Tourism	1715	1686	2392	5.9
Transport and Communication	1168	1214	1664	4.1
Finance, Insurance and Ownership of Dwellings	275	357	479	1.1
Housing	443	476	592	1.4
General Services	1184	1238	3532	8.8
Education and Health	1359	1428	-	0.0
Other Services	337	392	486	1.2
GDP	12611	17778	39947	100

** Primary data; Sources: CBL (2005).*

The non hydrocarbon manufacturing and construction sectors, which account for about 20 per cent of GDP, have expanded from processing mostly agricultural products to include the production of petrochemicals, iron, steel, and aluminium. With the limited arable land and vastness of the desert, the shortage of water, the hot temperature, the agriculture, forestry and fishing sectors made a particularly small contribution at about only 3.6 per cent to GDP. This sector employs 18 per cent of the labour force. The other large contributor was the general services sector. This includes government departments. The trade and tourism sector was ranked the third largest contributor to GDP 2004. The construction sector contributed about 3.7 per cent to GDP 2004 (see Table 2.5). The only component of GDP to exhibit a steady growth has been the general services (except education and health) sector, which rose from LYD 11,834,000 (about USA$26,077,567) in 1998 to LYD 35,322,000 (about USA$27,066,666) in 2004. The blooming of the general services sector reflected the strong bias against other sectors such as the manufacturing sector.

According to economic data published by the CIA in 2005, the non-oil manufacturing and construction sectors, which account for about 20 per cent of the manufacturing sector of GDP, have expanded from processing mostly agricultural products to include the production of petrochemicals, iron, steel, and aluminium. The main imported commodities are machinery, transport equipment, semi-finished goods, food, and consumer products. Crude oil, refined petroleum products, and natural gas are the main exports.

Table 2.6 below illustrates GDP by oil and gas sector and non hydrocarbon sectors during a selected period. During the period between the early 1970s and the early 1980s, there were few major changes in the composition of GDP. During these periods, oil and natural gas sector accounted for between 50 and 60 per cent of GDP. Since 1980 declining oil revenues have reduced the oil and gas sector's share of GDP.

Table 2. 6: Gross domestic product by oil and gas sectors and non hydrocarbon (LYD million)

Year	GDP	Oil and Natural Gas Sector	Non hydrocarbon Sectors
1970	1288	813	475
1974	3795	2384	1412
1977	5613	3278	2335
1980	10554	6526	4028
1985	7852	3500	4352
1990	7750	2741	5009
2000	17775	7081	10695
2004*	39947	26342	13605

** Primary data; Sources: Compiled from Buzied (1998) and CBL (2005).*

Transportation and construction have accounted for relatively large shares, which is not surprising given the heavy investment effort in infrastructure. The regularly low contributions of agriculture and industry to GDP were disappointing, given the large amount of development spending in those areas. Higher oil prices in 1999 and 2000 led to an increase in export revenues, which improved macroeconomic balances and helped to stimulate the economy.

Consequently, the real GDP grew by 12.4 per cent in 2004 from 2000, reflecting a 272.0 per cent rise in oil and natural gas production and a modest 27.21 per cent increase in non hydrocarbon activities. However, the oil and natural gas income and a small population give Libya one of the highest per capita GDPs in Africa. The available statistics indicate that average per capita cash income in Libya, based on per capita share of GDP, rose from USA$2169 in 1970 to USA$6700 in 2004 (see Table 2.7).

Further, Libyans enjoy free education and are paid to study abroad at institutions of postgraduate education. They also have rights to free health care, and this extends to sending patients abroad if the treatments are not available inside the country. The local population also benefit from large subsidies for electricity and water, and are entitled to interest free housing loans from the state.

Available official data, Table 2.7, shows that the rate of inflation in Libya reduced. The inflation, as measured by the official Consumer Price Index[9] (CPI), decelerated to 2.9 per cent from 20 per cent in 1990, mainly as a result of the introducing the special exchange rate on the price of private sector imports.

Table 2. 7: Major economic indicators

Income and Growth	1970	1980	1985	2000	2004
GDP (LYD Million)	1,288	10,553	7852	17,620	39947*
GDP Per Capita USA$	2169	5574	5410	6600	6700
Inflation Rate (year end %)	-	-	20	13.6	2.9
Exchange Rate (average LYD per USA$)	0.3566	0.2953	0.2823	0.5403	1.305
Foreign Exchange Reserves USA$	1,614	4,115	5,655	12,461	25,689
Economic status	Growth	Growth	Decline	Growth	Growth

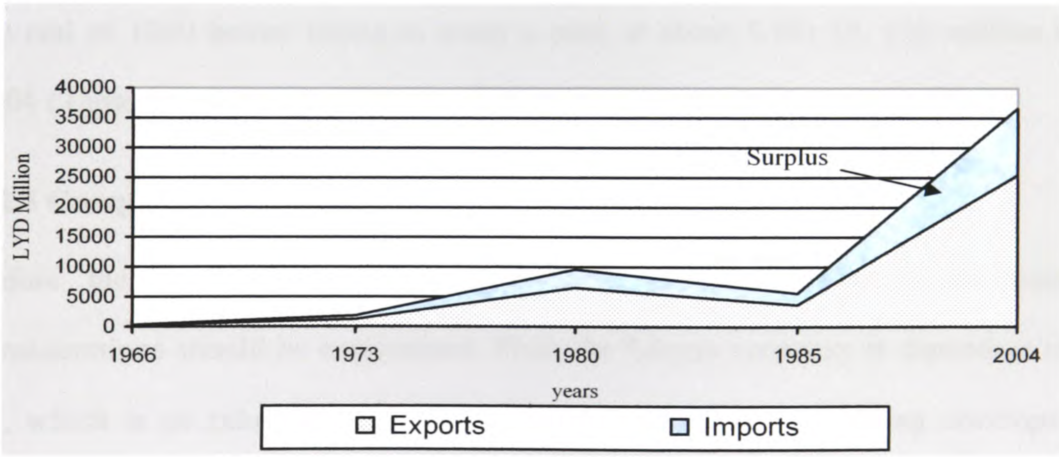
**Primary data; Sources: compiled from CBL (2000, 2002, and 2005) and CIA (2005).*

In March 1996 there was an economic reform, the authorities announced plans to unify LYD exchange rates with various official, commercial and black market rates. Further in November 1996, the LYD was pegged to the Special Drawing Right (SDR) at a rate of 1 LYD to SDR 1.9 (USA$2.57) (CBL, 1996). Previously, the LYD had been pegged to gold and the new exchange rate was an

[9] These CPI data must still be viewed with caution because of the government's role in setting prices and wages.

administrative change and not an upward or downward revision of its value. The exchange rate's change was managed through tight official controls for many years. In effective devaluation of the LYD in January 2002, the rate for official transactions was set at LYD1.3 per USA$1, whereas the unofficial rate for private transactions, such as individuals travelling abroad for vacations, moved to LYD1.6 per USA$1 at LYD1 equal SDR1.9. These rates represent devaluation from the year end 2001 rate of LYD0.6452 per USA$1 (CBL, 2003). Libya's trade balance has generally demonstrated a surplus since 1966, as exports have exceeded imports by a considerable margin. Figure 2.2 and Table 2.8 illustrates the development of Libya's balance of payments 1966-2004.

Figure 2. 2: Development of Libya's balance of payments 1966-2004
(LYD million)



In the 1970s, the difference between imports and exports increased sharply, from about 72 Libyan pounds[10] in 1966 to about LYD5, 33 million in 1973. There was an increase both prices and export of quantities of oil during the 1970s. This

[10] The Libyan pound, as it was then known, which was created as a national currency just shortly after independence had been established in 1951. The pound was divided into 100 *piastres* (of 10 *millions* each), and having a par value of US$2.80. The currency failed to devalue, and terminated the direct link with sterling when it devalued in November 1967. Otherwise, the currency unit remained tied to sterling until the aftermath of the Libyan nationalisation of British petroleum's assets in Libya in December 1971.

generated a credit balance of payment to reach LYD3, 419 million by the end of 1980.

Table 2. 8: Development of Libya's balance of payments 1966-2004 (LYD million)

Items	1966	1973	1980	1985	2004*
Trade Balance	71.6	532.6	3419.1	1708.0	14110
Goods; Exports (fob)	201.1	1199.7	6489.2	3645.6	25363
Goods; Imports (fob)	129.3-	667.1-	3070.1-	1937.6-	11253-

* *Preliminary data. Sources: compiled from CBL, various years.*

During the early 1980s, the prices of raw materials and hydrocarbons were affected by the global economic crisis which had a negative impact on the economics of many worldwide countries and oil producers in particular. Libya was not an exception, the balance of payments declined to LYD1,708 million at the end of 1980 before lifting to reach a peak at about LYD 14, 110 million in 2004 (Table 2.4).

2.2.5 Comparative economic situation

Before the comparative economic situation is reported, two fundamental considerations should be emphasised. First, the Libyan economy is dependent on oil, which is an exhaustible resource. Second, the economy is being developed according to a philosophy of socialism, which limits private ownership of enterprise, encourages partnership in organisation and production, advocates self reliance and promotes industrialisation, particularly in the area of import substituting industries. Some of Libya's Maghreb Arab neighbours have a diverse economy with important agricultural[11], mining, energy, tourism (particularly in Egypt and Tunisia), and manufacturing sectors. Governmental control of the

[11] Agriculture production remains Sudan's most important sector.

economy has gradually lessened over the past decade with increasing privatisation, and a prudent approach to debt. Table 2.9 provides a comparative analysis of economic indicators and population between Libya and its Arab neighbours.

Table 2. 9: Comparative economic and population indicators between Libya and Maghreb Arab countries in 2004

Economic Indication	Libya	Egypt	Algeria	Sudan	Tunisia
Real GDP (Billion USA$)	37.48	316.3	212.3	76.2	70.9
Real GDP Growth %	4.9	4.5	6.1	6.4	5.1
GDP Per Capita USA$	6700	4200	6600	1900	7100
Inflation (Consumer Price)	2.9 %	9.5 %	3.1 %	9 %	4.1 %
Oil Production (million bbl/day)	1.518	0.740	1.2	0.345	0.72
Population (Million)	5.76	77.5	32.52	40.27	10.07

Source: CIA (2005).

The Libyan GDP of USA$37.48 billion in 2004 is the lowest of the Maghreb Arab region. Libyan GDP per capita was USA$6700 below Tunisia but above Sudan, Algeria and Egypt respectively. In addition, Libya's growth in GDP was 4.9 per cent, ranking below Sudan, Algeria and Tunisia, but above Egypt. Further, the annual increase in Libya's consumer price index was 2.9 per cent year on year, ranking below Algeria and Egypt.

Libya is generously endowed with substantial hydrocarbon reserves and possesses a very important geographical proximity to worldwide markets. The upward oil price revision has had a positive impact on both the outlook for real economic growth and the current account. Libya has been gradually implementing measures to reform and open its economy. The country was determined to achieve this development objective, by reducing legislation to regulate information systems, including the reporting of accounting information, in such a way as to facilitate the compilation of national accounting, measurement of economic development, development planning and performance evaluation. A primary objective in many civilisations is the maintenance of a stable and blooming rate of economic growth. Although many factors are expected to contribute to achieving these national objectives, the regulatory framework of financial reporting is expected to play a significant role by providing the framework of required information to meet international standards.

2.2.6 Globalisation, overseas investment operations and banking network

The last few decades have witnessed the beginning of a new era of globalisation causing fundamental changes in the structure of domestic and international corporations. Driven by a desire to achieve economies of scale and higher productivity, mergers and acquisitions have increased markedly. The emergence of larger companies and banks that have an interest in squeezing out smaller competitors may help to sustain economic performances in leading industrialised economies.

However, as these same corporations extend their influence globally and benefit from agreements on international trade, there is a risk of these economies becoming over dominated which will harm economic, commercial and financial activity outside their national boundaries. To counter this threat and to prevent being compelled to take part in the new economic order, developing countries have been seeking out other solutions, including the establishment of zones of regional economic corporation. Libya is a developing country and is not an exception. Its extensive foreign banking network has come about in three ways. First, Libya participated fully in the international expansion of Arab banking during the 1970s.

At that time Arab banks were set up throughout the western world, often in the form of a partnership in which a large number of shareholders who did not have the need or the expertise to establish stand alone subsidiaries joined with others to form a single bank which, it was believed, would cater for all their interests. Second, the failure of many of these consortium banks provided an opportunity to expand investment in those organisations.

Libya, however, regularly respected its shareholder obligations and, as a result, saw its stake in many banks increase as other shareholders' stakes were diluted. Typically, this process resulted in Libya Arab Foreign Bank's (LAFB) stake rosing from 20 to 30 per cent. For instance, Libya holds more than 95 per cent of UBAF International Bank[12] (LAFB, 2002). Third, for political and strategic reasons Libya has built an extensive investment and banking network worldwide and in Africa and Arab countries in particular.

Libyan investment abroad was made through three local organisations. These include mainly the Oil Investment International Company (OIIC)[13] , Libyan Arab Foreign Bank and Libyan Arab Foreign Investment Company (LAFICO). The OIIC, which has a capital of USA$450 millions, covers overseas oil investments

[12] ALUBAF International Bank based in Bahrain.
[13] Oil Investment International Company is 100 per cent owned by the Libyan Oil Corporation.

and is responsible for oil holdings, including a 90 per cent stake in Italy's Tamoil refinery. Hence, the LAFICO manages other foreign investments, such as Libya's stake in Metropol Hotels and 48 per cent of the stake in Corinthian Hotel Groups[14] (LAFICO, 2001).

In addition, the LAFB have stakes in banks across a huge area of central Africa, including Mauritania, Mali, Niger, Chad, Burkina Faso, Togo and Uganda. Indeed, the LAFB has stakes in banks and investments projects in every state that has a border with Libya. Most of these were set up as 51/49 joint ventures between the LAFB and the local investors. According to the statement made by the LAFB's chairman, which was published in the corporate annual report in 2001, the total participants were 40 institutions worldwide with a book value of LYD 379 million (about USA$693,973,962.00) at the end of the year 2000.

In the mid 1990s there were two groups of institutions in which Libya had significant stakes that were important in terms of international finance. The first group comprises those banks that have developed from the UBAF banking group. In the 1970s, a network of consortium banks was set up with the common characteristic that they had a single holding company, which was owned by all the countries of the Arab League as the main shareholder. As these banks faced difficulties and had to be recapitalised, this common shareholding became less important and, at the same time, Libya was able to increase its stake, as part of the process described above. As a result, the LAFB holds: 25 per cent of British Arab

[14] Corinthian Hotel Groups is a joint company between Libya and Malta.

Commercial Bank based in London; 7.86 per cent of Banque De Maghreb Arabe Pour L'investissement Et Le Commerce based in Algeria; 7.86 per cent of Banque Exterieure d' Algerie based in Algeria; 7.86 per cent of Central Bank of Egypt and 4.91 per cent of Iraq's Rafidain Bank. In addition, the LAFB holds a significant stake in Rome-based Ubae Arab Italian Bank, a little less than 10 per cent of Paris-based Union de Banques Arabes et Francaises, and 30 per cent of Madrid-based Banco Arabe Espanol (LAFB, 2002).

The second network is that associated with Bahrain-based Arab Banking Corporation (ABC). The CBL was a founder shareholder in the ABC along with Kuwait's Ministry of Finance and Abu Dhabi Investment Authority. However, the ABC has a wide range of affiliates and subsidiaries, including majority shares in Spain's Banco Atlantico and Hong Kong's International Bank of Asia.

2.3 Legal and regulatory framework of financial reporting in Libya

Before viewing the legal regulatory framework of financial reporting in Libya, it is important to review the development of financial accounting history. The next subsection outlines the important points of the history of financial accounting and professional accountancy in Libya.

2.3.1 The development of financial reporting and auditing

The history of financial accounting in Libya is reasonably short. The first recognised body to govern accountancy in Libya can be traced back only to independence from the Italian occupation in 1952. The body was called the State Accounting Bureau (SAB). The SAB was, in 1955, established by Law No. 31

under the responsibility of the Ministry of Treasury. The Law was amended to guarantee the dependence of the SAB and became responsible directly to the whole of the Ministries' Council of Libya under the Audit Bureau of Law of 1966.

As a consequence of the AR, the structures of the government have changed to consist of an executive branch and a legislative branch represented by the RCC. According to article No. 1 of the SAB Law 79 of 1975, the SAB is "an independent agency affiliated to the RCC and its purpose is to apply effective control over the public funds". As the RCC transferred its authority to the GPC in 1977, the SAB has become responsible directly to this new legislative body.

In 1988, a new body called the Institution for People's Control and Follow-Up was created as a result of the merger between the SAB and the Central Institution for General Administration (CIGA) by Law No. 7, and thereafter renamed as the Institution of People's Control and Follow-Up (IPCFU) in 1996. The main objectives of the IPCFU, initially, were to provide the auditing services and administrative control of all the state agencies, departments, organisations aided by or in receipt of loans from the government, and any other corporation to which the state was holding more than 25 per cent of the capital. The purposes of the audit services were to ensure that these state agencies and their organisations were operating according to the financial regulations and guidelines set up by their relevant secretariats (ministries) and were meeting the social and economic objectives. The IPCFU's responsibilities have been extended to include the auditing services of foreign companies and joint ventures operating in Libya, with the purpose of ensuring that these companies operated in accordance with Libyan laws and regulations.

2.3.2 The accounting profession

Most of the developing countries were subjected to long periods of colonisation by developed countries. Therefore, colonisers were responsible for administering the country's affairs and implementing their laws and systems. Libya was not an exception. Western international accounting firms, mainly from Great Britain and the USA, were responsible for the commencement and development of the accounting system and profession in Libya. This continued to be the case even after the country's independence, as the lack of locally qualified and expert accountants reinforced the dominance of western companies. Bait-El-Mall *et al* (1973:2) stated that

> *"Accounting principles and auditing standards in Libya follow those of Britain- a derivative of British rule after the Second World War. Large firms and government advisers were British, and, until the First of September Revolution in 1969, the director of the State Accounting Office, J. H. Newbegging, was a British Chartered Accountant".*

The discovery of oil in the 1960s led to the blooming of the economy and provided the country with enough money to establish and develop economic activities. Therefore, the demands for accountants' services have increased. In addition, more reliable information has become of interest to stockholders such as investors, creditors, and managers as well as state agencies. The limited number of locally qualified accountants accordingly led the government to place no restriction on Libyans to work as professional accountants provided they held an accounting qualification (Buzied, 1998). Furthermore, foreign accounting firms started to open branches in Libya. According to Bait-El-Mall *et al* (1973) a few years prior to 1973, all public accounting firms were branches of foreign firms. Further, those foreign accounting firms were controlled largely by foreign head offices. As a result of the Nationalisation Act, post 1969, and the lack of regularity in accounting and auditing standards and practices, there was an urgent need to set up a professional body, to take the responsibility for developing a general framework of accounting.

To meet the demand, Law No. 116 was issued in 1973. This is the first ever recognised law to govern accountancy and related areas. The law covers:

i. the establishment of the Libyan Accountant and Auditors Association (LAAA),
ii. registration of accountants;
iii. exercise of profession;
iv. fees and pension and contribution fund;
v. obligations of accountants and auditors and
vi. penalties and general and transitional provisions.

The LAAA was established in June 1975 with the following objectives:

- To organise and improve the conditions of the accounting profession and to raise the standards of accounting and auditors professionally, academically and politically;

- To recognise and participate in conferences and seminars related to accounting internally and externally and to keep in touch with new events;
- To establish a retirement pension fund for its members;
- To increase co operation between its members and to protect their rights and
- To take action against members who violate the traditions and ethics of the profession.

2.3.3 The Libyan commercial code

The Libyan Commercial Code (LCC) was issued in 1953 and has been amended a number of times. It covers rules on corporation books and records keeping and financial reporting. The LCC version 1972, Article No.58, requires that each enterprise must have at least the following books:

(i) a journal,

(ii) an inventory book and

(iii) balance sheet book.

However, before being used, the books must be notarised by the Court of First Instance. According to the statement made by the government in 1972, Article No. 570 corporations (joint stock companies) are required to keep the following records:

i. a register of members;

ii. a register of bondholders;

iii. a minute book of members' meetings;

iv. a minute book of director's meeting;

v. a minute book of statutory auditor's meetings;

vi. a minute book of executive committee's meetings and

vii. a minute book of bondholders' meetings.

Further, the provisions of LCC state every corporation's board of directors is responsible for preparing a balance sheet and a profit and losses account once a year. Article 573 of LCC details the items of assets and liabilities that must be reported in any corporation's balance sheet. The financial statements are to be reported to the general assembly of shareholders for approval (Libyan Government, 1972 Article 572). A copy of an approved balance sheet and profit and losses account must be submitted to the Commercial Register (CR) within thirty days of its approval. This is to be accompanied by the director's report and auditing board report (Libyan Government, 1972, Article 583).

2.3.4 Tax Law

The first tax law used in the country was the Italian tax law in 1923. After independence, the new government asked for technical help from the UN to reform its economy, and continuation of the 1923 Italian tax law was one of the UN's recommendations (Bait-El-Mall, 1981). In 1968, the government had used the Italian tax law, which was used before independence, with modification to suit the Libyan environments. This law became the first unified tax law to be implemented in Libya (El-Sharif, 1981). Before the last version of the present tax law in early 2005, there was a second attempt to establish a tax law to suit the Libya in 1973. According to Bit-Al-Mall (1981: 51), the new tax law No. 64 1973 shows no significant differences from the previous one.

2.4 Accounting education

Formal education in Libya is organised at four levels of schooling: pre-school, essential, secondary[15], and university and other institutions of higher education. Table 2.10 shows, below, Libya's education levels.

Table 2. 10: Libya's education levels

Pre-school	Essential	Intermediate	University and Higher education
Nursery (age 4-5)	Primary (age 6-12) Preparatory (age 13-15)	Secondary (age 16-18) Technical (age 16-18) Colleges (age 16-18)	University and higher education (age 19 +)

Sources: Customised from Nassr and Simon (2003: 373).

Over 50 years ago, when the country became independent, very few Libyans had studied at university and illiteracy was more than 90 per cent of the total population (Nassr and Simon, 2003). By contrast, recently available data estimated that about 82.6 per cent of the entire population in 2003 could read and write. This figure specifies that about 92 per cent were male and 72 per cent were female (CIA, 2005).

According to Yousif *et al* (1996) the overall student enrolment rate in Libya increased by 5.8 per cent from 64.1 per cent in 1973 to 69.9 per cent in 1984. The increases were dramatic at all levels of education. This increase might be attributed mainly to increasing urbanisation; expanding education in urban areas, and rural/urban migration and more class space becoming available in the rural areas. The rapid population growth, the high income generated primarily from the oil boom during the 1970s and the small population base are among the factors

[15] Secondary and preparatory education equals second-level education of UNESCO.

that have contributed significantly to the expansion of education in Libya. The accounting education in Libya is still in its infancy. It can be divided into two levels. The first level was intermediate and can be traced back to a few years ago when the first School of Public Administration was established in 1953. The main objective of this school was to develop graduate clerks and book keepers (Buzied, 1998).

Until the 1970s, this accounting education was included in the second part of the essential level which was called commercial preparatory. A few years later, accounting education was available only to students who had completed the essential level (see Table 2.10). However, the period of the study has been extended to 3-4 years.

The number of colleges, commercial institutes and secondary schools in this educational level are over 30. The main objective of this educational level is to meet the increasing demand for bookkeeping, accountants, clerks and secretaries for both governmental and private sectors (Nassr and Simon, (2003: 375). A diploma degree is offered after the student has completed main and complementary subjects for 3 years.

The main subjects are mainly the fundamentals of accounting, cost accounting, governmental accounting, banking and insurance accounting, principles of auditing, and taxation accounting. Meanwhile, general fundamental information is taken of complementary subjects such as mathematics of finance, statistics and principles of economics. Universities and other institutions of higher education level were started in 1957 when the first Faculty of Economic and Commerce (FEC) was established in the University of Libya[16]. The period for undergraduate study is four years. The academic year was initially nine months. The system was British orientated (Kilani, 1988).

Until 1981, this faculty was the only higher department that offered a bachelor's degree in accountancy. Because of the lack of skilled accounting personnel, the accounting teachers were either from Britain and America, or Arab countries. According to Kilani (1988) the accounting teachers until the early 1970s were either Egyptians or Syrians while a few were British, Canadian and American.

Accounting textbooks and teaching materials were mostly British orientated, or were Arabic books either translated from English or written by Arabians who graduated from British universities. Due to the fact that the Arabic language is the mother language in Libya, very few English books were used. At that time, the FEC started planning changes in its education system. Effectively, the education system in the FEC has changed since 1979.

In the new system, students have to finish at least 120 credit hours (Garyounis University, 1979). However, there is no difference between the two education systems. The new program is based on two 16 week semesters, which mirrors the US system, instead of a full nine month academic year. The maximum period for students to graduate has been 10 semesters. Hence, the minimum period to obtain a degree is 6 semesters. The accountancy course covers various modules

[16] The University of Libya was established in Benghazi and is now called Garyounis University.

concentrating mainly on accounting subjects 40 per cent, economic subjects at 6 per cent and management and finance related subjects at 10 per cent. Statistics and mathematics, law, English, and Arabic and religious studies are regarded as complementary subjects making up 30 per cent of the total program (Nassr and Simon, 2003: 376).

The growth of an educated population and the demand for accountants and accounting services in the late 1970s was a result of economic expansion. The number of universities and other higher education institutions began to increase. Currently there are more than 7 local Universities in Libya that have opened new accounting faculties and departments across the country. Furthermore, textbooks and teaching materials are carbon-copies of those used at the ADGU (Buzied, 1998). The increase of accounting faculties and departments, the growth of the educated population, and economic activities reinforced the increase in the demand for academic accounting staff. However, there was a shortage of this kind of staff.

To overcome this problem, the education authorities attempted to fill the gap in two ways. In the long term they increased the number of undergraduate students in both local and international universities who were willing to continue their education either locally or internationally. Lecturers from different countries, such as Iraq, Jordan and Egypt, were recruited to teach at these local universities for the short term. Priority was given to teachers who had at least a Masters degree from a university in a developed countries universities, mainly from the UK and the USA and who could teach in the Arabic language.

2.5 Summary

Libya is a small Arab country located in North Africa. The country was held by the Phoenicians, the Greeks, the Romans, the Spanish, the Turkish and Italians before independence was achieved in 1952. It became a republic in 1969 and the first ever Jamahiriya, state of the masses, was held in 1976. Islam is the state's religion with a population of Arab and African origin. With a stable democracy, the country has earned one of Africa's highest per capita incomes forecasted to reach USA$7,600 in 2004 (IMF, 2005).

Although billions of the LYD have been invested in the country during the last few decades, the main objective of expanding the economy and accelerating the growth rates of non hydrocarbon sectors has been not achieved. The economy remains heavily dependent on the oil and natural gas sector. This sector accounts for 95 per cent of export earnings. After some fluctuations in the mid 1980s, the overall growth recorded since the early 1990s has been strong, averaging real GDP growth of 4.5 per cent per year in the period 1990-2004 (IMF, 2005).

Real GDP growth is forecasted to average 7.7 per cent in 2005 and 2006, driven by some recovery in oil and gas production and prices (IMF, 2005). Further, Libya attempts to play a more high profile role on the global political stage, although these efforts amount to little more than rhetoric. This is especially evident within Sub-Saharan Africa, where Libya is continuing to be active, seeking to gain influence through financial and material benefit. In recent years, Libyan officials have made significant progress on economic reforms as part of an extensive campaign to reintegrate the country into the international fold (IMF, 2005). Therefore, it seems that for some time to come, economic development planning is the only way for Libya to emerge from its dependence on an exhaustible resource.

In conclusion, the economy of Libya still faces a somewhat constant shortage of human resources, both skilled and unskilled. According to the last data available in 2005, the Libyan population was 5,765,563 with an average growth of 2.33 per cent during the period 2004-2005 (CIA, 2005). Despite the slowdown in global growth, energy demands remain strong and, therefore, a commercial interest in Libya, notably in its hydrocarbons industry, has grown. This is evidenced by evident from strong recent competition for a number of oil exploration and production contracts on offer by Libya's National Oil Corporation.

Such development, to be successful, has to depend on an effective system of comprehensive and integrated information, an important part of which is corporate financial reporting. Further, good quality corporate financial reporting helps the authorities in informative decision making in many respects including the allocation of its resources in the most effective manner, the control of development plans, the finance of economic activities, and accountability. The following chapter reviews the background and academic literature of financial reporting.

Chapter 3

Financial reporting: background and literature review

3.1 Introduction

The previous chapter gave a short economic review of Libya's more recent history. This chapter reviews available literature on financial reporting. The chapter consists of eight sections. After this introductory first section, the second and the third sections review a historical development and definition of corporate reporting. The fourth and fifth sections outline the objective(s) of financial reporting and qualitative characteristics of useful corporate information.

The sixth section identifies user(s) of financial statements and their information needs while the seventh section summarizes available literature that deals with the perceptions of users of corporate reports, financial disclosure and company's characteristics and empirical studies that investigate the relationship between voluntary as well as mandatory disclosure and company's characteristics. The final section concludes the chapter's contents.

3.2 The development of financial reporting

Accounting as a practice certainly has its roots in antiquity and can be traced back to the ancient Babylonian, Assyrian, Sumerian, Egyptian and Greek Civilisations (Edwards, 1989). According to Bailey (1984), the main objective of accounting during early times was to keep proper records of the owner's transactions, enabling them to ensure stewardship over their property.

Watts (1996: 151) stated that *"the early users of accounting lived in a simple world with only low level technology, little expensive capital equipment and simple trading patterns"*. Accounting has been developed in response to society's needs (Bailey, 1984). In the ancient period, accounting was known as charge/discharge accounts. In other words, careful recording of all the goods bought and sold as well as the expenses incurred had to be made (Millichamp, 1997).

During the period of the formation of industrial Italy, in the fourteenth century, Italian merchants developed considerable industrial activities with trading branches in many parts of the world. Charge/discharge accounts were totally inadequate for this degree of sophisticated business transaction (Watts, 1996). Thus, the need for the development of accounting methods and practices became more apparent in order to provide information relevant to the new needs of the environment. This was clearly evident by the invention of double entry bookkeeping. It has been described as the foundation stone from which accountancy moved from the medieval to the modern era of accountancy (Hayashi 1986).

Luca Pacioli, who wrote the first book about double entry book-keeping in 1494, stated that the purpose of book-keeping was to give the trader immediate information as to his assets and liabilities. According to Edwards (1989: 52) Pacioli became the 'father of modern accounting'. The centuries following the publication of Pacioli's book witnessed the spread of the double entry book-keeping system to many parts of the world. The other significant influence on the development of modern accounting grew out of the Industrial Revolution (IR) in the nineteenth and early twentieth centuries. The IR and the development of international trade increased the scale in organisations in both number and size. This was reinforced by the shift in the basic form of business organisations from individual ownership and partnerships to limited liability and stock companies. Changes of the ownership and the separation between owners and management created a remarkable pressure on accounting to provide more information to a variety of users who became interested in the companies' activities.

The rapid and widespread use of accounting statements as channels of providing and distributing financial information about organisations to different users, mainly the owners, creditors, government agencies and managements of the business, has led to more concern about the manner and methods by which this information has been generated.

Therefore, usefulness, reliability and comparability become part of financial reporting. To achieve the usefulness, reliability and comparability, it was felt necessary that the general framework of accounting should include regulations and standardisation. Thus, accounting standards were designed to achieve uniformity and comparability in financial reporting (Bloom and Naciri, 1989:71).

Zeff (1972) demonstrated that the development of accounting principles does not come from specific theory, but from interaction among theory, practices and various social and political influences. Glautier and Underdown (2001: 4) when exploring the development of accounting stated that "*the history of accounting illustrates how accounting is a product of its environment and at the same time a force for changing it*". The environment in which businesses operate has become increasingly tumultuous and competitive and there have been rapid advances in production technology. These developments have had radical consequences to the way in which businesses are planned and to the marketing and industry strategies employed.

Furthermore, changes in the environment have created a need to develop more complicated methods of measuring and controlling costs. Businesses can no longer risk the damage to competitive advantage that might occur where decisions are based on inaccurate and misleading information, particularly when information technology can help provide a sophisticated costing system at relatively low cost. According to Atrill and McLaney (2002), the changes which have taken place in recent years, and those which are currently taking place, are largely in response to changes in the external environment in which accounting exists.

3.3 Corporate information disclosure

The term disclosure can be explained as an action of making something known or freely available that was formerly secret or private. Scholars define disclosure as sharing information with others that they would not normally know or discover. In the last few decades, as a result of the development in financial reporting as well as the role of accountancy in society, financial reports disclosure has received notable attention from both researchers and accounting bodies. Choi (1973) defined the term financial disclosure as the publication of a single piece of information relating to a business enterprise. Choi (1973: 123) stated that

> *"The term disclosure can thus be thought of as the publication of any economic datum relating to a business enterprise, quantitative or otherwise, which facilitates the making of economic decisions. Economic data, in turn, includes facts which reduce the uncertainty concerning the outcomes of future economic events. Improved disclosure, for the present, can be thought of as the manifestation of an increase in both the quantity and quality of economic data disclosed by the enterprise investor via its published financial reports".*

The Accounting Standards Committee (ASC) identified corporate report information as a comprehensive package. The ASC (1975: 9) stated that

> "[the Corporate Report is a] *comprehensive package of information of all kinds which most completely describes an organisation's economic activity. It will include more than basic financial statements, by which we mean those statements required to be published by law or other competent authority and which are primarily concerned with reporting financial transaction and positions".*

Gibbins *et al* (1990) gave a focussed definition of corporate information disclosure. The focus was on a type and way of providing the information disclosed; whether this information was in words or numbers and whether it is formal or informal. Either this information was required by law or volunteered at any time during the year. Gibbins *et al* (1990: 122) outlined financial disclosure to be:

> *"any deliberate public release of financial information, whether voluntary or required, number or words, formal or informal, any time during the year".*

Wolk *et al* (1992:115) have grouped financial information disclosure as the information presented to users. The authors described this process as occurring:

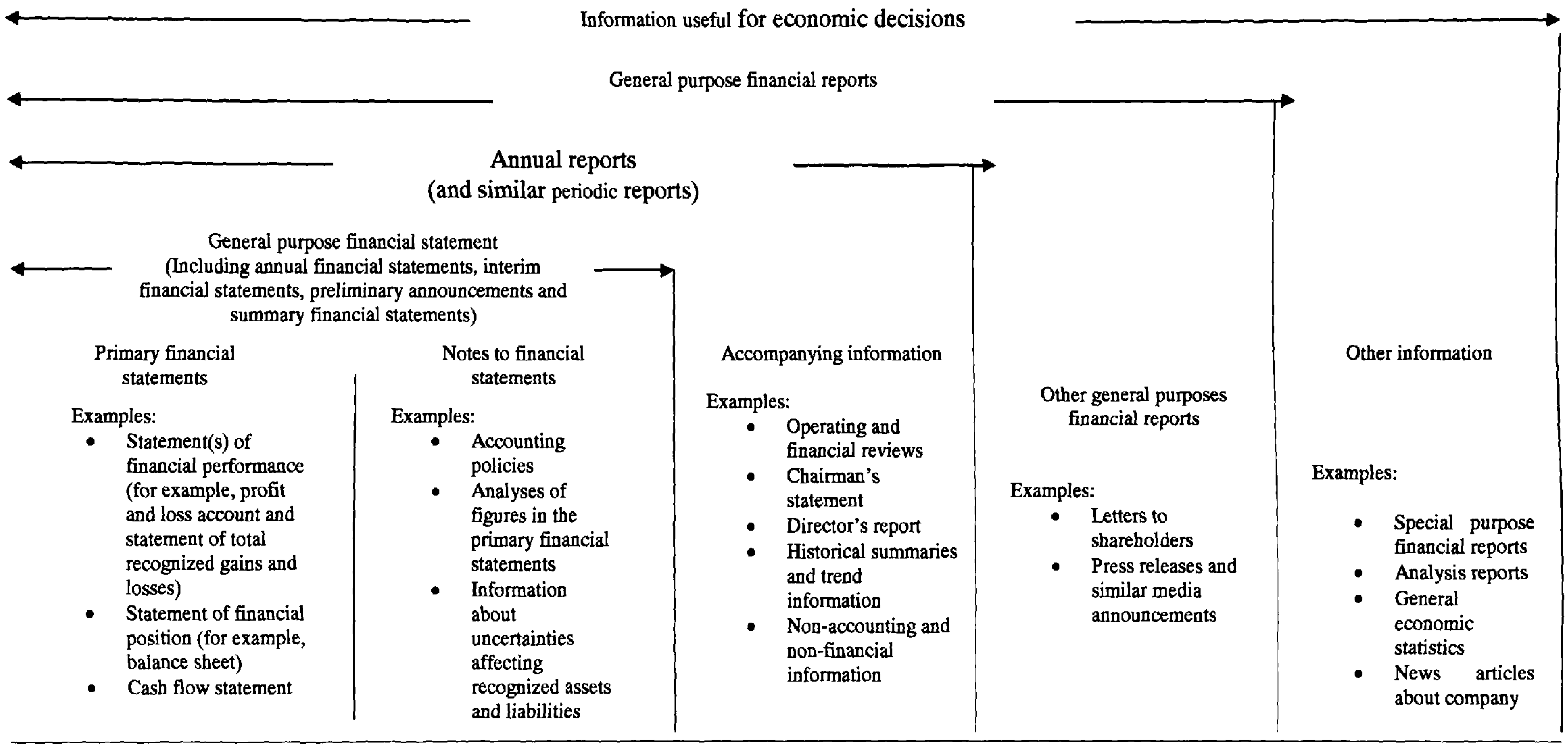
> *"in both the financial statements and supplementary communications, including footnotes, post-statement events, management's analysis of operations for the forthcoming year, financial and operating forecasts and additional financial statements covering segmental disclosure and extensions beyond historical costs".*

In the UK, the Accounting Standards Board (ASB) (1999) issued a draft statement on the principles for financial reporting that underlie accounting and financial reporting. The goal of the draft statement was to specify a conceptual framework providing formats for the preparation and presentation of financial statements. Figure 3.1 illustrates the conceptual framework of financial information.

Figure 3.1 illustrates that financial statements are only one part of financial reporting. Financial reporting is also considered to be one of the major sources of financial information within the financial information disclosure system. The whole disclosure system is intended to furnish all user groups of financial reporting with information that will be useful to make informed decisions.

From the above definitions and figure 3.1, financial reporting involves reporting information of both quantitative and qualitative data. While quantitative information involves the collection of arithmetical data including the value of assets and liabilities as well as costs and revenue or loss, qualitative information comprises a descriptive commentary or other information on the performance of the organisations. Financial reporting can either be prepared by the organisation itself at the behest of, or in the form specified by, a person who has the authority to obtain the information they require to meet their needs.

Figure 3.1: Categories of financial information



Source: Adapted from the Statement of Principles for Financial Reporting (December, 1999: 12).

Corporate reports also may take many forms. General and special financial report purposes are such types of financial reports. For instance, financial statements whether published as annual reports, interim reports, or preliminary announcements and summary financial statements (ASB, 1999). The focus of this thesis is corporate annual reports. These reports are presumably prepared for both their internal and external users. Before identifying the users of financial information and reviewing the useful qualitative characteristics of financial information, the next section reviews the objectives of financial reporting.

3.4 The objective of financial reporting

In the last few years, the objective(s) of financial reporting have been the main concern of practical and professional accounting bodies and scholars. Some of the more conclusive and authoritative efforts are highlighted in this section. For instance, Moonitz (1961) described the objective(s) of the financial statement as the provision of information. These data would be used as a solid basis for choosing between available economic alternatives as well as for checking and evaluating progress along with results.

The American Institute of Certified Public Accountants (AICPA) (1970) published statement No.4, lists the general objectives of financial accounting and the financial statement as:

1) To provide reliable financial information about economic resources and obligations of a business enterprise;
2) To provide reliable information about the changes in net resource less the obligations of an enterprise that result from its profit directed activities;

3) To provide financial information that assists in estimating the earning potential of an enterprise;
4) To provide other information required about changes in economic resources and obligation;
5) To provide information that is useful to present and potential users in making decisions;
6) To provide information about the financial performance of an enterprises during a given period and
7) To disclose, to the greatest extent, other related information to the financial statements that are relevant to the users' needs.

The Accounting Standards Committee (ASC) (1974) of the ICAEW set up a working group to re-examine the scope of published financial reports. The conclusion of the working group was published in (1975) and is known as The Corporate Report. The Corporate Report (1975: 78) identified the following objective:

> *"Corporate reports communicate economic measurements of and information about the resources and performance of the reporting entity useful to those having reasonable rights to such information".*

In 1980, the Canadian Institute of Chartered Accounting (CICA) commissioned Professor Edward Stamp to conduct research. The purpose of the research was to determine the objective(s) of corporate reporting. The resultant report (CICA, 1980) postulated that the central objective is:

> *"to provide adequate information about the real economic position and performance of an enterprise to all potential users who need information to make decision".*

Solomon (1989: 9) argued that financial reporting should provide information that is useful to all those who have an interest in the following aspects:

1) Assessing the financial performances and the position of the organisations;
2) Assessing the performance of those responsible for its management; and
3) Making decisions about investing in lending or extending current credit.

The ASB (1999: 16) published the Statement of Principles for Financial Reporting and stated that the fundamental goals of financial statements are:

> *"to provide information about the reporting entity's financial performance and financial position that is useful to a wide range of users for assessing the stewardship of the entity's management and for making economic decisions".*

The above outlines suggest that the main objective(s) of financial reporting is to provide useful information. It also aims to supply users with useful qualitative and quantitative information upon which informed decisions cab be made. This helps the users of corporate reports to evaluate, compare, predict and ultimately utilise resources effectively to achieve the primary goals of their organisation. The next section discusses the qualitative characteristics of financial information.

3.5 Qualitative characteristic of financial information

To be effective, the corporate reports must have certain characteristics (Al-Hajji, 2003). The goal of the characteristic(s) is to verify which information to include, when to include it and how to present it (ASC, 1999). Thus, accounting bodies and scholarly works have attempted to identify a number of characteristic(s) that disclosed information should possess in order to be useful (Al-Hussein, 2001). For example, the Financial Accounting Standards Board (FASB) and the International Accounting Standard Board (IASB) define a set of qualities of accounting information that make the information provided useful to users in making economic decisions. These include understandability to decision-makers, relevance and comparability, as well as aspects of these qualities (Bullen and Crook, 2005). The next subsection discusses these characteristics.

3.5.1 Relevance

Relevance is an essential qualitative characteristic. It also has been identified as the primary important characteristic in any form of financial information if its purpose is to be useful. To be relevant, information must be capable of making a difference in the economic decisions of users by helping them evaluate the effect of past and present events on predictive value or confirm or correct previous evaluations. In contrast, irrelevant information can be misleading and may contribute to incorrect decisions.

The FASB (1980, Concept No. 2) stated that:

> *"to be relevant to investors, creditors and others for investment, credit and similar decisions, accounting must be capable of making difference about past, present and future events or confirming the correctness of an expectation".*

The ASB (1999: 35) stated that:

> *"information is relevant if it has ability to influence the economic decisions of users and is provided in time to influence to those decisions".*

3.5.2 Comparability

Comparability is an important characteristic of decision-useful information. It means that users of information are able to distinguish between and/or evaluate similarities in the nature and effects of transactions, at one time and over time. This also includes consistency from year to year. The FASB (1980, Concept No. 2) defined comparability as:

> "[that] *quality of information that enables users to identify similarities in, and differences between, two sets of economic phenomena".*

The ASB (1999: 40) stated that

> *"information in an entity's financial statements gains greatly in usefulness if it can be compared with similar information about the entity for some other period or point in time in order to identify trends in financial performance and financial position".*

Atrill and McLaney (2002: 6) identified comparability as items which are basically the same treated in the same manner for measurement and presentation purposes. However, concerns about comparability or consistency should not prevent reporting information that is of greater relevance, or that more faithfully represents the economic phenomena it purposes to represent. If such concerns arise, disclosure can help to recompense for the reduction in comparability or consistency.

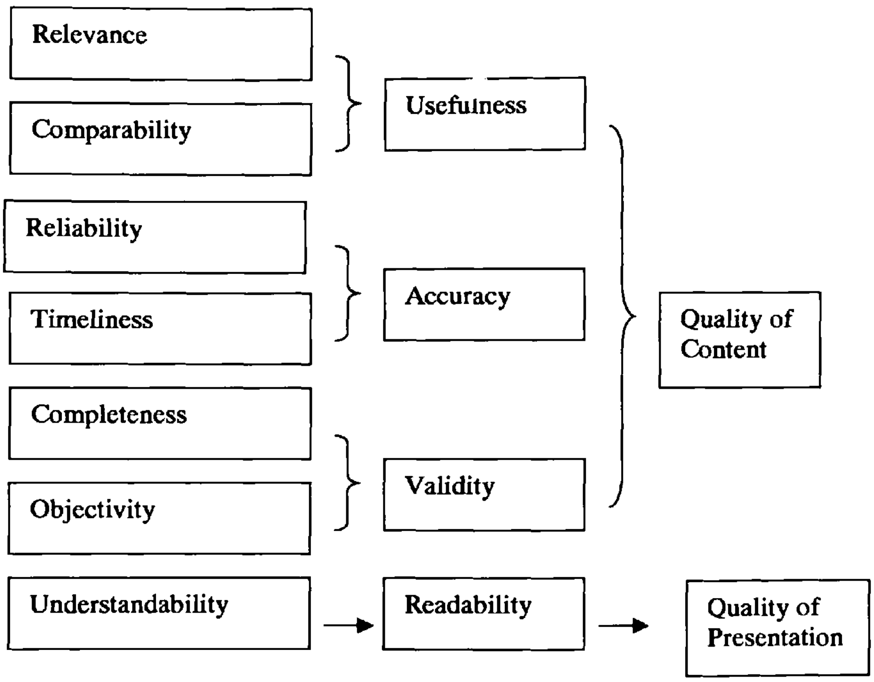
3.5.3 Reliability

The users should have a high degree of confidence in the information presented to them. This does not necessarily mean that the information has to be factually correct, but it should be as credible, and believable as possible. Preferably, it should be independently verified for instance, by an independent qualified auditor.

Wherever, unverified – or possibly unverifiable – information may be better than no information. According to FASB (1980, Concept No., 2), the reliability dimension is

> *"the quality of information that assures that information is reasonably free from error and bias, and faithfully represents what it purports to present".*

Figure 3.2: An aggregation of the characteristics of corporate reports



Source: Adapted from Smith (1996).

The ASB (1991, Para. 26) states that

> *"Information has the quality of reliability when it is free from material error and bias and can be depended on by users to represent faithfully in terms of valid description that which it either purports to represent or could reasonably be expected to represent".*

Reliability implies that users of accounting information can depend on the information included in financial statements with a degree of confidence and an accounting system output can be used with a degree of trust. Reliability of accounting information stems from three characteristics. These are faithful representation, verifiability as well as neutrality. Faithful representation refers to the correspondence or agreement between accounting data and the resources and the events that those data are purported to represent. Verifiability requires a consensus of agreement among independent and qualified individuals as to measurement and presentation in financial reports. FASB (1980, Concept No., 2), defined verifiability as:

> *"The ability through consensus among measurers to ensure that information represents what it purports to represent or that the chosen method of measurement has been used without error or bias".*

Neutrality refers to the absence of bias in the presentation of accounting data. If information is reliable, it must be neutral; that is, information cannot be selected to favour one set of interested parties over another. Belkaoui (1992) defines neutrality thus:

> *"Neutral information is free from bias toward attaining some desired result or inducing a particular mode of behavior. This is not to imply that preparers of information do not have a purpose in mind when preparing the reports; it only means that the purpose should not influence a pre-determined result".*

Therefore, accounting information, to be neutral, must report economic activity as faithfully as possible, without colouring the image it communicates for the purpose of influencing human behaviours in some particular direction (FASB, 1980).

3.5.4 Timeliness

Essentially, the concept of timeliness means that information should be made available to the user on time for him/her to actually make use of it. Information presented should be as up-to-date as possible. Approximate information, made available on time to assist with some decision or action, is likely to be more useful than precise and accurate information presented after the decision has already been made. *The Corporate Report*, ASC (1975: 29) stressed that

> *"The information presented should be timely, in the sense that the date of its publication should be reasonably soon after the end of the period to which it relates, so that it contributes meaningful new information about the entity, and the sense that corporate reports are more useful if they contain up-to date measures of value".*

The FASB (1980, Concept No. 2) clarifies timeliness as *"Having the information available to a decision maker before it loses its capacity to influence"*

3.5.5 Completeness

The user should be given a total picture of the reporting business as far as possible. The report uses the words 'a rounded picture of the economic activities of the reporting entity'. This is a tall order. It implies large and complex collections of information. It may also imply problems of understandability. The FASB (1980, Concept No., 2:10) defines completeness as

> *"The inclusion in reported information of everything material that is necessary for faithful representation of the relevant phenomena".*

3.5.6 Understandability

Different users have different levels of ability to understand accounting information. The understandability of the content of the finance report does not necessarily mean simplicity. It means that the reports must be geared to the abilities and knowledge of the users concerned. Complex economic activities being reported to an expert user may well require extremely complicated reports.

Details with no background knowledge need to be very basic. Problems really arise when reporting complex activities to the non expert user. FASB (1980, Concept No.2: 11) explains understandability as *"The quality of information that enables users to perceive its significance".*

3.6 Users of financial reporting and their information needs

The purpose of accounting information is to help users of financial information to make informed decisions. Companies are regulated to prepare and publish corporate annual reports for users whether they are internal or external, existing or potential. Therefore, for such annual reports are to be useful, they should be designed, in form and content, according to the needs of their users. These users should be contacted frequently to assess their perceptions about various aspects of the reporting practices. Information disclosed in corporate reports is likely to be of interest to a wide range of different user groups.

The views of the users of annual reports serve as the main feedback from which to improve the communication function of such reports (Epstein and Pava, 1994). The Corporate Report (1975:17) defined user groups of corporate annual reports as: "[...] *those having a reasonable right to information concerning the reporting entity"*. The report also identifies seven separate user groups, as follows:

1) The equity investor group, including existing and potential shareholders and holders of convertible securities, options or warrants;
2) The loan creditor group;
3) The employee group including existing, potential and past employees;

4) The analyst-adviser group, including financial analysts and journalists, economists, statisticians, researchers, trade unions, stockbrokers and other providers of advisory services, such as credit-rating agencies;
5) The business contact group including customers, trade creditors and suppliers and in a different sense competitors, business rivals and those interested in mergers, amalgamations and takeovers;
6) The government, including tax authorities, departments and agencies concerned with the supervision of commerce and industry, and local authorities and
7) The public, including taxpayers, ratepayers, consumers and other community and special interest groups, such as political parties, consumer and environmental protection societies and regional pressure groups.

The FASB (1978, Concept No.1) specifies present and potential investors and creditors and their advisors as the major users of financial reporting. In Canada, the CICA (1980:34) extends the objective of corporate reports to serve the needs of all types of users.

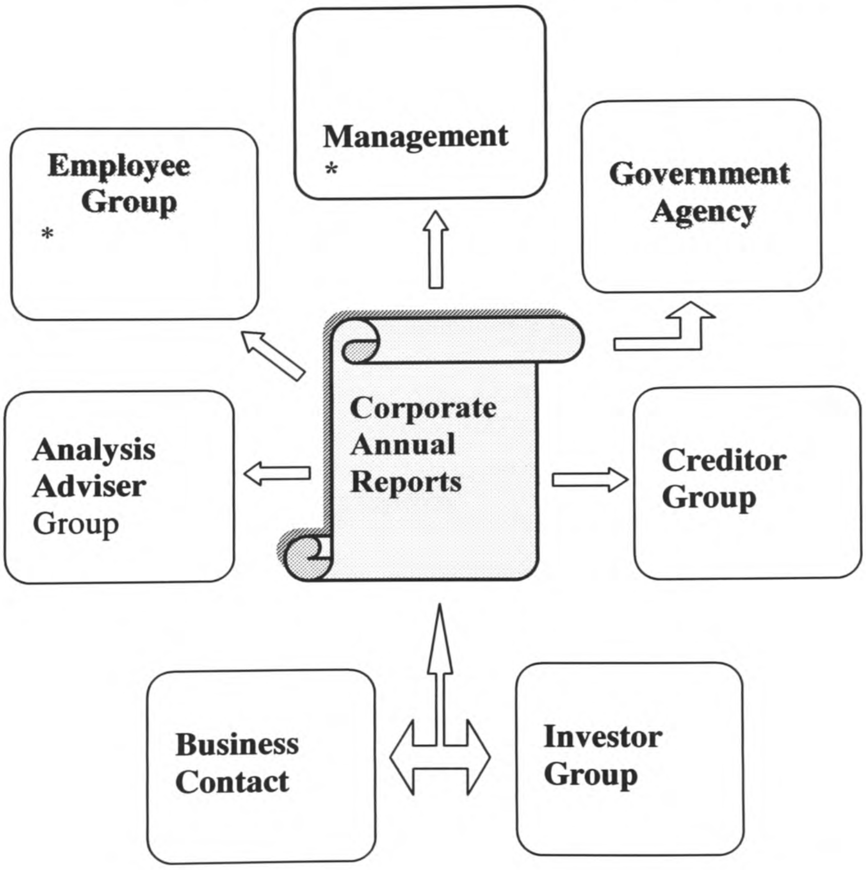
> *"financial reporting is the provision of useful information to all of the potential users of such information in a form and in a time frame that is relevant to their various needs".*

In the UK, the ASC (1999) discusses these groups and their needs. Figure 3.3 below demonstrates user groups of corporate reports.

3.6.1 Investors of economic entity and their advisers

The above groups of users are concerned with the existing risk as a natural and integral part of business. They are interested primarily in future income flows. Investors need information to help them determine whether they should buy, hold or sell stock. In addition, shareholders are also interested in information that enables them to estimate the ability of the organization to pay dividends.

Figure 3. 1: Users groups of corporate report



* *Internal users*

3.6.2 Employees of the economic entities

Employee groups are concerned with information about the company's profitability and stability. They are also interested in information that gives them power to assess the company's ability to provide certain requirements such as retirement benefits, remuneration and employment opportunities.

3.6.3 Lenders of the economic entities

The chief interest of lenders is their money and the interest attached. They are interested in information which enables them to determine whether their loans, and the interest attached to them, will be paid when due.

3.6.4 Suppliers of the economic entities

Suppliers and other trade creditors are concerned with information that allow them to determine whether amounts owing to them will be paid when due. Suppliers in general are likely to be interested in a company over a shorter period than lenders, unless they are dependent upon the continuation of the company as a major customer.

3.6.5 Customers of economic entities

Customers are the major concern of a company; they need information that enables them to assess the product or service continuity, especially when they have a long-term involvement with, or are dependent on them.

3.6.6 Governments

Governments and their agencies are interested in information that allows them to assess the company in several ways in order to regulate its activities and determine taxation policies. It is also used as the basis for national income and similar statistics. They are also interested in the allocation of resources and, therefore, the activities of enterprises.

3.6.7 Public

Corporate annual reports may assist the public by providing information about the trends and recent developments in the prosperity of companies, and the range of their activities. Companies affect members of the public in different ways. For example, they may make a substantial contribution to the local economy by providing employment and support to local suppliers.

3.6.8 Management

Management is also interested in the information contained in corporate annual reports, even though it has access to additional management and financial and non-financial information that helps it to carry out its planning, decision-making and controlling responsibilities. The FASB (1980, Para. 29) stated that

> *"Management is as interested in information about assets, liabilities, earnings, and related elements as external users and, among its other requirements, generally needs the same kinds of information about those elements as external users".*

Previous research was also involved in determining the user groups. For instance, Devine (1985) attempted to classify the users into three groups depending on a variety of information required to answer questions, such as problem-solving questions, attention-getting questions, and scorecard questions. Devine (1985) argued that the fact that different users have different objectives is behind the need to determine the user's requirement. Wallace (1987) identified three types of user of corporate annual reports. These user groups include users of financial reports who want to know how they can dispose of their money; regulators of financial reports who set the regulations for reporting, and the accounting profession who make sure that firms comply with the requirements issued.

3.7 Financial disclosure

The main objective of corporate annual reports is to fulfil the adequate information needs of a wide range of users; namely investors, employees, lenders, suppliers, customers, government, and public who, unlike management, have to rely on the financial statement as their major source of financial information about an organisation (Bullen, and Crook, 2005). This information presents the results of the transactions and the financial position of the company to their user groups, whether they are internal or external, to assist them in informative decision making.

The importance of corporate annual reports is that they are the main source of information to stockholders and the demand for improved disclosure and information transparency has increased enormously during the last few decades in the world in general and particularly in developed countries. There are a number of important elements behind the increased interest in financial and non-financial information and the demand for disclosure.

For instance, the growth of multinational companies, formation of large companies, the reduction in family management control of companies and the replacement of owner mangers with professional managers, the separation between management and the ownership of business, development of capital markets and increase of user groups that have expressed an interest in the affairs and performances of a company (Emmanuel and Garrod, 1992).

Such interests and the above important economic elements formed the modern corporation and they are likely to apply to most countries, but the timing of their appearances, their importance in different industries and the speed with which they spread within different national economies differs considerably. Low levels of interest in corporate disclosure in developing countries might be caused by the slow development of the modern corporations in these countries. Accordingly, as a result of the importance of the corporate annual reports, a substantial number of empirical studies have been undertaken in both developed and developing countries during the last few decades in order to investigate the usefulness of, and the factors that affect, the level of the financial and non financial information disclosed in corporate annual reports.

This section reviews a sample of those studies in order to identify some of the main weaknesses in previous studies, and then, shows how this current study can overcome these weaknesses by investigating the current practices of corporate reports in Libya. The discussion provides a review of studies on the perception of user groups. It also summarizes a sample of empirical studies that investigated the relationship between financial disclosure and the characteristics of a company and the mandatory as well as voluntary information disclosed in corporate reports.

3.7.1 Studies on the perceptions of users of corporate reports

Corporate annual reports user groups are the main consumers of its contents. Therefore, user groups' perceptions about various aspects of the reporting process of organisations remain important in assessing the usefulness of corporate reports. In the last few decades, after the Industry Revaluation, there has been considerable argument about the extent to which financial data available to business ownership and to the public in general, is useful for informative decision making. Table 3.1 below summarises a sample of recent previous research on the perception of user groups toward various aspects surrounding corporate reports. Lee and Tweedie (1975) conducted a study to investigate whether or not shareholders use information from company's financial reports, and if they understand the accounting terms used in these reports. They surveyed 1594 individual shareholders.

The findings of their study showed that financial reports were the most important source of information about companies. The vast majority of the respondents considered annual financial statements to be an important source of information for investment decisions. In addition, Lee and Tweedie (1975) reported that individual investors with no knowledge of accounting were more interested in the Director's Report rather than with other sections. Respondents of the questionnaire surveyed rated the Director's Report section as the most useful part of the annual report for investment decision-making. The respondents also rated the profit and loss account and balance sheet as a useful section.

Anderson (1981) investigated the usefulness of accounting and other information disclosed in corporate annual reports of institutional investors in Australia. The study found that the institutional investors ranked the annual reports as their most important source of information for investment decisions. Second to this in importance came brokers' advice followed by company visits.

Moizer and Arnold (1984) investigated share appraisal by investment analysts who act as portfolio managers at the same time, or as information intermediaries. The authors defined portfolio managers as those investment analysts who use their analysis of information sources to evaluate equity in their management of portfolios. They also defined information intermediaries as those who just analyse information to assess equity shares, and their analysis could be used by a third party. Moizer and Arnold (1984) found that information intermediaries analysed corporate reports in more depth and used more sources of information than portfolio managers. The analyst's advice was rated as an important source of information.

Chang and Most (1981) investigated the perceived usefulness of quantitative and qualitative data contained in annual reports in three countries; the USA, the UK and the New Zealand. The authors surveyed three user groups. The groups included individual investors, institutional investors and financial analysts. Chang and Most (1981) found that the corporate annual report is the most important source of information for investment decisions.

Anderson and Epstein (1995) examined the usefulness of corporate annual reports of individual investors in Australia. Questionnaires were sent by mail to a random sample of 2359 individual shareholders. There were 436 returned questionnaires. The authors used a series of statistical tests, including a chi-square test for non-response bias. The results of the study revealed that the annual report was less useful as the basis of investment decision making than stockbrokers, newspapers and magazines. The director's report was found to be the most thoroughly read section of the annual reports, followed by the profit and loss statement and chairman's report. The auditor's report section was found to be the least useful item contained in the annual reports.

Ibrahim and Kim (1994) examined the perceived importance of a set of 42 financial items in Egypt. A survey questionnaire was used to gather data from a sample of 313 subjects representing four different user groups. These included managers, investors, financial analysts, and accountants. To test the perceived differences between pairs of the four user groups, nonparametric statistics were used. Ibrahim and Kim (1994) reported that the overall level of consensus among four user groups was about 57 per cent. The level of consensus between accountant and manager was higher than other users.

Abu-Nasser and Rutherford (1996) reported on a study in which users of external financial reports view reports on Jordan's moderately sophisticated capital market. The researchers used a questionnaire to identify the perceptions of user groups on different aspects of the annual reports. These included the number of reports read, and the time spent reading them, and the pattern of usage of the individual report's sections. Abu-Nasser and Rutherford (1996) reported that users complained of a lack of comparability and consistency between different companies within a single industry and a lack of reliability. In addition, by comparison with developed countries, users relied more heavily on information obtained from the company, either from the annual report or via other channels such as visits and communication with the manager.

Naser and Nuseibeh (2003) conducted an empirical assessment of the quality of information disclosed by non-financial companies listed on the Saudi Stock Exchange. The study compared the extent of corporate disclosure before and after the creation of the Saudi Organization of Certified Public Accountants. The authors classified the information disclosed in 1992 and 1999 company annual reports into three main categories: mandatory, voluntary related to mandatory and voluntary unrelated to mandatory disclosure. Naser and Nuseibeh (2003) weighted the indexes of disclosure by the mean and median responses of seven users of annual reports. The findings showed a relatively high compliance with the mandatory requirements in all industries covered by the study.

Naser, Nuseibeh and Al-Hussein (2003) attempted to explore the perception of eight user groups of financial information and corporate annual reporting in Kuwait. The eight user groups were surveyed through a questionnaire. The groups were individual investors, institutional investors, bank credit officers, government officials, financial analysts, academics, auditors and stock market brokers. Naser, Nuseibeh and Al-Hussein (2003) reported that the user groups rely mainly on information made directly available by the company and do not consult intermediary sources of corporate information in order to make informative decisions. The analysis also revealed that credibility and timeliness are the most important features of useful corporate information and that traditional financial statements are the most important and credible parts of corporate annual reports.

Alrazeen and Karbhari (2004) undertook an empirical study to investigate the perception of five users of the annual corporate reports in Saudi Arabia. The five user groups were individual investors, institutional investors, creditors, government officials and financial analysts. The study was focused on the use and importance of seven different sections of corporate information. The sections included the board of directors' report, the auditor's report, the balance sheet, the income statements, the statement of retained earnings, cash flow statements and the notes to the financial statements.

Univariate, bivariate and multivariate analysis were used to analyse the data. Univariate analysis was used to measure the central tendency and the dispersion of user groups' perceptions. Bivariate and multivariate analysis was used to test whether there is a significant statistical difference between the various user groups. Alrazeen and Karbhari (2004) reported that the corporate report is the most important source of information. It also reported that the balance sheet and income statement are the most important sections of the annual report. In contrast, the board of directors' report was found to be the least popular.

Mirshekary and Saudagaran (2005) conducted an empirical study to examine the perceptions and consensus among user groups of corporate annual reports in Iran. The authors used a questionnaire survey to explore the views of seven user groups about different aspects of corporate reports. The users included mainly bank loan officers, academics, stock brokers, bank investment officers, institutional investors, auditors, and tax officers. Mirshekary and Saudagaran (2005) reported that the user groups of corporate reports in Iran depend more heavily on information obtained from published annual reports than on advice from stockbrokers and acquaintances or on information obtained from tips and rumours. It also showed that the user groups ranked the income statement, the auditors' report, and the balance sheet as the three most important sections of the annual report respectively. With regard to the consensus between user groups, the results of the study reported that there was a weak level of consensus among bank loan officers, tax officers, and auditor groups about the importance of several information items. Furthermore, the vast majority of user groups believe that a delay in published annual reports, lack of reliability of information, and lack of adequate disclosure are the main concerns surrounding corporate reports in Iran.

Table 3. 1: Summary of previous research on the perception of users of corporate reports

Author (s) & Year	Country study	User group surveyed	Variable used	Main result
Anderson and Epstein (1994)	Australia	Individual Investors	Useful and important sources and information items of corporate information.	The director's report was the most important section of the annual reports. Annual report is less useful as the basis of investment decision making.
Al-Hussein, Naser and Nuseibeh (2003)	Kuwait	Individual investors, institutional investors, bank credit officers, government officials, financial analysts, academics, auditors and stock market brokers.	Useful characteristics, important sources and information items of corporate information.	Users rely mainly on information made directly available by the company and do not consult intermediary sources. Credibility and timeliness are the most important features of useful corporate information. Balance sheet and income statement are the most important part of corporate information.
Alrazeen and Karbhari (2004)	Saudi Arabia	Individual investors, institutional investors, creditors, government officials, and financial analysts.	Use and importance of seven sources of corporate information	Balance sheet and the income statement are the most important section. The board of directors' report is the least important.
Mirshekary and Saudagaran (2005)	Iran	Bank loan officers, academics, stock brokers, bank investment officers, institutional investors, auditors and tax officers.	Useful characteristics, important sources and information items of corporate information.	Corporate annual report is the most important source of information. Income statement, balance sheet, and audit report is the most important part of the annual report. Lack of reliability and adequate disclosure are the main concerns of user groups.

3.7.2 Financial disclosure and company's characteristics

A number of empirical studies have been conducted, both in developed and developing countries, to investigate the relationship between a company's characteristics and the extent of financial disclosure. The company characteristics include size, as measured by total assets, number of employees and sales, listing status, company ownership and audit firm size. The pioneering empirical investigation of corporate extent of annual disclosure was by Cerf (1961). The study was based on a sample of 258 listed and unlisted companies on the New York Stock Exchange (NYSE).

Four characteristics were concerned. These were the size of assets, the number of stockholders, profitability, and stock market listing. To achieve the objective of the study, Cerf (1961) constructed a disclosure index of 31 items of information that could be disclosed in corporate annual reports. Using regression analysis, Cerf (1961) found that a significant positive association between the level of disclosure on assets size, number of shareholders and rate of return.

Companies listed in the NYSE were found to disclose more information than other companies. While the Cerf (1961) research provided a foundation for other studies to measure disclosure in corporate annual reports, the study did not distinguish whether the items disclosed were voluntary or mandatory. It was also confined to listed companies neglecting unlisted.

Singhvi (1967) examined the association between the quality of corporate annual reports and eight characteristics of a company. These include corporate size, measured by assets and number of shareholders, listing status, audit firms, rate of return, earnings margin, and type of management. The study examined 155 companies listed on the United States Stock Exchange and 45 Indian companies listed on the Bombay Stock Exchange. To measure the quality of corporate reports, Singhvi (1967) developed an index of 34 items of information.

The index was based on the index constructed by Cerf (1961) with some modification. By using the Mean class analysis and Chi-square test, Singhvi (1967) found a positive association between the seven variables and the quality of disclosure in the sample of the study of United States companies. Meanwhile in Indian companies, the study reported a positive association between asset size, number of shareholders, rate of return, earnings margin, as well as type of management and disclosure quality.

Singhvi and Deai (1971) investigated the relationship between some of the characteristics of a company and the extent of financial disclosure. Their sample consisted of 100 listed and 55 unlisted companies on the United States Stock Exchange. The findings of the study showed that listed companies on the stock market disclose significantly more than unlisted companies. It also showed that companies with a higher rate of return and profit margin disclose more information than others. One weakness of the Singhvi and Desai (1971) study was that they did not draw a distinction between mandatory or voluntary information disclosures.

Buzby (1974) examined the correlation between the extent of disclosure in corporate annual reports and a company's characteristics, listing status and assets size. 44 listed as well as unlisted companies in the stock market were selected. The corporate annual reports of 88 companies were obtained. Buzby (1974) developed a checklist of 39 items based on previous studies. The checklist was then sent to financial analysts to assign a weight to each item. Using statistical analysis, mainly Wilcoxon matched pairs and Kendal rank correlation, Buzby (1974) found that there was a positive association between asset size and the extent of disclosure. No relation was found between the listing status and the extent of disclosure. The major criticism of Buzby's (1974) study is that the work did not distinguish between mandatory and voluntary disclosures.

Choi (1973) completed a study to assess improvements in financial disclosure based on entry to the Eurobond Market using a sample of corporate borrowers. The sample consisted of 36 companies from 11 European countries. An index of disclosure of 38 items based on previous studies was developed. To measure the changes in financial disclosure over a period of five years, Choi (1973) used a Wilcoxon test. The findings of the study showed that there is a significant improvement in financial disclosure of companies entering the European capital market.

Stanga (1976) attempted to examine the influence of corporate size, measured by sales, and industry variables in explaining annual report disclosure differences among large industrial companies in the USA. The corporate annual accounts of 80 companies were obtained and previous research reviewed to develop an index disclosure comprising of 79 information items. Chartered Financial Analysts were consulted to give a weight to each item of a disclosure index. Stanga (1976) found that the industry variable appears to play a relatively important role in helping to explain the differences in the extent of corporate annual report disclosure among large industrial companies. Furthermore, differences in corporate size do not appear to play a major role in explaining the differences in corporate annual report disclosure among large industrial companies.

Barrett (1976) performed a comparative study to evaluate the extent of disclosure and the degree of comprehensiveness of corporate annual reports. The sample used in this study consisted of 103 companies selected to present the largest companies measured by capital in seven developed countries listed on their stock exchanges. The samples were 15 companies from the USA, UK, Japan, Sweden, France, Germany and the big 13 from the Netherlands.

Ten years of corporate annual reports from 1963 to 1972 were obtained to compare the extent of disclosure and the degree of comprehensiveness of corporate annual report. By reviewing the companies' corporate annual reports and previous research, a checklist of 17 information items was prepared. Using statistical analysis the result of the study indicated that the USA and UK companies disclose more information than other companies in the sample. In contrast, French companies reported to disclose less information. Barrett (1976) documented that there was a relationship between the extent of disclosure and the degree of efficiency of national equity markets.

Belkaoui and Kahl (1978) conducted an empirical study to inspect the sufficiency of financial disclosure among Canadian companies. About 6 independent variables were chosen for this purpose. The variables were company size measured by sales and assets, industry type, company's profitability, company's liquidity, and capitalisation ratio. A sample of 200 companies was selected, representing 14 different industries excluding financial companies. An index of sufficient disclosure was developed containing 30 information items useful for decision making.

To assign a weight to each disclosure information item, two professional accountants groups were consulted. These included 200 chartered accountants and 200 financial analysts. The mean weight assigned by the accountants and financial analysts to each information item was used to evaluate the sufficiency of financial disclosure to the corporate annual reports. Belkaoui and Kahl (1978) used the Kendall rank correlation coefficient, and the result of the study indicated a positive association between the disclosure sufficiency and company size as measured by both assets and sales. In contrast, there was a negative association between the sufficiency of disclosure and profitability and the capitalisation of the company.

Cairns *et al* (1984) intended to evaluate the financial reporting of 250 of the world's largest companies covering 17 countries. The authors employed a procedure to assign points to each company for its consolidated financial statements, accounting policies, segment information, changing prices of data, non-financial data, and the extent to which the information was audited. Additional marks were awarded for supplementary disclosure and for the quality of presentation. The results of the study reported that the standards of reporting and regulations at the national level had improved over five years due to the influence of the international accounting standards. Comparing the standards of financial reporting, Cairns *et al* (1984) found that the highest was in the United States and lowest was in Spain.

Abdulssalam (1985) conducted a study to investigate the financial disclosure in Saudi corporate annual reports, and its relation with some company characteristics in a sample of 27 companies. The company characteristics were company size, measured by capital and total assets, profitability, audit status, and ownership variable. The fiscal year ending 1402-1403 H (1982) was selected, and the index disclosed for each firm was measured. Abdulssalam (1985) tailored a disclosure checklist of 48 information items of general disclosure requirements based on the Saudi authority's regulations and analysis of local corporate annual reports. The checklist was then sent to a number of users of corporate annual reports. The users were asked to attach a weight ranging from 1 to 5 points to each item according to its relative importance. The findings of the study showed that there was a negative association between the extent of disclosure and capital amount, profit margin, and asset size. In addition, the study reported that the disclosure level in the Saudi corporate annual reports was very low.

Ahmed and Nicholls (1994) selected a sample of 63 non-financial companies annual reports listed on the Dhaka Stock Exchange (DSE) in Bangladesh through the period 1987 to 1988. Based on the requirement of the Companies Act 1913 and Securities and Exchange Rule 1987, a disclosure index was designed. Similar to the previous study it aimed to assess the level of compliance with the statutory requirements, and to identify corporate variables that affect mandatory disclosure. Ahmed and Nicholls (1994) reported that 97 per cent was the highest and 42 per cent was the lowest compliance with all statutory items. Moreover, using multiple regression techniques, the authors found a significant difference between the level of disclosure compliance and subsidiaries of multinational companies whose accounts were audited by large audit firms.

Wallace (1987) conducted a study to investigate the level of financial disclosure of annual reports in Nigeria. The sample of study was 47 Nigerian corporations listed on the Nigerian Stock Exchange in 1984. A checklist of 185 items was included in the index to capture all possible items that could be included in the corporate annual reports. The items were selected based on the Nigerian Accounting Standards Board, International Accounting Standards and previous research. A dichotomous procedure was used to capture the index, by giving 'one' point to an item that was disclosed, and 'zero' if it was not disclosed. Wallace (1987) reported that the overall disclosure in the sample of the study was low; the highest mean score was 43.11 per cent. It also reported a negative association between the extent of disclosure and the company size as measured by total assets as well as finding no association between profitability, sales size, number of shareholders, liquidity and industry type.

Cooke (1989) commenced a research study to investigate the impact of company characteristics on the extent of financial disclosure in Sweden companies. The characteristics include listing status, industry type, company size and parent company relationship. A sample of 90 Swedish companies were chosen consisting of 38 unlisted and 52 listed on the Swedish Stock Exchange. The corporate annual reports of these companies were obtained. A comprehensive disclosure index based on previous research, international accounting standards and Swedish regulations was designed.

Cooke (1989) employed a dichotomous procedure to score items included in the index, where an item scored 'one' if the item was disclosed in corporate annual reports or 'zero' if was not. The results of the study found a significant association between the extent of disclosure and two independent variables. These variables were listing status and company size. Further, listing status was found to be the most important explanatory variable to explain the variation of disclosure. In contrast, industry type was found to have the lowest degree of significance. However, no significant association was reported between parent company and the extent of disclosure. Cooke (1992) undertook an empirical study to examine whether the extent of disclosure by Japanese companies in their published corporate annual reports is associated with a number of the company's characteristics. These were size, stock market listing and industry type. A comprehensive list of information items was used to develop the disclosure index. Cooke (1992) found that multiple listed companies disclose more information in their corporate reports than companies listed only on the Tokyo Stock Exchange. Furthermore, the company size variable as measured by total assets was found to be an important variable to influence the level of disclosure. Hence, manufacturing companies disclose significantly more information than other types of companies examined.

Hossain, Perera and Rahman (1995) analysed a sample of 55 New Zealand-owned quoted companies for possible determinants of disclosure policy by relating the content of their annual reports to several characteristics. The characteristics included firm size, leverage, assets-in-place, type of auditor, and foreign listing. This study was limited to voluntary disclosure items. The measurement of the relationship between disclosure and the firm's characteristics was conducted using an index based on information included in the previous study. Hossain *et al* (1995) found that firm size, foreign listing status and leverage are significantly related to the extent of voluntary disclosure. These findings were confirmed by using cross-sectional regression. Assets-in-place and type of auditor were found not to be statistically significant.

Ahmed and Courts (1999) examined the association between corporate characteristics and the level of disclosure in corporate annual reports. The corporate characteristics included firm size, listing status, leverage, profitability and audit firm size. The main objective of the study was to identify the main factors that impact the level of disclosure variation in previous research results since 1961. Ahmed and Courts (1999) found that the level of corporate disclosure, both mandatory and voluntary, is significantly and positively associated with the company size. No significant association was found between corporate profitability and audit status. Further, the study reported that a listed company in the stock market tends to disclose more information than unlisted companies.

Cooke (1993) investigated the extent of disclosure in a sample of 48 Japanese listed and non-listed companies in the Commercial Code (CC) account and Securities and Exchange Law (SEL) accounts. The study was to examine the relationship between listing status and CC and SEL. Checklists of 195 information items of obligatory and voluntary disclosure were developed based on previous studies, the international accounting standards committee, and requirements by Japananese authorities.

Cooke (1993) used a score sheet to find an index through scoring the item one (1) point if it was disclosed, and zero (0) if it was not disclosed. Then the index score for each company was calculated by dividing the company's actual scores by the maximum scores that the company was expected to get. Cooke (1993) found that the SEL accounts disclosed more information than the CC accounts. Furthermore, there is no association between listing status and the extent of disclosure in both the CC and SEL accounts.

Naser and Al-Khatib (2000) conducted an empirical study to determine the depth of disclosure in the board of directors' statement of a sample of Jordanian non financial companies listed on the Amman Financial Market. Company structure variables (as measured by size of assets, number of employees, and government ownership, individual ownership, and gearing ratio) and company performance variables (as measured by profit margin and return on equity) were used to investigate the depth of disclosure in the company's sample of the study.

Naser and Al-Khatib (2000) used an un-weighted index and the 1996 annual reports of 84 Jordanian non financial companies to assess the depth of disclosure. The authors reported that the level of disclosure in the sample of their study is slightly above average. Furthermore, the analysis reported positive and significant associations between the level of disclosure and the company size, as measured by the number of employees and gearing ratio, and company performance, as measured by profit margin. In contrast the study reported a negative and significant correlation between the level of disclosure and the capital structure of the company as measured by individual ownership.

Al-Hussein (2001) conducted a research study to investigate the level of disclosure in a sample of 38 non-financial companies listed on the Kuwait Stock Exchange in 1999. Thirty-six companies responded to the researcher's letters to obtain financial annual reports. These responses were distributed among four sectors: manufacturing, food, services, and real estate companies. In addition, Al-Hussein (2001) used a survey questionnaire to gather the perceptions of user groups regarding different aspects of corporate reports. For this purpose, the research attempted to explore the perceptions of a representative sample of eight user groups about the quality of financial reporting by Kuwaiti companies in three main areas: compliance with information disclosure requirements mandated by

International Accounting Standards, voluntary disclosure related to mandatory disclosures, and voluntary disclosure of information not required by law. Al-Hussein's (2001) study has shown that, in general, the majority of Kuwaiti companies comply with mandatory disclosure requirements.

The study reported that the sample has shown less commitment to the voluntary disclosure of information not required by law. There was a positive significant relation between the level of disclosure and company size measured by total assets, liquidity, industry, profitability and gearing ratio. In addition, the Kuwaiti companies sampled in the study also scored high in terms of their propensity to publish additional information about performance.

Al-Khater and Naser (2003) conducted a research study to investigate the perception of different users of corporate information about the notion of the accountability of widening the scope of the current corporate annual report in Qatar to include information disclosure such as social responsibility. To achieve the aim of the study, accountants, external auditors, academics and bank credit officers, as users of corporate annual reports, were invited to take part in the study.

Al-Khater and Naser (2003) used a questionnaire survey to gather the above-mentioned users' perceptions of corporate information disclosure. The outcome of the analysis revealed that most of those who took part in the study would like to see corporate information disclosed. To achieve accountability, the respondents believe that a law that encourages the disclosure of corporate information should be introduced, and different parties within their society should have the right to such information.

3.7.3 Empirical studies on mandatory disclosure

A mandated disclosure represents the minimum information disclosure sought by regulation authority to safeguard the investing community as well as contributing to the quality of corporate annual report practice (Wolk *et al* 1992). Companies vary in their compliance with the accounting standards mandated by the relevant authority. The following paragraphs review a sample of previous studies that examine the corporate compliance with requirements and the extent of disclosure related to such requirements.

Ahmed and Nicholls (1994) conducted an empirical study to examine the level of Bangladeshi corporate compliance with the local disclosure requirements. A sample of 63 listed companies was selected and their corporate annual reports were obtained for this purpose. An index of disclosure consisting of 94 mandatory items was developed based on previous research and local disclosure requirements. Using stepwise regression analysis, Ahmed and Nicholls (1994) found that the level of corporate compliance with Bangladeshi disclosure requirements is significantly and positively associated with companies being subsidiaries of multinational companies, their accounts being audited by large firms, and their accounts prepared by qualified accountants.

Wallace, Naser and Mora (1994) investigated the relationship between the comprehensiveness of corporate annual reports and company characteristics in Spain. The country was selected as a subject of their study precisely because of the different multivariate impact, as compared to the other countries subject to its investigation that company characteristics will have on disclosure in annual reports and accounts. The authors designed a scoring card to generate comprehensive list index. This included 16 information items required by the regulations to be disclosed in a firm's annual report.

Wallace *et al* (1994) used multiple egression analysis. Nine independent variables were used to explain the relationship between the company's characteristics and the extent of mandatory disclosure. These variables were total assets, turnover, gearing, earning, profit, liquidity, industry type, listing status and audit of the firm. The finding was that the amount of detail in Spanish corporate annual reports and accounts increases with the firm size and stock exchange listing, and decreases with in liquidity.

Wallace and Naser (1995) carried out an empirical study to investigate the comprehensiveness of mandatory disclosure of a sample of 80 Hong Kong listed companies. The depth of details offered by a company for mandated disclosures and the relationship of such a practice to some company-specific characteristics were concentrated upon. Wallace and Naser (1995) classified company characteristics in the three groups. 1) The performance related group of ratios including profit margin, earnings return, and liquidity ratios. 2) The structure related group including debt to equity ratio, firm size, and proportion of shares held by outsiders. 3) The market related group including market capitalisation, scope of business operations, and auditor size influence. Two regression models (the unranked and the ranked Ordinary Least Squares) were used to investigate the effect of foreign registration on the comprehensiveness of mandated disclosure by Hong Kong companies.

Wallace and Naser (1995) found a significant positive association between the comprehensiveness of disclosure and the asset size, profit margin, and scope of the business operations. They also found that Hong Kong Stock Exchange (HKSE) listed companies with registered offices in a foreign country do not possess a comparative advantage in the provision of comprehensive disclosure in corporate annual reports over the HKSE listed companies with local registered offices.

Owusu-Anasah (1998) examined the association between the extent of mandatory disclosure and a group of company characteristics from a sample of 49 Zimbabwean listed companies. An index of disclosure was used comprising 32 information items, and a regression analysis of eight company characteristics namely; company size, external audit, ownership structure, industry type, company age, multinational corporation affiliation, profitability, and liquidity. Owusu-Anasah (1998) reported a significant positive association between the extent of mandatory disclosure and company age, profitability, and international affiliation.

Babio Arcay and Muino Vazquez (2002) attempted to examine the contribution that the governance system can make for the explanation of the disclosure policy of the company. The sample used to test the hypotheses included 91 companies listed on the Madrid Stock Exchange (MSE). Two statistical analysis techniques, the ANOVA analysis (structural equations) as well as linear regression, were used. Babio Arcay and Muino Vazquez (2002) found that size and governance rules are significant variables when explaining the disclosure policy. They also observed that the governance system of the company makes an important contribution to explaining disclosure variability; when it is eliminated from the model, its explanatory power declines considerably.

Ahmed (2003) examined the timeliness of corporate annual reporting in a sample of 558 annual reports for 1998 from Bangladesh (115), India (226) and Pakistan (217). Three measures of timeliness were employed. These included the period length between the reporting year-end and audit signature date, date of notice of the annual general meeting as well as actual holding of the annual general meeting. The results of the study showed that March is the most popular month for reporting in India, June and December are the most popular in Bangladesh and June and September are the most popular in Pakistan.

It also showed that financial year-end date was a significant determinant in each country. The size of the audit firm, as measured by the factor loading of audit fees, the number of reporting entity audited by an audit firm and international linkage, specifies that large audit firms take significantly less tıme in India and

Pakistan. Furthermore, only the length of time between the reporting year-end and audit signature date is significantly associated with the time taken by companies to submit their annual reports and to hold the annual general meeting in each country.

3.7.4 Empirical studies on voluntary disclosure

Firth (1978) investigated the relationship between voluntary disclosure and three company characteristics in the UK companies. The company characteristics were company size, stock market listing, and company auditors. The sample consisted of 180 companies, of which 40 were listed and 40 matched unlisted, with those listed based in industry type and company size, and 100 other companies listed on the stock exchange. By reviewing the corporate annual reports of the research study's sample, Firth (1978) developed a checklist of 48 items based on information items not required by the UK Company's Act, previous research or by bankers and investors when making decisions.

The checklist was then sent to the financial analysts to assign weight to each information item based on their relative importance. Using statistical analysis, Firth (1978) found a significant relationship between company size, measured by sales and capital employed, and stock market listing and voluntary disclosure. In addition, listed companies were found to be disclosing more voluntary information than unlisted companies.

Spero (1979) conducted a study to explore the extent and causes of voluntary disclosure of financial information in three European countries. A sample of 20 listed companies from France, Sweden and the UK were selected form each country. Spero (1979) constructed a disclosure index of 275 information items for the UK and France and 289 items for Sweden. The index was weighted using several methods; in addition to methods used in previous research, the split-equal method, the equal weights method and the market weights method were also employed. Only one weighted method was found to be significantly correlated with the index of disclosure. Spero (1979) reported that the information item selection is more important than weighting. The authors also found that companies that had good disclosure also disclosed less important items than companies with a low disclosure.

Chow and Wong-Boren (1987) performed a study to advance our understanding of accounting institutions and practices in non-Anglo-American companies. A sample of 52 Mexican Stock Exchange-listed firms from the Mexican federal government's 1982 official Gazette was selected. The extent of a company voluntary financial disclosure was measured using two alternate disclosure scores. Identifying voluntary disclosure items, rating the importance of each disclosure items, and computing disclosure scores respectively, were undertaken to obtain the financial disclosure scores.

Chow and Wong-Boren (1987) used cross-sectional regressions to identify the relationship between the voluntary financial disclosure and a number of independent variables. These were company size (the market value of equity plus the book value of debt), financial leverage (the book value of debt divided by size), as well as the proportion of assets in place (the book value of fixed assets divided by total assets). The findings of the study showed that the extent of disclosure was significantly and positively related to company size, but not to financial leverage and assets in place. The study provided additional evidence on the factors behind voluntary financial disclosure.

Lang and Lundholm (1993) investigated determinants of voluntary disclosure choice in American companies. They used statistical analysis to analyse the correlation among six potential explanatory variables, grouped for analytical purpose, into exclusive categories. These were structure-related (company size, return variability, correlation between returns and earning), performance-related (annual returns, analyst forecast errors) and market-related (the extent to which the firm is active in issuing securities). The findings of the study revealed that investor relations scores the most strongly related to performance.

Buckland *et al* (1998) analysed the relationship between companies' voluntary disclosure behavior and rising equity capital in the Amman Financial Market. The study attempted to demonstrate the association between voluntary disclosure and rising capital in companies in Jordanian during the period from 1980 to 1992. Despite the new sophisticated stock market and the availability of funds, the weakness of the accounting profession proved very limiting. The findings of the study showed that there were distinctive types and items of information that tend to be further disclosed around the time of the issue of new securities. It also reported that for Jordanian companies the event of raising capital is associated with significant increased disclosure in their annual reports.

Ho and Shun Wong (2001) conducted an empirical study to investigate the relationship between corporate governance structures and the extent of voluntary disclosure by listed companies in Hong Kong. The corporate governance attributes were the proportion of independent directors to total number of directors on the board, the existence of a voluntary audit committee, the existence of dominant personalities (CEO/Chairman duality), as well as the percentage of family members on the board.

Ho and Shun Hong (2001) used a weighted relative disclosure index for measuring voluntary disclosure. While they also found that the existence of an audit committee was significantly and positively related to the extent of voluntary disclosure, the percentage of family members on the board was negatively related to the extent of voluntary disclosure. Furthermore, the study provided empirical evidence to policy makers and regulators in East Asia for implementing the two new board governance requirements on audit committee and family control.

3.8 Conclusion

The primary purpose of this chapter was to provide the background as well as review the literature of financial reporting. It began to review the historical development and definition of corporate reporting. Then, the chapter has sought to define the objective(s) of financial reporting and qualitative characteristics of useful corporate information. This was followed by identifying the users of financial statements and their information needs to make informed decisions. The chapter also reviewed a sample of literature that had gathered the perceptions of individual and financial users of corporate reporting. Although there were different studies conducted in different countries, the review showed that the questionnaire survey is the main method used to explore a wide range of views about financial statements. This was followed by a summary of empirical studies that dealt with disclosure and the effect of a company's characteristics on financial disclosure.

There has been no attempt to measure the quality of corporate annual reports published by Libyan companies. This necessarily increases the importance of the current study. The review of previous research provided a basis for the development of this thesis, starting with the formulation of the research questions through to the discussion of the findings. The following chapter discusses the main research methods used in this study, in order to assess the quality of corporate annual reports in Libya.

Chapter 4

Research methodology

4.1 Introduction

The previous chapter reviewed the background and literature of financial reporting, outlining the theoretical framework and practical applications in this area. This chapter aims to focus on the research methodology used in this current study. It concentrates on methodological issues, justifies the choice of research methods, and illustrates the reasons behind the choices made. The main themes to be discussed within the chapter are: research design; formulation of the research questions; data sources and their generation; research sample; structure of descriptive statistical techniques and test of differences; and measuring the disclosure of corporate information.

4.2 Research design

Research design has been described as a road for the researcher. It is the means by which researcher(s) plan data gathering to answer or test an applicable research question(s) or hypostasis (es). A broader definition by Kuhan (1979:175) indicated that research design can be viewed as a paradigm, which is:

> *"a paradigm is a set of beliefs, values and techniques which are shared by members of a scientific community, and which acts as a guide or map, dictating the kinds of problems scientists should address and the type of explanations that are acceptable to them".*

Babbie (1995: 56) describes a paradigm as a "[...] *fundamental model or scheme that organises our view of something"*. Sarantakos (1998) has grouped social science research into three categories. The categories are the positivist school, the interpretive school and critical paradigms. The positivists believe that research should be objective and independent of the object of research, using research techniques, such as questionnaires, experiments and quantitative approaches. The interpretive school looks for causal explanations using qualitative approaches. Finally, critical paradigms utilise both positivism and interpretive methods to view the social world.

Therefore, most research follows a specific and carefully chosen design and methodology, and the fieldwork that is to be undertaken in any study requires this to be documented. This methodology is drawn from a toolbox of available methods, chosen for their potential to answer the questions posed within the research. Methods are chosen based principally on the nature of the study, combined with an active consideration of the perspective from which the research is being carried out.

As a result of investigations within the literature on methodology and the review on financial reporting and literature reviews, a research design has been chosen. The design adopts a broadly qualitative and quantitative approach to research, as evidence suggests that such contributions are more successful in investigating events and processes surrounding the topic of the research.

4.3 Research questions

The main objectives of this study are twofold. Firstly, it attempts to investigate the usefulness of corporate annual reports by analysing the users' perceptions towards corporate annual reports in Libya. Secondly, it seeks to measure the quality of annual reports by analysing the extent of disclosure, timeliness, understandability and reliability of the corporate reports published by Libyan companies. To achieve these objectives, a number of research questions must be answered. The literature review provided answers to a number of questions relating to the quality of corporate reporting in different countries. Libya, however, was missing from the literature. In order to fulfil the purpose of this investigation, the study seeks to answer the following questions which have been identified.

4.3.1 The extent of the use of corporate reports

The purpose of corporate reports is to communicate information to current and potential corporate stockholders. The information should communicate the financial condition of the enterprise, and provide other information that would be of likely interest to the user. For example, the information can help current and potential investors to monitor and predict expected income and earnings per share. The American Institute of Certified Public Accounting (ICPA) (1973) reached a number of conclusions on the desirable goals of the financial accounting process. Foremost among these were the following:

> *"The basic objective of a financial statement is to provide information useful for economic decisions".*

> *"An objective of financial statements is to serve primarily those users who have limited authority, ability, or resources to obtain information and who rely on financial statements as their principal source of information about an enterprise's economic activities".*

> *"An objective of financial statements is to provide information useful to investors and creditors for predicting, comparing, and evaluating potential cash flow to them in terms of amount, timing, and related uncertainty".*

> *"An objective of financial statements is to provide users with information for predicting, comparing, and evaluating enterprise earning power".*

> *"The corporate report is also the main communication vehicle that managers have to communicate the effectiveness of their accomplishments in meeting their fiduciary duties and carrying out their stewardship functions in the organization".*

The Corporate Report (1975) defined the objective of corporate reports as follows:

> *"to communicate the economic measurement of and information about resources and performance of the reporting entity useful to those having reasonable rights to such information".*

Several studies have addressed how corporate annual reports are used, how many corporate annual reports are read and analysed, and how much time is spent on reading and analysing corporate annual reports. To explore the extent to which Libyan target user groups are interested in, and use the corporate reports to make an informed decision, the following question was addressed.

Research Question 1: To what extent do various user groups in Libya use corporate reports as a basis for making informed decisions?

4.3.2 The primary source(s) of corporate information

The literature review indicated that users of corporate information refer to different sources of information before making informed decisions. A number of information sources were empirically tested in previous literature (see for example, Lee and Tweedie 1975; Chang and Most, 1981; Anderson and Epstein, 1995; Abu-Nassar and Rutherford, 1996; Naser and Nuseibeh, 2003; Alrazeen and Karbhari, 2004). Those information sources are namely; corporate annual reports, stockbroker's advice, newspapers and business magazines, visits to company and communication with management, tips and rumours, financial market statistics, discussions with colleagues and advice of friends.

For instance, Lee and Tweedie (1981) carried out a study in the UK which investigated the perception of institutional investors toward information sources. The authors reported that the corporate annual report is the most important source of information for investment decisions. Chang and Most (1981) performed a comparative study between the United States of America, the UK, and New Zealand. The study compared the perceived usefulness of financial statements for investors' decisions. Chang and Most (1981) found that individual and institutional investors and financial analysts rate the annual report as an important source of information for investment decisions.

Abu-Nassar and Rutherford (1996) inspected information sources in Jordan. Eight information sources, including annual reports, were used. The study reported that four groups ranked corporate annual reports as their primary source of information. Alrazeen and Karbhari (2004) examined the use and the importance of the seven different sources of corporate information contained in Saudi Arabian annual reports. The information source includes the board of directors' report, the auditor's report, the balance sheet, the income statement, the statement of retained earnings, cash flow statements and the notes to the financial statements.

The study reported that the balance sheet and the income statement are the most important sections of the annual report to most of the Saudi users groups. The board of directors' report was found to be the least popular. It is clear from the above studies conducted in different countries that corporate annual reports are considered a very important source of information for informed decision making. For this reason, this research study proposes a similar research question to investigate the most important source of information that target user groups in Libya use by asking the following question:

Research Question 2: What is/are the information source(s) that corporate annual report user groups in Libya use to make informed decisions?

4.3.3 Useful characteristics of corporate information

Academic researchers and accounting bodies are making every effort to identify a number of characteristics that qualitative or quantitative information should possess in order to be useful. For instance, Wolk *et al* (1992) argued that reliable accounting information should have the characteristics of representational faithfulness, verifiability, and neutrality. Ahmed (1994) disputed that financial information must be relevant in order for rational decisions to be made. The ASB (1999) places a strong emphasis on timeliness as an important qualitative characteristic of accounting information. The ASB (1999: 44) stated that *"financial information should be made available as soon as it is reliable"*. Therefore, such information can be of value if it helps to predict events or to confirm or correct expectations. Al-Hussein (2001) investigated the relationship between investment decisions and timeliness of information contained in corporate annual reports published by companies registered in the Kuwait Stock Market. Soltani (2002) investigated the importance of the time issue for information in the making of investment decisions on France.

In general, previous cumulative studies have identified timeliness, relevance, reliability, understandability, comparability, and consistency as major characteristics that information should contain to be useful. It was considered important to seek Libyan target groups of users' views about these main characteristics of useful corporate information.

Research Question 3: How do various users of corporate annual reports published by Libyan companies perceive the importance of different sets of criteria for useful corporate information?

4.3.4 Importance of different sections of corporate report

A major reason for asking this question was to ascertain whether or not user groups read and find the corporate annual reports useful. The different sections of corporate annual reports are intended to provide information to user groups to facilitate their decisions. Information contained in corporate annual reports can be divided into two main parts. These parts contain qualitative and quantitative information. The first section relates to the chairman and director's reports. The second section relates to the main financial statements, which include balance sheets, profit and losses accounts, cash flow statements, auditor's report, and notes to the financial statements. From the literature, it was evident that the balance sheet and profit and losses account have generally received most attention and are perceived as an important source of information. A number of previous studies have also confirmed that user groups such as investors use these sections most to make investment decisions (Anderson, 1981; Wallace, 1987; Alrazeen and Karbhari, 2004).

Other studies have shown that the importance of cash flow statements is on the rise, while the profits and losses account has somewhat lost importance (Epstein and Pava, 1994). On the other hand, the first section of the corporate annual report is important because it usually contains qualitative information, such as a review of a company's operations; important projects and news of recent developments, progress of the company within the prevalent economic, social and political environments (Lee, 1981). It is, therefore, important to ask the target user groups of corporate annual reports about their perception of the importance of different sections of the corporate annual reports.

Research Question 4: How do user groups of corporate annual reports perceive different parts of corporate annual reports published by Libyan companies?

4.3.5 Understandability of corporate report

As was mentioned in the previous chapter, the corporate annual report is a formal communication tool in that it conveys information concerning the company's progress, financial position and performance to users. Therefore, information contained in the corporate annual report is very valuable to its users. The usefulness of this information, however, depends on it being presented in an understandable form. A report that is clear and readable encourages users and potential investors to evaluate the company's profitability and liquidity and facilitates informed decision making (Lee and Tweedie, 1975). If financial reports are the primary means of communication between preparers and users, they should be both readable and understandable by the user. If either one of these two conditions is not met, the users are likely to fail to perceive the underlying economic conditions of the company (Lee and Tweedie, 1975).

Ijiri *et al* (1966) argued that information contained in the corporate annual report should be presented in an obvious and understandable form in order to enable users of financial reports to make informed decisions. To make annual reports adequate and readable, Buzby (1974) suggested that the information contained in these corporate reports should be presented in an understandable manner, and grouped and organised appropriately.

Readability and comprehensibility are, therefore, two important characteristics of a corporate report that continually need to be enhanced by simplifying both content and format and improving presentation. This, however, might reduce the quality and extent of information contained in corporate annual reports, and might reduce comparability. In addition, simplifying the content of corporate reports to fulfill the needs of a user group may result in providing irrelevant information for other user groups. While recognising the importance of readability and understandability, the ASB (1999: 41) stated that:

> *"Information provided by financial statements needs to be understandable [........] information that does not properly reflect and communicate the substance of transactions and other events will not help users to understand the entity's financial performance or financial position".*

Wolk *et al* (1992) suggested that, even if users of annual reports are assumed to be knowledgeable, the information itself might have different degrees of comprehensibility. Hence it was important to determine how the language in which annual financial reports in Libya are written is understood by the target user groups.

Research Question 5: What are the perceptions of the various user groups regarding the understandability of information contained in corporate annual reports published by Libyan companies?

4.3.6 Importance of individual disclosure items

The reason for asking this question was to gather the user groups' perception of the information that is needed. Previous research indicated that user groups considered annual reports as their most important source of information when making informed decisions, for example Anderson (1981). If a corporate report is to remain of value, it is necessary to determine the information that user groups require for making decisions which is not currently provided in annual reports.

Research Question 6: How do various user groups of the corporate annual reports published by Libyan companies perceive the importance of individual disclosure items?

4.3.7 Compliance with international accounting standards

Accounting standards are authoritative statements of how particular types of transaction and other events should be reflected in financial statements. The International Accounting Standard Board (IASB) has been striving to reduce international accounting diversity by promulgating a globally acceptable set of accounting standards. These standards aim to outline how financial statements should be prepared and presented, but the IASB has no authority to require compliance with its accounting standards.

Many countries require the financial statements of publicly traded companies to be prepared in accordance with International Accounting Standards (IAS), and, where necessary, to give particulars of any material departing from those standards and the reasons for this departure. For example, since January 1990 Jordan has adopted the IAS (Abu-Nassar and Rutherford, 1996). Meanwhile, other countries have developed their own national accounting standards, for instance see Alrazeen (1999).

Culture, history, the state of the economy and other characteristics are taken into account when a country is developing its own standards. In some countries such as the UK, the professional bodies formulate the financial accounting standards, while in many others, governments and regulators establish these standards. In

Libya, there are no specific standards as such and others companies are subject to the accounting requirements of the amended Petroleum Law No.25 of 1955 and the terms of their exploration and production sharing agreements. The law and agreements require the application of 'sound and consistent accounting practices usual in the modern petroleum industry'. Other companies normally prepare financial statements on the accumulations basis of accounting. In this respect, it is important to explore the extent to which Libyan companies comply with these standards.

Research Question 7: To what degree do Libyan companies comply with the requirements of financial disclosure set by the International Accounting Standards (IAS)?

Another question which is addressed is whether Libyan companies actually disclose more information than is requested by the IAS. Previous research conducted in this field such as Mirshekary and Saudagaran (2005) has examined a items of information that might be contained in a corporate reports. To assess whether Libyan companies actually disclose more information than is requested by the IAS, the following research question was posed.

Research Question 8: Do Libyan companies disclose more information than that requested by the IAS?

4.4 Research hypotheses

This study proposes to test the following hypothesis:

Hypothesis 1: **the various user groups of corporate annual reports have similar views on the importance of different sources of information about Libyan companies.**

Hypothesis 2: **the various user groups in Libya have similar views on the importance of a set of criteria that might affect the quality of corporate information sources.**

Hypothesis 3: **the various user groups of annual reports in Libya have similar views on the importance of different usage of the corporate annual reports to their informed decision making.**

Hypothesis 4: **the various user groups of annual reports in Libya have similar views on the importance of different sections of the annual reports to their informed decision making.**

Hypothesis 5: **the various user groups of corporate annual reports in Libya have similar views on the importance of different information items disclosed.**

Hypothesis 6: **the various user groups of corporate annual reports in Libya have similar views on the understandability of information disclosed.**

4.5 Data collection

To answer and test these research questions and hypothesises, various approaches were used in previous studies to gather data to assists in answering these research questions. In general, two methods were employed; namely, interviews and questionnaires. In the subsequent sections the data collection is briefly discussed with the advantages and disadvantages of each method. The term 'data' is defined in the Oxford Advanced Learner's Dictionary (OALD) as *"facts or information, especially when examined and used to find out things or to make decisions"*.

Collection is defined in the OALD as *"an act of bringing things together into one place"*. Therefore, data collection is described in the research as a process of gathering and measuring information on variables of interest, in an established systematic fashion that enables one to answer research questions, to test hypotheses, and evaluate outcomes. There are various approaches to data collection. These approaches include questionnaires, interviews, observation and analysis of documents. None of those techniques can be singled out as superior to another. It all largely depends on the study design, aims, research questions and type of data required (Saunders *et al*, 2003). Jankowicz (2000:190) notes that different research topics require different arrangements for the collection of data so that the data will be

- relevant to the thesis or to the argument being presented;
- an adequate test of the thesis for instance, unbiased and reliable;
- accurate in establishing causality in a situation where one wishes to go beyond description to provide an explanation for the phenomena under investigation; and
- capable of providing findings that can be generalised to situations other than those of the immediate organisation.

Data sources can be classified as secondary, generated by someone else, or primary, generated by the researcher(s). The most significant secondary data sources include official sources, especially those from government departments and unofficial sources.

4.5.1 Secondary data

Secondary data refers to any data collected by a person or organisations other than the user(s) of the data. This data includes raw data and compiled data. The researcher may use raw data, where there has been little if any processing, or compiled data, which has received some form of selection or summarising (Kervin, 1992). There are actually three very good reasons why secondary data are used. First, secondary data may provide a context, demographic, economic or social, for primary data. This allows researchers to see where primary data 'fit in' to the larger scheme of things. Second, it may provide a validation for primary data, whereby the secondary data allow researchers to assess the quality and consistency of the other data. Third, secondary data may act as a substitute for primary data. In some situations it might not be possible to collect data, for reasons of access, cost, or time, or the data may have already been collected, and to repeat the collection process would be undesirable (Saunders et al, 2003: 158-163).

The current study's secondary data can be divided into two parts. The first part contains data taken from previous studies in financial reporting, which the researcher was able to obtain. The second part of the secondary data was obtained from various official sources. These included official sources, government departments, and unofficial sources.

The official sources comprise the General People's Congress (GPC); Secretariat of Planning; Economic and Social Development (ESD); Institute of People's Control and Follow-Up (IPC&FU); the Central Bank of Libya (CBL) published annual reports; the Chamber of Commerce, Industry, and Agriculture (CCA&I); laws and regulations and a sample of companies annual reports. The unofficial resources included sources such as previous research, papers and books as well as some others international organisations websites. These included mainly the International Monetary Fund (IMF) and the World Bank and Central Intelligence Agency (CIA).

4.5.2 Primary data

Primary data are data collected by the immediate user(s) of the data expressly for the experiment or survey being conducted. In social science research the term of 'survey' is used instead of experiment which is widely used in scientific science. The term survey is defined in the OALD as "*an investigation of the opinions,* *behaviour, etc. of a particular group of people, which is usually done by asking them questions*". Zikmund (2000: 167) stated that "*the purpose of survey research is to collect primary data-data gathered and assembled specifically for the research project at hand*". However, different approaches were used in the previous studies to collect primary data. These approaches were namely, interviews and questionnaires.

4.5.2.1 The interview method

Interviewing is one of the qualitative methods of information gathering. It involves a process of interviewing respondents to acquire data on the issues of interest to the interviewer. Interviews can yield rich sources of data on people's experiences, opinions, aspirations and feelings. In order to achieve this end, however, May (1997: 91) had to say,

> "*Researchers need to understand the dynamics of the interviewing and sharpen their own use and understanding of the different methods of interviewing together with an awareness of their strengths and limitations*".

Interviews can be conducted over telephone or face-to-face. Types of interviews are mainly unstructured, structured or semi-structured. Unstructured interviews are those conducted by the interviewer without a planned series of questioned to be asked of the respondents. The main objective of the unstructured interview is to obtain ideas relating to a broad area of interest so that the researcher can formulate a good notion of what variables require more in-depth analysis. By contrast, structured interviews require that the researcher must know absolutely what data are required and come into the interview setting with a planned series of questions that will be asked of the respondents. The semi-structured interview, however, requires the interviewer to ask additional questions as the interviewer sees fit, to examine associated issues that arise in the course of the interview (Smith, 2003).

4.5.2.1.1 Advantages of the interview method

The interview has several advantages and can be summarised as follows.

1) Interviews allow the researcher to ask several open-ended questions;
2) The researcher(s) can clearly identify him/themselves, him/their status, and the purpose of the interview;
3) Interviews enable the interviewer to explain to each respondent how he/she came to be chosen for the sample and why it is important that he/she take part in the interview;
4) Interviews give the interviewer the opportunity to communicate effectively and build trust with the respondent to make him/her comfortable, to provide truthful data and to answers without any fear of adverse consequences. The interviewer can modify the questions if this is thought to be necessary; and
5) Interviews enable the interviewee the opportunity to provide the data required in-depth.

4.5.2.1.2 Disadvantages of the interview method

The interview method, however, has several disadvantages (Oppenheim, 1992 and Smith, 2003).

1) Interviews incur higher costs and need more time than a mail questionnaire. The cost of an interview studies is significantly higher than

that of a mail surveys, in terms of the skills needed, training, and especially when interviews are spread over a geographically large area;

2) The flexibility that is the chief advantage of the interview leaves room for the interviewer's personal influence and bias. In addition, respondents may bias the data when they are aware of possible adverse effects of answering questions on sensitive issues and do not express their true perceptions, but provide information that they think is what the interviewer will be happy with; and

3) Lack of anonymity: the interview lacks the anonymity of a mail questionnaire. The presence of the interviewer may cause the interviewee anxiety, especially if a respondent is sensitive to the topic or some of the questions.

4.5.2.2 The questionnaire method

A questionnaire is defined by Sekaran (1992: 200) as " a *pre-formulated written set of questions to which respondents record their answers, usually within rather closed alternatives*". According to Blaxter, Hughes and Malcolm, (1998) the questionnaire is one of the most widely used methods administered in a number of formats, face to face, postal, telephone, and internet. A questionnaire, usually the most efficient data collection mechanism to measure the variable of interest, especially if the population sample is large, can be carried out by mailing the questions to respondents or can be administered personally. Ticehurst and Veal (2000) documented that questionnaire surveys rely on respondents providing information and may involve a population ranging from 50/60 to many thousands. The surveys can either be interviewer-completed or respondent-completed. The interviewer-completed form is more expensive but is generally regarded as more accurate. Ticehurst and Veal (2000) identify a number of types of questionnaire survey that include household, street, telephone, postal, custom, captive group and organisation surveys. Table 4.1 illustrates characterises of each type questionnaire.

Table 4. 1: Types of questionnaire survey characteristics

Type of questionnaire survey	Self or interview completion	Cost	Possible length of questionnaire	Response rate
Household	Either	Expensive	Long	High
Street	Interviewer	Medium	short	Medium
Telephone	Interviewer	Medium	Short	High
Mail	Respondent	Cheap	Varies	Low
Customer	Either	Medium	Medium	High
Captive group	Respondent	Cheap	Medium	High
Organisation	Either	Comparatively cheap	Varies	High

Source: Ticehurst and Veal (2000:138).

4.5.2.2.1 Advantage of the mail questionnaire method

The mail questionnaire has several advantages.

1) Low cost: the most obvious appeal of mail questionnaire is the low cost. Sarantakos (1998) identifies the advantages of questionnaires as cost effective. The mail questionnaire does not require a trained staff of interviewers; the processing and analysis of data are usually cost effective. Moreover, the lower cost is particularly evident when the respondents are widely distributed over a large geographic area (Sekaran, 1992).
2) Accessibility: can reach a high number of respondents who live or work over a widely spread geographical area.
3) Greater anonymity: it affords the respondent a reasonable degree of anonymity. Furthermore, respondents can complete the questionnaires at

their own convenience (Sekaran, 1992). Compared to face-to-face or telephone interviewing, there is no personalisation involved in a mailed questionnaire survey, and thus respondents are likely to give their true opinion rather than an acceptable answer when faced with sensitive or controversial issues.

4) Reduction in bias error: the use of a mail questionnaire reduces bias errors that might result from the personal characteristics of interviews and variability in the interviewer's skills (De Vaus, 1990). This method provides less opportunity for bias or errors and provides a stable, consistent and uniform measure with wide coverage.
5) Collecting large amounts of information: a questionnaire enables the researcher to obtain a large amount of information from a large number of respondents within a short space of time (Babbie, 1995). This is extremely important if the fieldwork has to be completed within a restricted time period.

4.5.2.2.2 Disadvantage of the mail questionnaire

The mail questionnaire does, however, have several disadvantages. The most significant are:

1) Requires simple questions: the method lies in the fact that it requires simple questions, in the sense that the questions have to be straightforward and comprehensible solely on the basis of printed instructions and definitions.
2) Low response rate: the most serious problem arising from the use of a questionnaire as tool to collect data is the low response rate.

3) Lack of control: this method offers no control over who fills out the questionnaire.

4.5.2.3 Content analysis

Content analysis has been defined as a systematic, replicable technique for compressing many words of text into fewer content categories based on explicit rules of coding (Krippendorff, 1996 and Weber, 1990). Holsti (1969:14) offers a broad definition of content analysis as, *"any technique for making inferences by objectively and systematically identifying specified characteristics of messages"* Under these definitions, content analysis is a research technique for symmetrically investigating descriptive data.

In order to allow for replications, however, the technique can only be applied to data that are durable in nature. To analyse qualitative data, therefore, there are typically three steps that must be employed (Stemler, 2001). The first step is sampling data. If there is a large volume of qualitative data, a decision must be made on the rationale for extracting a sample of data that achieves the objective(s) of the research. Once the data has been sampled, the following step is to determine coding units.

However, this step is arbitrary, and the coding units could just as easily choose a particular word or number, a paragraph, or entire statements of purpose. Finally, the third step is called recording units. This step requires the researcher(s) to record the coding units in a reliable way. Weber (1990: 12) in this step particularly notes that

> *"To make valid inferences from the text, it is important that the classification procedure be reliable in the sense of being consistent: Different people should code the same text in the same way".*

4.5.2.3.1 Advantages of content analysis

Content analysis has several advantages as a technique of analysing qualitative data. The most important advantages are the following:

1) Content analysis provides objective analysis of qualitative data and can identify meaning from text data.
2) The approach allows researcher(s) to analyse very large amounts of text quickly. Content analysis enables researchers to sift through large volumes of data with relative ease in a systematic fashion.
3) It can quantify qualitative data. According to Collis and Hussey (2003: 225) "*content analysis is a way of systematically converting text to numerical variables for quantitative data analysis*".
4) It is low cost compared with other qualitative methods: this is important if researcher(s) is/are dealing with public documents that are easy to access (Collis and Hussey 2003).

4.5.2.3.2 Disadvantage of content analysis

As with all methodological approaches, content analysis has a number of disadvantages. These disadvantages are as follows:

1) It may not include all the values present in the study. This might occur when the researcher(s) discard large amounts of data. These large amounts

of data that have been neglected could help the researcher(s) understand the phenomenon more thoroughly and in-depth.

2) Results can be skewed and slanted if words are misinterpreted.
3) Requires preparation and training of all involved.
4) Different researchers may have different interpretations of material, causing inconsistency in analysing data and producing therefore inaccurate or biased results.
5) Data may not be completed. Even with public documents, it might be difficult to obtain data (Collis and Hussey, 2003).

4.5.3 Choice of research methods

The identification of the most suitable research design is crucial to the overall success of the study. Churchill (1996) believes that the research methodology should be determined by the objectives and extent of the study and the nature of the hypothesized relationships. The main purpose of this study is twofold. Firstly, it is to explore the usefulness of corporate annual reports by analysing the users' perceptions towards corporate annual reports in Libya.

Secondly, it seeks to measure the quality of annual reports by analysing the extent of disclosure, timeliness, understandability and reliability of the corporate reports published by Libyan companies. In order to provide the reader(s) with a rich description of the status of corporate annual reports published by Libyan companies, this study chooses to employ the mail questionnaire and content analysis approaches. The rationale for the use of these approaches are summarised below. Firstly, the rationale for the use of the questionnaire is as following:

1) The fundamental aim of the study is to explore the perceptions of various user groups of corporate annual reports published by Libyan companies. In light of the relative advantages and disadvantages of the alternative research methods of data collection that were used in previous research (see section 4.4), a questionnaire survey is considered the most pragmatic research tool. Oppenheim (1992) suggests that the questionnaire is suitable for measuring attitudes and perceptions. Furthermore, the questionnaire is appropriate for answering a large number of research questions, and for gathering large amounts of information from various user groups. The purpose, also, of this study is to obtain perceptions of as many users as possible, so it would not be practical to use the interview method because it would be too time-consuming.
2) This study is the first ever attempt to explore the usefulness of the financial annual report in Libya. This study is a fundamental exploration of the usefulness of financial annual reports published by Libyan companies.
3) As is the case with all research, time and resource constraints are a major factor in determining the research design. The postal questionnaire is the most appropriate tool to solicit the opinions of a geographically dispersed sample (Oppenheim, 1992).
4) Opinions of the respondents could be quantified by statistical analysis, providing the possibility to draw conclusions and make recommendations.

Secondly, the rationale for the use of the content analysis is as follows:

1) Lack of data: the main reason to choose content analysis for the analysis of qualitative data was that it was difficult to generate primary data for the last two questions addressed above. The research questions require archival data to analyse. The study has, therefore, relied on archival data or secondary research practice as such secondary data are important raw data in their own right in this case (Saunders *et al*, 2003).
2) The technique is thought to be useful because it helps in the analysis of a large volume of data with relative ease in a systematic way (Krippendorff, 1996). This technique used a realist approach to review all information gathered from data in order to gather only valuable information about compliance with the IAS. Moreover, this technique investigates whether the Libyan companies publish additional information in their corporate annual reports than that required by the IAS.
3) Content analysis recommends that the researcher identifies and establishes a number of different categories of relevant information that occurs in particular data and can then summarise information.
4) The technique is used to convert qualitative data into quantitative data. Then, quantitative data can be statistically analysed, providing the possibility to draw conclusions and make recommendations.

For the above mentioned reasons, this study chooses to apply questionnaire and content analysis approaches to gather data. Questionnaire and content analysis are a valuable way of gaining insight to achieve the objectives of this study. The strengths and weaknesses of each method are also considered. Before reviewing the tools development, it is important to note that content analysis is used to study a large range of texts from transcripts of interviews and discussions in clinical and social research, to the narrative and form of videotape, TV programmes and the viewpoint and advertising content of newspapers and magazines. It involves certain key phrases or words being counted, and the frequencies are then analysed (Holsti, 1969; Easterby-Smith *et al,* 1991 and Symon and Cassell, 1998).

In this study, the use of content analysis is to analyse a large amount of qualitative and quantitative data. This data is published by the Libyan companies in their corporate annual reports. The main aim is to discover if there is a pattern of disclosure in the financial reporting. The hope is to reach a conclusion about this pattern of financial reporting in respect of its compliance with disclosure rules and its fulfilment of perceived preferences of users in the country. For this purpose, an instrument was designed to gather the objectives data. The next section reviews the process of the tools development of both questionnaire and content analysis approaches.

4.6 Instrument development

Mail questionnaire and content analysis approaches have been chosen to gather data for the current study. This section discuses the development of the two methods. Firstly, the questionnaire development and constants, questionnaire parts, questionnaire translation, and testing validity and reliability are discussed in detail.

4.6.1 Questionnaire

Collis and Hussey (2003: 173) define a questionnaire as *"a list of carefully structured questions, chosen after considerable testing, with a view to eliciting reliable responses from a chosen sample"*. In order to explore the issue of the usefulness of corporate annual reports published by Libyan companies, the questionnaire required user group respondents to indicate their perceptions. According to Oppenheim (1992: 174) an attitude statement is *"a single sentence that expresses a point of view, a belief, a preference, a judgment, an emotional feeling, or a position for or against something"*

In designing the questionnaire, a standard procedure provided by authors such as Oppenheim (1992), Collis and Hussey (2003) and Smith (2003) were taken into consideration. Summaries of the ideas have highlighted the 'dos and don'ts' as follows: questions should be precise and written simply, avoid double negative meanings, avoid loaded words, avoid leading or biased questions, consider providing a 'Don't Know' or 'Not Applicable' option, avoid ambiguity, and finally avoid generalisations and estimations. In other words, the questionnaire must be prepared in such a way that the respondents can understand it and are able to complete it easily.

In this study, the above aspects have been considered in preparing a structured questionnaire. In the structured sections, the questions were fixed-alternative and required respondents to choose from a list of given possible closed answers. The fixed-alternative questions were chosen to ease completion and save respondents' time in completing the questionnaires, as well as achieving uniformity among respondents' answers. The questionnaire was divided into three parts. In part one, respondents' background and general information, five to six fixed-alternative answers were designed. Meanwhile in parts two and three of the questionnaire, fixed-alternative answers and a Likert scale were used to help the respondents to give their feedback.

This scale allows respondents to choose from a range of answers, and this provides a reliable estimation of attitude (Oppenheim, 1992). The disadvantages of fixed-alternative questioning are a lack of impulse answering and bias in answer categories. To address this, open-ended questions were also provided in the last section of part three. According to Oppenheim (1992), this section provides an opportunity for the researcher to probe with more freedom and obtain more detailed and spontaneous answers. Special care was taken in of the wording the questionnaires.

4.6.1.1 The parts of the questionnaire

The questionnaire starts with a covering letter followed by a letter from the researcher encouraging the participants to complete the questionnaire and assuring them of total confidentiality. The questionnaire is divided into three parts. The first part deals with the respondents' background. The main objective of this part was to obtain a personal profile of the respondents who participated in this study. Five questions were designed to achieve this objective. The first question asked the participants to identify themselves in one of the given groups according to their occapation. The second question was to identify the participants' gender. The third and fourth questions asked for the participants' age and educational qualifications. Finally, question five asked the participant if he/she has knowledge and experience in accounting and finance science.

The second part was designed to evaluate current corporate annual reports. Ten questions directly relating to the research question were designed in this section. The majority of questions asked participants to record their responses according to a five point scale, which indicates the strength of response. Question one was to gather the participants' perceptions about the usages of corporate annual reports. The second question was designed for participants to indicate how many corporate annual reports on average they read annually. The third question sought to discover how much time participants' spend reading or analysing corporate annual reports. The fourth question was designed to explore participants' views about the adequacy of information contained in corporate annual reports. The main objective of these questions was to explore the usage of corporate annual reports.

The fifth question sought to establish the participants' views of the readability of the annual reports. The sixth question was to gather participants' perceptions regarding the understandability of the annual reports. The seventh question was designed to discover the participants' views about the adequacy of information contained in the corporate annual reports. The eight question was about whether the information contained in the annual reports presents the company's performance in the past, present or future. The main objective of these questions was to seek the respondents' views about the sections of the corporate annual reports. It also sought the respondents' opinions of the understandability of the information contained in the annual report and the respondents' views regarding the usefulness of annual financial statements. The ninth question was for the participant to rate the importance of each part of the annual reports. Question ten asked participants to indicate the level of importance they attach to each of the given information sources from which they obtain the information they need to make an informed decision. The eleventh question was to discover if the participant thinks there has been an improvement in the annual report in the last ten years.

The main objective of these questions was to evaluate the importance of the various sources of information and how the corporate annual reports were placed among them. Further, it sought to rate the importance of the various sections of the corporate annual reports in relation to the respondents' informed decisions. The twelfth question was designed to explore the participants' opinions about several criteria that might affect the quality of an information source. The result of this section is expected to be of great importance to the accounting authority and to corporate management.

The final section of the questionnaire contains a number of possible mandatory and voluntary information items disclosed in the corporate annual reports. This section was designed to explore participants' perceptions about information that they want to be disclosed in corporate annual reports. This information can help user groups to make informed decisions. A possible 65 mandatory and voluntary information items were addressed using a five point Likert scale. Appendix 1 shows the English version of the questionnaire.

4.6.1.2 Translation of the questionnaire

Although the national language in Libya is Arabic, the questionnaire was originally written in English. Then, the original version was translated into the Arabic language. The translation was difficult because some of the English language sentences and vocabulary did not have equivalents in the Arabic language. Therefore, the Arabic version was checked thoroughly by an official translation agency as well as by an Arabic speaking senior lecturer at the University of Glamorgan. Appropriate changes and corrections were subsequently made. Then, the questionnaire was sent out for pilot testing, as discussed further in the next section. Appendix 2 shows the Arabic version of the questionnaire.

4.6.1.3 Pilot testing

According to Sekaran (1992) and Zikmund (2000), the main purpose of conducting a pilot test is to double check whether the questions are well understood by the respondents and to look at questionnaire's continuity and flow, and experiment with question sequencing and patterning. Piloting the questionnaire is required to lessen response bias due to poor questionnaire design. It is, therefore, crucial to conduct pilot testing in order to achieve the best use of language and sequence of questions and this is essential to a good questionnaire and especially in the absence of an interviewer to clear up any confusion (Moser and Kalton, 1985). In addition, Collis and Hussey (2003) indicated that the purpose of piloting is not only to ensure survey questions operate well, but also that the research tool as a whole functions well, or can be used to practise the proposed method or to try out alternatives, while there is an opportunity to make modifications. In this study, before commencing the field work, meetings were held with experts in questionnaire design and academic staff from the Business School of the University of Glamorgan, and, on their advice some modifications to the design of the questionnaire were made.

As it was difficult to travel to Libya, the researcher piloted the questionnaire in the UK. Collis and Hussey (2003: 175) notes *"At the very least, have colleagues or friends read through it and play the role of respondents, even if they know little about the subject"*. Once the first draft of the questionnaire was finished, the questionnaires were personally delivered to some accounting academics and other postgraduate students in the Business School in the University of Glamorgan. The participants were asked to complete the questionnaires as instructed.

Furthermore, they were asked to provide a critical analysis of all aspects of the questionnaire. In addition, a postgraduate colleague from Libya and others from other Arabic countries in both the University of Cardiff and the University of Glamorgan were provided with an Arabic and English version of the questionnaire. They were asked to assess whether the Arab and the English versions corresponded accurately. After the recommendations and comments of respondents were received, three questions in part two were identified as ambiguous and were rephrased and redesigned.

4.6.1.4 Validity

Validity is an important factor for any empirical research. Therefore, it is essential for any successful research to employ a valid tool. Validity is the ability of the measurement tool to assess what it is supposed to measure (Aaker *et al*, 1998). Frankfort-Nachmias and Nachmias (1996) define validity with a question in order to make it clear that the researcher is measuring what he/she intends to measure. Sarantakos (1998: 78) also maintains that validity is concerned with: "the ability to produce findings that are in agreement with theoretical and conceptual values".

More recently, Black (1999: 75) reported a similar approach, maintaining: "*to ensure validity, any instrument must measure - what was intended*". This indicates that the instrument should be logically consistent and cover systematically all aspects of the abstract concept to be investigated. The main problem with face validity is that there are no replicable procedures for evaluating the measuring tool. Hence, researchers have to rely entirely on subjective judgments (Frankfort-Nachmias and Nachmias, 1996). Validity needs reliable and valid tools for the collection of data as well as consultations with theoretical and empirical researchers. Therefore, the validity of the questionnaire in this study was obtained from different practical professionals and experienced researchers who participated in the pilot study.

4.6.1.5 Reliability

In addition to validity, reliability is considered a most important factor. Newman and McNeil (1998: 205) defined reliability as: "*the extent to which a variable yields the same value on repeated measures*". Reliability is a very important aspect in any research method. Further, it is concerned with the consistency of the results achieved on repeated situations. This is reflected when the researcher re-tested the data, using the same test in different circumstances. Researchers have adopted alternative methods with questionnaires. They look at the consistency of a person's response to an item at the same point in time and the degree of agreement between the measurements is obtained.

Researchers use the Alpha coefficient in order to confirm reliability. This technique is common in statistical research in examining reliability; coefficient Alpha ranges between zero (0) and one (1). The higher the Alpha Coefficient is, the more reliable the scale, with 0.7 as the minimum acceptable reliable figure (De Vaus, 1990). In this study, the Alpha Coefficient is used to measure reliability on the Statistical Package of Social Science (SPSS) computer software. The test is applied to the questionnaire and the Alpha Coefficient was found to be high for the various target user groups. This is discussed later.

4.6.2 Development of a tool for content analysis of annual reports

The main purpose of analysing corporate annual reports published by Libyan companies is to explore if they provide a model of disclosure. The hope is to reach a conclusion about this example of financial reporting in respect of its compliance with disclosure rules. The aim was also to discover whether the model of disclosure fulfils the perceived preferences of users in the country. In order to establish this, a tool has been designed. This tool was designed using the SPSS data entry software. The researcher used this software package to allow data to be entered easily and accurately. The construction of the tool is as follows:

Section one contains general background information. This information includes the name of the company, the financial year of the corporate annual reports under consideration, and the industry classification of the company. The main objective of this section is to gather general information about the company. Section two is about the external auditor of the company. The aim of the section was to gather information about the external auditor; whether the audit report was listed in corporate annual reports, the length of the auditor's reports, number of pages, and the date of the audit reports.

Section three contains a number of financial and non-financial information about the company. This information includes the number of employees, the number of directors, total assets, total liabilities, total sales, the number of subsidiaries, current liabilities, inventory, debtors, net income, amount of audit fees and the company age. The main objective of this section was to identify the information disclosed and will help to measure the disclosure thereafter.

Section four comprises a possible number of information items that could be expected to be disclosed in corporate annual reports. As there is no standard for disclosure, three sources have been examined for the purposes of this research. First, certain information items are required by the IAS as a minimum. These information items were taken from IAS 1 and 5 (IAS 1 and 5, 1978-1984). This list of items includes information such as the classification of assets and liabilities as current and non-current, cost of sales, gross margin and net income. Second, the set of items listed are above the minimum required by IAS.

This information includes information such as the number of annual directors, remuneration, and the market value of the inventory. Finally, the third set of information items consists of information that is voluntarily disclosed and is not required by IAS. These information items were included in previous similar studies (Firth, 1978; Wallace, 1987; Abu-Nassar and Rutherford, 1996; Al-Hussein 2001 and Mirshekary and Saudagaran 2005). For instance, statements of source and application of funds, new product development information and information about the employees were included. Appendix 3 demonstrates the tool of content analysis.

4.7 Sample

Sampling involves any procedure that uses a small number of items, or that uses parts of the population, to make a conclusion about the whole population. Miles and Huberman (1994:27) state that *"you cannot study everyone everywhere doing everything"*. According to Easterby-Smith *et al* (1991: 122), *"the main aim of sampling is to construct a sub-set of the population which is fully representative in the main areas of interest"*.

Using a small sample of a population saves the researcher the time and money that would otherwise be involved if he/she were to study the entire population (Borg and Gall, 1989). Care has to be taken in recognising that sampling procedures may not be as valid as a 100 per cent survey and that there can be greater administrative and organisational requirements than a 100 per cent survey (Sarantakos, 1998). Sampling should be both representative and based on sound methodological principles. The selection sample units must be systematically, objectively, clearly and easily identified. The units chosen should be uniform, similarly sized, independent, and consistent for the duration of the survey. In addition, no errors bias or distortion should be present in the selection process (Sarantakos, 1998). There are two types of sampling approaches. These approaches are probability and non-probability (Punch, 1998).

Within each method there are several methods of sampling available; the choice of which technique to use will depend on the characteristics of the population and the resources available to the researcher. Probability approaches include three main methods namely random; systematic, and cluster. Meanwhile, non-probability techniques comprise methods such as convenience and snowball sampling (Collis and Hussey, 2003 and Smith, 2003). In this study, the researcher used two levels of sampling; one at the participants' level and the other, the corporate annual reports of company level. The selection of the approach however was dependent on the availability of the population.

4.7.1 Sampling of company level: Corporate annual reports

One of the main difficulties that faced the researcher in this study was where to find contact information about the existing companies in Libya. It is important to note that the researcher could not find exact figures about the number of Libyan companies. A recent list of existing companies was obtained from the Institution of People's Control and Follow-Up (IPC&FU). To find contact information, an index showing companies registered in the Chambers of Commerce, Agriculture and Industry (CCA&I) was obtained. Following several attempts to contact companies, the list that was obtained from IPC&FU was found to be inaccurate.

Many companies were included in the list which did not exist, whilst some companies were not listed at all. Then, the researcher had to work with some employees of IPC&FU, who graduated with the researcher from Garyounis University, in order to estimate a reasonable figure. Approximately 380 companies was the final number agreed. 80 companies were selected in total, representing more than 21 per cent of the population.

This number of companies included all the companies employing 100 people or more. Since the targeted number of companies is somewhat small, a letter was forwarded to each of these companies over the period 14th February to 2nd March 2004, requesting them to provide the researcher with a copy of their audited annual report for the last year. Initially, thirty-six annual reports were received. For those companies that were late to respond, a reminder follow-up telephone call was personally made by the researcher. Table 4.2 illustrates a summary of the sample selection.

Table 4. 2: Summary of corporate annual report

Industry classification	Number of annual report	per cent
Finance Sector	11	23.4
Industry Sector	16	35.5
Service Sector*	13	27.7
Construction Sector	5	11.1
Total	45	100

**Service sector includes trading, service, and investment companies.*

Table 4.2 illustrates that the total number of corporate annual reports received from different companies is forty-seven reports. About 23.4 per cent were financial companies, 36.2 per cent industrial companies, 27.7 per cent service companies and 12.8 per cent were construction companies. All the reports were the published corporate annual reports of the financial year which ended on 31/12/2003.

4.7.2 Sampling of the participants level: User group

Once the questionnaire had been pilot tested in Pontypridd and Cardiff, the researcher obtained permission from the sponsor and the research supervisor to conduct the field study. In the period between 15th February and 16th March 2004 the researcher distributed copies of the questionnaire among different user groups in the study. The majority of questionnaires were handled and collected personally to increase the return rate. The various target user groups are individual investors, institutional investors, bank credit officers, government employees, academics (researchers), chief executives and professional accountants.

4.7.2.1 Individual investors

One of the main difficulties that faced the researcher in this study was where to find contact information about individual investors in Libya. This was enforced by the absence of a stock market exchange in the country. Nevertheless, the perceptions of this particular user group are very important to this subject. The vast majority of the literature on the topic involved individual investors giving their views about various aspects of financial reporting.

Two approaches were used in this study to distribute the questionnaires to the individual investor groups. Firstly, due to the absence of a stock market exchange, the main places to find contact information about investors is from every company's Share Registry unit (SR). Two steps were used. The first step, from the procedure discussed above, resulted in the rondom selection of 35 companies. Information such as the main office location, address and telephone number of these companies was taken.

The next step was a telephone call arranging a meeting with the officers who were in charge of the individual companies SR. Then, the researcher paid at least two visits to these companies asking for help from the officers in charge to find contact information in order to distribute the questionnaire. From the SR records, several of investors who have 5 per cent or more shares were selected. Contact information such as addresses and telephone numbers was taken. To distribute the questionnaire in this case, two steps were followed.

Telephone calls were made initially, asking individual investors selected if they were willing to complete the questionnaire. The questionnaires were posted to those who agreed to complete them with return envelopes. In all, 25 questionnaires were distributed. Although several follow up attempts were done, only 13 completed questionnaires were received. Secondly, the researcher attended two general meetings in the capital city of Libya arranged by the Libyan Chamber of Commerce, Agriculture and Industry (CCA&I) and other Libyan organisations. The meetings aims were to discuss some issues about .he privatisation of the public sector and about attracting investments. Both meetings were attended by investors, businessmen, and academics. The researcher was able to distribute 91 questionnaires randomly. About 140 people attended the meetings. Table 4.3 illustrates the number of questionnaires distributed and received from both meetings. The researcher then distributed the questionnaires together with return stamped self addressed envelopes.

Table 4. 3: Questionnaires distributed and received in Tripoli meeting

	Meeting 1 number of questionnaires			Meeting 2 number of questionnaires		
	Distributed	Returned	Return Rate %	Distributed	Returned	Return Rate %
Individual Investors	11	6	54.54	15	4	26.7
Academics/ researchers	23	11	47.8	28	10	45
Number Present	80	17	21.56	60	14	23.3

Finally, in both meetings, several people present offered their help with delivering the questionnaires to those individual investors and academics with whom they have contact. One of the volunteers was able to deliver 5 questionnaires to his investor's friend, two of which were usable responses. Table 4.4 shows the number of questionnaires distributed and received.

Table 4. 4: Questionnaire distributed to and received from individual investors in Tripoli meetings

	Questionnaire Distributed	Questionnaire Received	Return Rate %
By Post	25	13	52
Meeting 1	25	11	44
Meeting 2	15	7	46.6
Volunteer	5	2	40
Total	**70**	**33**	**47.1**

As can be seen from Table 4.4, in total 70 questionnaires were distributed to individual investors. Only 33 completed questionnaires were received.

4.7.2.2 Institutional investors

Institutional investor groups consist of a large number of investors who have different educational backgrounds that might affect their views about the use and usefulness of corporate annual reports (Baker and Haslem, 1973). In this study, because the number of institutional investors in Libya is small, the researcher has included all the institutional investors. About 32 questionnaires were handed personally by the researcher to managers who are in charge of credit departments in the 16 institutional investors. At least one manager was asked to complete the questionnaire. 18 completed questionnaires were collected after two weeks. The institutional investor groups were as follows:

1) *Social Pension Fund* (the employees' pension fund);
2) *National Investment Company* (the employees' investment fund);
3) *Azzawiya Real-Estate Investment* Company (private institutional investor);
4) *Libyan Arab African Investment Company* (public investment fund);
5) *Benghazi Investment & Operating Parks Organization* (public investment fund);
6) *Libyan Arab Foreign Investment Company* (public investment fund);
7) *Saving & Real-Estate Investment Bank* (public investment bank);
8) *Commerce & Development Bank* (public and private bank);
9) *Libyan Insurance Company* (public investment company);
10) *National Banking Corporation* (public and private corporation);

11) *United Insurance Company* (public and private joint company);

12) *Jomhuria Bank* (public bank);

13) *Auma Bank* (public bank);

14) *Sahara Bank* (public and private bank);

15) *Wahda Bank* (public and private bank), and

16) *National Commerce Bank* (public bank).

4.7.2.3 Bank credit officers

Bank credit officers have been defined in this study as those employees working at credit departments in the banks. According to Naser (1993) one of the main concerns of bank credit officers is likely to be whether or not a business enterprise will be able to meet its financial obligations. All bank credit officers are very likely to be concerned with the firm's liquidity. If there is some doubt about the firm's ability to pay, the bank credit officer may press for specific arrangements before granting a loan.

Hence, bank credit officers consult information published by a certain company before making any lending decision. In general, bank credit officers tend to request additional information from clients that apply for the bank credit services. This information is over and above that which is normally provided by the clients. The main reason for additional information is to ensure that the client in question has a sound financial position that would enable them to repay the main debt and interest. Therefore, it was important to elicit bank credit officers' opinions of different aspects of the corporate annual report published by Libyan companies listed by the CCA&I.

In Libya, the total number of commercial and non-commercial banks is 58. This number consists of 48 banks which were established recently, after 1997, in different cities of the country. All of these banks were excluded for two reasons. First, these banks are new and small compared with the established banks. Second, there is no separate credit department in these banks. 50 questionnaires were distributed among 10 commercial and non- commercial banks operating in different parts of Libya. These banks are:

1) *Commerce & Development Bank* (private and public bank);
2) *Sahara Bank* (private and public bank);
3) *Jomhuria Bank* (public bank);
4) *Oumma Bank* (public bank);
5) *National Commerce Bank* (public bank);
6) *Wahada Bank* (private and public bank);
7) *National Banking Corporation* (private and public bank);
8) *Agricultural Bank* (public bank);
9) *Saving & Real-Estate Investment Bank* (public bank) and
10) *Industry Development Bank* (public bank).

About 31 completed questionnaires distributed were collected from the main offices, resulting in a useable response rate of 62 per cent.

4.7.2.4 Government employees

Governments and their agencies are interested in the allocation of resources and, therefore, the activities of enterprises. They also require information in order to regulate the activities of enterprises, determine taxation policies, and to form the basis for national income and similar statistics. According to Naser (1993) the government and its agencies demand accounting information for tax purposes as well as for economic planning. In the case of the formulation of economic plans, the Libyan government would require information concerning the intentions of companies with regard to their investment activities, possible acquisition and mergers.

This would have an effect on the level of employment. Needless to say, one of the major objectives of any government is to keep unemployment levels at a minimum. Hence, the government demands corporate information to ensure compliance with this aim. It was, therefore, important to seek the opinion of government officials about the various aspects of corporate reporting. In Libya, there are two government officials who are, presumably, interested in corporate annual reports. They are: the Tax Office and the IPCFU.

The researcher paid visits to each of these departments and met with the highest possible number of officials. 50 questionnaires were distributed personally to government employees serving with the Tax Office in the main offices. The same numbers of questionnaires were handed personally to the IPCFU. 18 questionnaires were collected from the Tax Office after three weeks. Meanwhile, about 25 questionnaires were collected from the IPCFU after twenty seven days. 22 questionnaires were completed.

4.7.2.5 Accountancy professionals

Accountant professionals are those working in accounting or auditing firms. This group consists of all professional accountants and investment analysts who are involved in preparing, auditing and analysing financial data. The high level of specialised education and training in accounting and financial analysis make them professional. Therefore, this user group has professional opinions and makes recommendations to others users. Previous research such as Firth (1978) reported a similar rationale for selecting this group in a similar study in the UK.

Therefore, professional accountants are expected to give well-informed opinions. In Libya, professional accountants are those who have established or work in a small private accountancy bureaus. These small private accountancy bureaus provide a full range of professional accountant services. This service includes auditing, taxation, accounting and management information, consultancy and secretarial services. The primary professional qualification of accountancy in Libya is membership of the LAAA. It was difficult to obtain the exact number of the accountancy bureaus from the chairmen and the staff of the LAAA.

The researcher had to work with the LAAA staff to make an informed estimate. The final figure arrived at was 380 accountancy bureaus across the country. The vast majority of these are located in Tripoli and Benghazi[1]. 30 public accountants located in Tripoli and 20 public accountants in Benghazi were selected in total. The majority of the questionnaires were distributed with a return envelope; a

[1] Benghazi is the second city in Libya located in the notheast of the country

number of questionnaires were completed in the presence of the researcher. Only 28 completed questionnaires were received complete.

4.7.2.6 Academics (researchers)

Academics (researchers) are likely to be more trained and educated. The choice of academics specialised in the areas of business and finance as one of the target groups for this study, was based on the grounds that they have extensive knowledge of corporate information. Academics and accountancy researchers are expected to undertake scientific research that covers different aspects of corporate activities. Further, corporate information is heavily used in such research. Hence, it was assumed that this group of users is in a position to provide credible information on different aspects of corporate reporting. Academics and researchers have been defined for the purpose of this study as those accounting lecturers that are teaching at accounting departments in Libyan Universities. Table 4.5 illustrates the number of questionnaires distributed and received from this user group.

Table 4. 5: Number of questionnaires distributed and received from academics/ researchers

	Questionnaire Distributed	Questionnaire Received	Return Rate %
Meeting 1 in Tripoli	11	6	**54.54**
Meeting 2 in Tripoli	15	4	**26.7**
University of Garyounis	25	10	**40**
University of Al-Fath	15	7	**46.6**
Faculty of Accounting	10	6	**60**
Total	**76**	**33**	**43.2**

In total 50 questionnaires were distributed personally in three different universities across the country. 25 questionnaires were distributed randomly in the University of Garyounis. 15 questionnaires were handed in to the Faculty of Trade and Economics in the Al-Fath University in Tripoli. 10 questionnaires were distributed personally in the Faculty of Accounting at Al-Jabal Al-Grabi University. In all cases return envelops were provided. About 33 questionnaires were returned complete in a month.

4.7.2.7 Chief executive

The chief executive of the company has been identified as one of the most important users of accounting information. Moizer and Arnold (1984) note that the most important professional user groups of accounting information are analysts and managers. Barker (1998) suggests that raw data provided directly by companies is of more importance to the managers than processed data generated by analysts. From the above mentioned procedure, the chief executives have been drawn from and comprise those who occupy a key position in Libyan Corporations. About 65 questionnaires were distributed by hand to the chief executives of the companies selected. Only, 34 questionnaires were received giving a return rate of 56.6 per cent.

4.7.3 Response rate

From the four hundred questioners distributed, a total of 217 questionnaires were returned with complete responses. This number represented a response rate of 54.2 per cent. Table 4.6 illustrates the number of distributed questionnaires, the number of received questionnaires, and the return rate. The number is considered to be a reasonably good response for a mail survey; the typical response rate for a mail survey is between 20 per cent and 40 per cent (Frankfort-Nachmias and Nachmias, 1996). The relatively good response rate may have been as a result of the strategy by the researcher in distributing the questionnaires.

Table 4. 6: Number of questionnaires distributed and received

User Group	Distributed Questionnaires	Questionnaire Received	Return Rate %
Individual investors	70	33	**47.14**
Academics (researchers)	60	33	**55.00**
Government employees	88	40	**45.45**
Institutional investors	32	18	**56.25**
Bank credit officers	50	31	**62.00**
Chief executives	60	34	**56.6**
Professional accountants	50	28	**56.00**
Total	**410**	**217**	**52.92**

The discussions with the participants and the willingness to contribute in this study acted as an official sanction of support for the study. From the answers in the last part of the received questionnaires, it was clear that some of the respondents were genuinely interested in the topic. In addition, there are possible reasons for co-operation among respondents in a sensitive environment, especially concerning a topic that touches accounting and accountability.

Although there was relatively good response, there are possible reasons which might account for the non-receipt of the remainder of the questionnaires. The mail service in Libya is still public owned and not well organised. Another factor is that the relatively sensitive characteristics of the survey under Libya's social and cultural structure may discourage respondents from participating in the survey questionnaire.

4.8 Measuring disclosure

Financial disclosure is an abstract concept that cannot be directly measured (Wallace, 1987). It does not possess inherent characteristics by which the researcher can determine its strength or quality. Therefore, there is a difficulty involved in assessing the quality of corporate annual reports, because quality itself is not a readily measurable characteristic (Botosan, 1997). Previous studies in measuring the quality of corporate annual reports illustrate that there is no agreed-upon process or theory to measure financial disclosure. For instance, McEwen and Welsh (2001) agreed that it is difficult to measure the quality of corporate annual reports but argued that compliance is required with the minimum disclosure requirement.

In this respect, Alrazeen (1999: 100) concluded that "[the] *quality of disclosure can be judged under three criteria: compliance with mandatory disclosure, depth of disclosing mandatory disclosures, and the extent of other voluntary disclosure*". Compliance with mandatory or voluntary disclosure is seen as a dichotomous variable. This simply means that disclosure of an item of information studied is a score and non-disclosure is a no score. Following the collection of Libyan companies' corporate annual reports for the year which ended on 31/12/2003 and having developed the tool of content analysis; the primary task was to give a code to each corporate annual report received. The next step was to establish a disclosure index for each company's report, by checking each report and remarking existence of the item and giving one mark or no marks as the disclosure score.

4.8.1 Disclosure index

A number of approaches to developing a scoring scheme may be used to determine the disclosure level of a corporate annual report. For instance, Copeland and Fredericks (1968) as well as Robbins and Austin (1986) developed a scoring approach in which a qualitative item was rated according to the degree of specificity. This approach was based on the number of words used to describe an item disclosed. Such an approach results in a scale of disclosure ranging between 'one' and 'zero' value. This approach has been criticised as being subjective (Cooke, 1989).

The subjectivity in assigning weight to disclosure items was also criticised on the grounds that it is difficult to identify a user's preference for items of disclosure. Therefore, various users might assign different weights to the same item of disclosure (Naser, Al-Khatib and Karbhari, 2002). The most commonly used approach, the approach adopted in this study, is a dichotomous procedure. The approach was selected due to the following reasons. First, it was simple. Second, it was commonly used in recent literature.

According to Ahmed and Courts (1999: 36) a dichotomous approach *"became the norm in annual reports studies"*. Ultimately, it assumes all disclosed items are equally important Cerf, 1961; Wallace, 1987; Cook, 1989 and Naser and Al-Khatib, 2000). The dichotomous procedure, in which one point is given to the disclosed item and zero if not disclosed, was then employed. This procedure resulted in an equal index of 65 items of information. The disclosure index for a company equals the actual score of disclosure divided by the expected maximum number of items of disclosure (65 items). The disclosure index can be presented mathematically as follows.

$$I_x = \sum_{t=1}^{n_x} T_{tx} / n_x$$

Where: I_x = index scored by company x; $0 \leq I_x \geq 1$; T_{tx} = information item disclosed by company x; 1 point is given if t item is disclosed; 0 if not disclosed; n_x = maximum number of items expected to be disclosed by a company and n_x = 65.

4.8.2 The independent variables

The literature has illustrated several factors used to predict variations in the extent of disclosure (see chapter three, section 3). These factors include structural factors (company size measured by total assets, total sales and number of employees), performance factors (profit margin and rate of return) and market factors (industry classification, market capitalisation and audit firm status) (Naser and Al-Khatib, 2000).

In this study, eight factors (most of them advanced in the literature) will be employed to investigate the relationship between the extent of disclosure and the company's characteristics. For the purpose of comparison, the choice of these factors was based on previous studies that sought to determine factors influencing the extent of disclosure and a number of hypotheses have been developed. The next subsection discusses the independent variables and develops hypothesises that would be tested.

4.8.2.1 Company size

Corporate size has been found to be a significant factor correlated with the extent of disclosure (see, for example, Cerf, 1961; Singhvi and Desai, 1971; Buzby, 1974; Belkaoui and Kahl, 1978; Wallace, 1988 and Naser and Nuseibeh, 2003 and). Further, a different direction of association is hypothesised and empirical results have, generally, supported a positive association with some exceptions (for example, Abdulsalam, 1985 and Ahmed, 2003). In this study, consistent with previous research, a company's size is measured by the book value of total assets (ASSETS), total sales (SALES), and number of employees (EMPLOYEE). Three hypotheses were formulated as follows:

H1a: There is an association between ASSETS and the extent of disclosure.

H1b: There is an association between SALES and the extent of disclosure.

H1c: There is an association between EMPLOYEE and the extent of disclosure.

4.8.2.2 Profitability

Profitability can be measured in a number of different ways. Earnings margin (MARGIN) and rates of return (RETURN) are two examples of profitability measures. While the earnings margin ratio is the calculation of net income divided by total sales, a rate of return is the calculation of net income divided by net assets (Weetman, 2003). Previous research suggests that mangers are prompt to release good news compared to bad news (Chambers and Penman, 1984). Further, a management that reports high earnings tends to disclose more information to obtain personal advantages (Naser, Al-Khatib and Karbhari, 2002). Consistence with previous research, the following hypotheses are developed to be tested.

H2a: There is an association between MARGIN and the extent of disclosure.

H2c: There is an association between RETUN and the extent of disclosure.

4.8.2.3 Industry type

The extent of disclosure throughout all industries is expected to be varied. Previous studies, such as Stanga (1976) and Cooke (1989), have found a significant association between industry type (INDUSTRY) and the extent of disclosure. Corporations in Libya are divided into four sectors; namely, banking sector, the manufacturing sector, the services sector and the construction sector. Therefore, it was hypothesised that:

H3: There is an association between INDUSTRY and the extent of disclosure.

4.8.2.4 Audit status

Despite the fact that the preparation of corporate reports is the responsibility of the company's management, the external auditor (AUDITOR) of a company can influence significantly the amount of information disclosed in a corporate annual report (Belkaoui and Kahl, 1978 and Benjamin *et al*, 1990). Prior studies suggest that the extent of disclosure by companies may vary due to the variances in their independent auditors (Cerf, 1961 and Singhvi and Desai, 1971, Ahmed Nicholls, 1994 and Ahmed, 2003). Furthermore, it has been suggested by previous studies that large and well-known auditing firms have the incentive to disclose more information than others (see, for example, Chow and Wong-Boren, 1987; Wallace and Naser, 1995). However, a number of international audit firms have representatives who are selected based on national reputation, training and experience of senior audit personnel, and quality of audit services. In Libya, there is no representative of big international firms. Companies are subject to be audited by a government agency (Institution of People's Control and Follow-Up) (AUDIT1) or a small private bureau (AUDIT2).

H4: There is an association between AUDITOR and the extent of disclosure.

4.8.2.5 Ownership

The ownership (OWNER) factor has examined the association between a company's characteristics and the extent of disclosure in the literature. In the sample under consideration, there are three types of company ownership. These include mainly companies owned by the government or its agencies, joint ventures between the government or its agencies and local investors and joint ventures between the government or its agencies and international investors. This suggests that the extent of disclosure may vary between these ownerships. Thus, evidence regarding the influence of ownership is tested by the following hypothesis:

H5: There is an association between OWNER and the extent of disclosure.

4.9 Data processing and analysis

The data obtained for this study from both the 217 questionnaires and the 47 corporate annual reports were translated into numerical values and entered into the computer using the Windows version 11.5 of the package SPSS. The results were then interpreted statistically and accurately. Borg and Gall (1989) clarified the importance for the researcher to have in mind four fundamental steps in order to analyse the result of the research successfully. These steps are; the statistical tool used the conditions of each used tool, the meaning of statistical results and how the statistical calculations are made. However, there are two main groups of statistical procedures, namely, parametric and non-parametric statistical analysis.

Zikmund (2000) and Frankfort-Nachmias and Nachmias (1996) noted that the major variation between the two groups depends on the basic assumptions about the data to be analysed. Once the data are interval or ratio-scaled and the sample size is large, parametric techniques become suitable. In addition, the observations are drawn from a normally distributed population. While researchers do not make this assumption of normality, it is suitable to use non-parametric techniques.

Furthermore, the perceptions of user groups were measured on an ordinal scale, and, therefore, it is not suitable to make the assumption that the sampling distribution is normal. There are several advantages to non-parametric techniques (Easterby-Smith *et al*, 1991 and Smith, 2003). These advantages are:

1) Non-parametric techniques can be used on all types of data,
2) If the sample size is small, non-paramedic techniques will be easier to apply, and
3) Non-parametric techniques make fewer and less stringent assumptions than the parametric methods.

However, it is important to mention that there are disadvantages to using non-parametric techniques. The disadvantages are:

1) all the assumptions of parametric can not be met and
2) the data need not be measured on either an interval or a ratio scale.

Due to the nature of this study data being ordinal and the sample size being small, non-parametric techniques were employed to facilitate the statistical analysis (see, for example, Easterby-Smith *et al*, 1991).

4.9.1 Descriptive statistics

Descriptive statistics is a branch of statistics that sets out to summarise data that has been collected. Typically, they are mainly based on the calculation of the mean, median, mode frequency distribution, percentage distribution, rank and standard deviation. This study involves people's perceptions or judgments on the usefulness of financial and non financial information published by Libyan companies. It is appropriate to analyse the respondents' return in terms of the behaviour of different statistical methods. In addition, the data is related to annual reports. The main descriptive statistical methods used in the current study are presented in the following subsection.

4.9.1.1 The Median

The calculation median is defined by Cohen and Holiday (1982) as "*that point on a scale of measurement above which there are exactly half the scores and below which there are the other half of the scores*". While the advantage of the use of the median is not affected by outliers' value and a more representative indication of the central tendency when the data is non-normal distributed, the disadvantage is that not all of the individual data value is used (Bryman and Cramer, 1990). According to Cohen and Holiday (1982: 31) "*The median would be associated* *with ordinal level data*". Due to the fact that the majority of research questions in the current study utilises a five-point scale, wherein 1 represents the lowest point and 5 represents the highest point the calculation median is considered to be the appropriate measurement of central tendency.

4.9.1.2 The mode

The mode is identified as the most frequent value in the set of scores (Bryman and Cramer, 1990). The mode would be the appropriate statistics to use as a measure of the most popular item when data are collected using a nominal scale. In order to explore the respondents' perceptions of the importance of a specific question or an issue, the mode is calculated.

4.9.1.3 The mean

The arithmetic mean is defined by Frankfort-Nachmias and Nachmias (1996: 367) as "*the sum total of all observations divided by their number*". Cohen and Holliday (1982:24) state that the mean is a "*useful measure used to describe the central tendency or average of a distribution of scores for any group of individuals, objects or events*". The mean would be used with ratio level data providing that the sharing of scores fairly accurately describes a normal curve. Therefore, when the data is normally distributed and is at ratio level, the mean is calculated to highlight the importance of the issue.

4.9.1.4 The standard deviation

Another statistical moment calculated is standard deviation. Standard deviation is defined by Blalock (1979: 78) as "*the square root of the arithmetic mean of the* *deviation squared from the mean*". It employs the mathematically acceptable procedures of clearing the sign by squaring deviation and indicates how raw scores deviate, on average, from their means. Therefore, it is the initial step in conducting more advanced statistical analysis (Ferman and Levin, 1975). The aim of the procedure was to generate an indicator to examine the variability of an individual response within a particular distribution. The probability distribution of the standard deviation of the respondents' answers measures how much the outcome can differ above or below the expected outcome of the mean.

4.9.2 Test differences

Test differences are used in order to measure the consensus in perceptions among user groups. Two methods were employed to test the consensus among user groups' perceptions. The next subsection discusses in details the two methods.

4.9.2.1 Mann-Whitney U test

The Mann-Whitney U test is used to identify differences between two populations based on the analysis of two independent samples. This test is utilised where the dependent variable is measured on an ordinal scale and the independent variable comprises two unrelated samples. The Mann-Whitney U test determines the number of times a score from one sample is ranked higher than that from the other sample. For samples greater than 20, the U value is converted to an approximate Z value (Cramer, 1994). According to Levine *et al* (1999), the test is widely used and is a powerful nonparametric procedure for testing differences between the mean of two populations.

4.9.2.2 Kruskal-Wallis H test

The Kruskal-Wallis test is an extension of the Mann-Whitney test and is used to identify differences among three or more populations (Levine *et al*, 1999). This test is utilised where the dependent variable is measured on an ordinal scale, but the independent variable consists of more than two unrelated samples. Again, a ranking procedure is applied and where little difference is found between the mean ranks of each sample, one would not expect the statistics to be significant. For example, this test is used to compare the attitudes and perceptions of respondents from various user groups. This test is also used to test whether the different independent samples under consideration come from the same or matching populations.

4.9.2.3 Chi-square

The chi-square test is employed to measure the degree of association between dichotomous or nominal level variables, and compares the observed frequency of cases with the expected frequencies. However, there are several limitations when using the Chi-square test. The statistic generated is only reliable where one variable has more than two categories, fewer than 20 per cent of cells have an expected frequency of less than five, and there are no cells with an expected frequency of less than one (Cramer, 1994). The survey data appears to satisfy the above criteria and the chi-square test is used to analyse the relationships between variables.

4.9.3 Correlation

Correlation is a test used to explore whether a change in a variable is associated with a change in another variable. Further, a correlation test discovers the direction of the association (positive, negative or non-existent), the strength of the association and whether it is statistically significant. In this study, the correlation technique will be used to test the relationship between the extent of disclosure and company characteristics.

4.9.4 Multiple regression

Multiple regression analysis is defined by Frankfort-Nachmias and Nachmias (1996: 445) as *"a method used when there are several independent variables, each of which may contribute to our ability to predict the dependent variable"*. Hair *et al* (1998: 148) stated that multiple regression analysis can be employed *"to analyse the relationship between a single dependent (criterion) variable and several independent (predictor) variables"*. A number of approaches have been advanced in the literature to examine the relationship between the extent of disclosure and the company characteristics. Gujarati (1995) argued that Ordinary Least Square (OLS) is considered to be the most powerful approach of regression analysis. Thus, in recent studies, the OLS was applied to examine the strength of association (for example, see Ahmed and Nicholls, 1994; Ho and Shun Hong, 2001, Naser and Nuseibeh, 2003). In order to apply the OLS regression in assessing the strength of association between the extent of disclosure and the company characteristics, the literature advanced some transformations involving the dependent and independent variables which are needed. This is because of the fact that the disclosure index and some of the independent variables such as rate of return were expressed as a ratio. The OLS, on the other hand, assumes an unconstrained dependent variable (Hanushek and Jackson, 1977). To overcome this problem, the literature recommended the transformation of the dependent variable logistically, that is taking the logritm of adds ratio (for example, see Hanushek and Jackson, 1977: 185). If the probability of a company disclosing a certain item of information is given *P*, the logarithm of adds ratio is given by

$$Y = \log\left(\frac{p}{1-p}\right)$$

Where Y = transformed total disclosure index TI_x; and *P* = computed total disclosure index for each company.

The following multiple regression equation describes the extent of the linear relationship between the transformation of disclosure index (TI_x) and the transformation of a number of independent variables discussed above.

$$TIx = \beta_0 + \beta_1 \text{ LASSETS} + \beta_2 \text{LSALES}x + \beta_3 \text{MARGIN}x + \beta_4 \text{ RETURN}x + \beta_5 \text{ (MANUFACTURING + FINANCE + SERVICE + CONSTRUCTION)}x + \beta_6 \text{ (AUDITOR1 + AUDITOR2)} x + \beta_7 \text{ (OWNER1 + OWNER2 + OWNER3)} x + \varepsilon x$$

Where : TIx = Transformed disclosure Index (actual score awarded to each company divided by maximum score); LASSETS = natural logarithm (base 10) of total assets; LSALES = natural logarithm (base 10) of total sales; LEMPLOYEE = natural logarithm (base 10) of total employee; MARGIN = profit margin (profit before tax divided by net sales); RETUN = return on equity; manufacturing = manufacturing sector; finance = finance sector; AUDITOR1 = IPCFU; AUDITOR2 = small private bureau; OWNER1= government or its agency ownership, OWNER2 = joint venture between government or its agency and local investor; and OWNER3 = government or its agency and international investor ownership; β^1, β^2, ….., β^8 = parameters of the Model and ε^x = residual error in TI_x for observation for observation x.

4.10 Difficulties

No research can be carried out without difficulties and obstacles. In this respect, the researcher, during the whole process of the study, faced a number of difficulties, some of which were considered routine, while others were very important. These difficulties were:

1) During the data gathering process, the researcher was faced with some restrictions due to the nature of Libyan society. For instance, some companies refused to co-operate and provide annual reports. Hence, the researcher used his personal relations with friends, managers and IPC&FU staff to obtain the required annual reports.
2) It was difficult to find contact information about a number of user groups. This, in turn, cost the researcher extra time, effort and money.
3) In some cases, the researcher had to arrange more than three visits to collect annual reports.
4) Many people in Libya are not as familiar with research as in other societies and some of them do not realise the importance of the research and its impact on their lives.
5) The sample of the study, at both levels, was distributed around the country. The researcher had to spend a great deal of time travelling between cities and towns.

4.11 Conclusion

This chapter has illustrated the theoretical and practical themes involved in research design and outlined the data collection process. The methodological choices facing the researcher have been evaluated and the most appropriate options have been selected. Various problems associated with the survey method have been addressed and consideration has been given to the statistical methods to be employed throughout the data analysis. The next two chapters, 5 and 6, provide an analysis of the data gathered. Chapter 5 reports empirical evidence on the perceptions of target user groups of corporate annual reports published by Libyan companies. Chapter 6 provides empirical evidence on factors that might influence the variation in the quality of corporate reporting in Libya.

Chapter 5

The perceptions of user groups of corporate reports published by Libyan companies

5.1 Introduction

The previous chapter outlined the research methodology. This chapter presents empirical evidence on the perceptions of user groups of corporate annual reports published by Libyan companies. The user groups involved in this study were individual and institutional investors, academics (researchers), government employees, bank credit officers, chief executives and professional accountants. The next subsection describes the personal profile of the study's sample, and then reports the findings of the questionnaire survey.

5.2 The personal profile of target user groups

Users of accounting information vary in their level of education, age, gender, career, etc. Therefore, the user's information needs, attitudes and ability to use and understand the accounting information are also expected to vary. Before presenting the results of the questionnaire survey, it is important to report background information about the respondents. This background information provides an overall impression about the sample of the users of corporate annual reports in Libya. Target user groups were asked a number of questions about their designation, gender, age, qualifications as well as their career in accounting and finance. Table 5.1 provides a summary of sample size, gender, age, level of education as well as accounting and finance career of various user groups.

Table 5. 1: The personal profile of target user groups

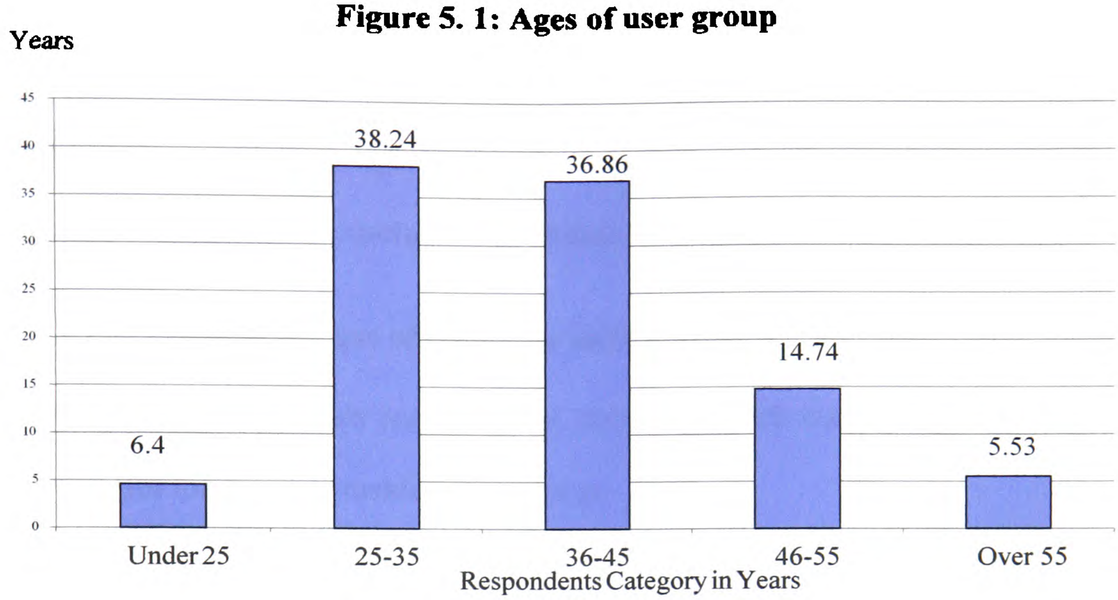
Description/ User Group	Individual Investor	Academics/ Researchers	Government Employee	Institutional Investor	Bank credit officer	Chief Executive	Accountant Professional	All Users
Sample Size								
Count	33	33	40	18	31	34	28	217
Percentage	15.2	15.20	18.43	08.29	14.28	15.66	12.90	100
Gender %								
Male	81.80	84.80	87.50	100	87.10	91.20	82.10	87.10
Female	18.20	15.20	12.50	-	12.90	08.80	17.90	12.90
Age (years) %								
Under 25	06.10	03.00	10.00	11.10	-	02.90	39.30	04.60
25-35	33.30	42.40	50.00	33.30	32.30	32.40	28.60	38.24
36-45	39.40	45.50	32.50	22.20	48.40	35.30	17.90	36.86
46-55	18.20	06.10	05.00	22.20	19.40	20.60	14.30	14.74
Over 55	03.00	03.00	02.50	11.10	-	08.80	-	05.53
Mean[1]	38.25	36.66	34.22	39.27	39.04	40.26	42.45	38.65
Level of Education %								
Not completed high school	03.00	-	10.00	16.70	03.20	-	-	04.10
Completed high school	06.10	-	10.00	05.60	06.50	11.80	03.60	06.45
Completed University Bachelor	66.70	06.10	67.50	55.600	71.00	61.80	75.00	57.60
Completed University Master	18.20	63.60	12.50	11.100	16.10	26.50	17.90	24.42
Completed University Doctor	06.10	30.30	-	11.100	03.20	-	03.60	07.37
Accounting and finance career %								
Not at all	06.10	06.10	05.00	-	-	02.90	-	03.20
Less than one year	18.20	06.10	02.50	16.700	06.50	02.90	03.60	7.37
1 to 6 year(s)	18.20	24.20	45.00	22.200	29.00	11.80	14.30	24.42
7 to 10 years	21.20	18.20	27.50	38.900	29.00	26.50	21.40	25.34
11 to 16 years	09.10	36.40	12.50	05.600	16.10	20.60	17.90	17.51
More than 16 years	27.30	09.10	07.50	16.700	19.40	32.40	42.90	21.65

[1] Minimum age calculated as eighteen and maximum as sixty five years old.

In the questionnaire survey, the first question deals with the designation of the respondents, the second question covers their gender, the third question focuses on age, and the fourth question considers general information about their career in accounting and finance. In order to identify the user groups, respondents were asked to classify their category as users of corporate annual reports. As can be seen from the results presented in Table 5.1, the sample size was 217 respondents. All the user groups were well represented. The results presented in Table 5.1 indicated that the vast majority of the respondents were male, with only just 12.9 per cent of the respondents being female. All the user groups included male and female respondents except for the institutional investors' user groups which were all male.

With regard to age, respondents were asked to select one of five age groups. The results are reported in Figure 5.1. Figure 5.1 illustrates that the vast majority of respondents were between 25 and 45 years old, with an average age of nearly 39 years old. The mean value reported in Table 5.1 shows that the professional accountant and chief executive user groups were the oldest in the target user group sample. However, this result was expected because chief executives and accounting professional user groups are senior financial officers whose positions require significant experience. On the other hand, government employees were the youngest in the target user group sample.

Figure 5. 1: Ages of user group



In addition, the outcome of the survey, as reported in Table 5.1, showed that the respondents in the sample as a whole can be considered well educated, with 57.6 per cent holding a Bachelor degree, 24.42 per cent a Master's degree, and 7.37 per cent a Doctorate degree. In contrast, only 10.55 per cent of the respondents were without a Bachelor degree qualification or higher. Based on the survey reported in Table 5.1, the following conclusions can be drawn about the personal profile of the seven user groups of corporate annual reports involved in this study.

The sample size of the research study contained a variety of corporate annual reports user groups. These user groups have different purposes for using corporate annual reports. The majority of the respondents in the sample studied can be considered well educated. The vast majority, 97 per cent, of the respondents overall have experience in accounting and finance. Accountant professional user groups were the most educated group, followed by bank credit officers. These distinctive features suggest that the respondents are different in characters and should be treated separately when analysing the response. The background information also suggests that all groups possess personal characteristics, which may enhance their insight into the corporate reporting in Libya and their perceptions toward the usefulness of annual reports.

5.3 The extent of the use of corporate annual reports

The working hypothesis regarding the extent to which corporate annual reports are useful for decision-making purposes is:

(H_1): There is no difference among user groups on their frequency of corporate annual reports usage.

In order to test this hypothesis, respondents were asked three questions. **Firstly,** respondents were asked to indicate the extent to which they used the report for informative decisions. The questions (on a 5-point scale which score 1 for never use, score 2 for seldom use, score 3 for sometimes use, score 4 for usually use, and score 5 for always use) measured the extent to which each user group used corporate annual reports.

Based on a 5 point scale, scores 4 and 5 (usually use and always use) are considered to be great extent of use, score 3 (sometimes use) as a moderate extent of use, and score 2 (seldom use) as a slight extent of use. Table 5.2 summarizes the extent of use of corporate annual reports by various target user groups in Libya. The result presented in Table 5.2 reveals that most of the target user groups regularly use corporate annual reports for decision-making purposes. The overall respondents, 65.89 per cent, indicated that they use corporate annual reports to a great extent. Meanwhile, only 3.68 per cent of the users who took part in the survey indicated that they do not use corporate annual reports for decision-making purposes. The findings also revealed that the chief executives user group used the corporate reports more frequently than other users. More than two thirds, 73.6 per cent, of respondents in this group indicated that they utilised the corporate report to a great extent.

The individual investors and bank credit officer user groups were the two user groups who least use corporate reports. This finding might be attributed to their low levels of accounting and finance experience, or, lack of time or their usage of other corporate information sources.

Table 5. 2: The extent of the use of corporate annual reports by various user groups in Libya %

Level of Usage	Individual Investors	Academic Researcher	Government Employee	Institutional Investor	Bank Credit Officer	Chief Executive	Accounting Professional	Overall User
Never	03.00	06.10	10.00	00.00	00.00	2.90	00.00	03.68
Seldom	21.20	18.20	20.00	16.70	6.50	8.80	00.00	13.36
sometimes	24.20	15.20	17.50	11.10	27.60	14.70	10.70	17.05
Usually	45.50	33.30	37.50	44.40	58.10	41.20	60.70	45.16
Always	06.10	27.30	15.00	27.80	12.90	32.40	28.60	20.73
Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.0
Pearson Chi-square Test	160.435 (p = .000)*							

*Scale 1 = never use, score 5 = always use and *p < 0.001.*

The Pearson Chi-square test was calculated for overall user groups of corporate annual reports. The result of the Pearson Chi-square test presented in the Table 5.2 reported a statistically significant difference at the 1 per cent for all five levels of the frequency tested. Therefore, there is a significant difference among user groups regarding the level of the extent of use of corporate annual reports.

Secondly, the extent to which corporate reports are used have been measured by the number of corporate reports that users read or analyse, and the time users spend on reading or analysing these reports. The respondents were asked to indicate the average number of corporate reports they read or analyse annually. The results are summarised in Table 5.3. The results in Table 5.3 show that about 30.87 per cent of the respondents indicated that they read fewer than 5 reports, 29.49 per cent read between 6 to 10 reports, 14.74 per cent read between 11 to 15 reports, 10.13 per cent read more than 30 reports, and 19.81 per cent read between 16 to 30 reports. Less than a half a per cent of the respondents indicated that they did not read the reports at all.

Table 5. 3: Number of corporate annual reports read or analysed annually %

Variables	Individual Investors	Academics Researchers	Government Employee	Institutional Investor	Bank Credit Officer	Chief Executive	Accounting Professional	Overall Users
Not at all	00.00	00.00	02.50	00.00	00.00	00.00	00.00	00.46
5 or less	45.50	48.90	37.50	33.30	16.10	14.70	17.90	30.87
6 to 10	30.30	27.30	25.00	33.30	35.50	26.50	32.10	29.49
11 to 15	21.20	06.10	10.00	11.10	25.80	41.20	21.40	14.74
16 to 30	00.00	21.20	12.50	05.60	09.70	11.80	10.70	19.81
More than 30	03.00	06.10	12.50	16.70	12.90	05.90	17.90	10.13
Total	100.00	100.0	100.0	100.0	100.0	100.0	100.0	100.00

It can be concluded that the vast majority of the respondents revealed that they did read annual reports. Further, academics (researchers) and individual investors were found to be the group who least used corporate annual reports in terms of the number of reports they read yearly. It was found that up to 48 and 45 per cent respectively of these users read less than 5 reports annually. On the other hand, the chief executive user group was found to be the group who used corporate reports most frequently in terms of the number of reports they read yearly. The respondents were also asked to indicate the time they spend reading or analysing each corporate report annually. The results are summarised in Table 5.4. It is evident from the result presented in Table 5.4 that the user groups in Libya spend significantly different amounts of time reading or analysing corporate reports. The vast majority of them spend from 61 to 90 minutes annually reading or analysing annual reports. In contrast less than half a per cent of the respondents did not spend any time reading or analysing the information contained in annual reports.

The individual investors were found to be one of the user groups to use corporate annual reports the least (see Table 5.2). The academics (researchers) user group was found to be the group of users who spend a slightly longer time reading or analysing the information disclosed in corporate reports. About 39.4 per cent of the respondents of these user groups were found to be spending from 91 to 120 minutes annually.

In contrast, 18.2 per cent of these user groups were spending less than 30 minutes. None of these users indicated also that they did not spend any time at all. These results can be attributed to the fact that the academics (researchers) use corporate reports for teaching and research purposes and these usages require a different time. In addition, academics (researchers) variable in this study is effectively two variables in one. Therefore, it might be the academic researchers spend more time using data than the academic teacher.

Likewise, Table 5.4 clearly shows that the professional accountant user groups were found to be the group of users who spend more time reading or analysing the reports than average. About 32.1 per cent of these users who took part were found to spend from 91 to 120 minutes annually with 17.9 per cent spending more than 120 minutes. Meanwhile, only 3.6 per cent were found to spend less than 30 minute(s). Other user groups such as chief executives, institutional investors, and individual investors were found to be the groups of users who spend less than the overall average. The bank credit officer user group was found to spend less time reading or analysing information disclosed in corporate reports compared with other user groups.

Table 5. 4: Time spent on read or analysis corporate annual reports annually %

Variables / minutes	Individual Investors	Academic/ researcher	Government Employee	Institutional Investor	Bank Credit Officer	Chief Executive	Accounting Professional	Overall Users
Not at all	00.00	00.00	02.50	00.00	00.00	00.00	00.00	0.46
Less 30	09.10	18.20	17.50	00.00	16.10	08.80	03.60	11.52
31 to 60	30.30	24.20	22.50	16.70	35.50	29.40	07.90	25.82
61 to 90	33.30	15.20	27.50	33.30	25.80	41.20	28.60	29.03
91 to 120	18.20	39.40	12.50	27.80	09.70	08.80	32.10	20.27
More than 120	09.10	03.00	17.50	22.20	12.90	11.80	17.90	12.90
Total	100.0	100.00	100.0	100.00	100.00	100.00	100.00	100.00

The above results reveal that significant differences were found to exist between the seven user groups in terms of the time they spend reading or analysing corporate annual reports and the average number of reports they read yearly. Such differences are likely to reflect the extent of users' interests in company affairs and positions. With an increased interest, users are more likely to spend more time on reading or analysing of corporate reports and they tend to use a greater number of reports in order to evaluate the positions and affairs of different companies. The overall conclusion from these two research questions shows that corporate annual reports are generally used to a greater extent by certain user groups in terms of the time spent and number of reports read or analysed.

Finally, questions have been asked for ascertain for what purpose the corporate annual reports are used. In the earliest studies on corporate reporting, it was argued that the sole purpose of the information contained in corporate reports was to estimate the forthcoming annual results (Green, 1964). Recently, this view has no longer been accepted. Lambert *et al.* (1991) for example, argue that the purpose of preparing corporate reports goes beyond forecasting forthcoming annual profits. Corporate reports are also utilised among other corporate information to predict results beyond the current period and to provide feedback information concerning financial performance for comparison with earlier expectations.

Therefore, respondents were asked to indicate the purposes for which they use information provided in the current corporate reports published by Libyan companies, in past, present and future performance assessments. Table 5.5 shows the median and the mode and the Kruskal-Wallis H test for participants' perception towards the usage of corporate annual reports and lists the three types of information that could be contained and reveals the research study's findings.

Table 5. 5: Participants' perception toward the use of corporate annual reports

Assessment	Individual investor		Academic/ Researcher		Government Employee		Institutional Investor		Bank Credit Officer		Chief Executive		Accountant Professional		Overall Users		Kruskal-Wallis H
	Med	Mod	Med	Mod	Med	Mod	Med	Mod	Med	Mod	Med	Mod	Med	Mod	Med	Mod	
Past performance assessment	2	2	2	3	2	2	3	3	2	1	2	1	2	2	2	2	0.060*
Current performance assessment	1a	2	2	2	2	2	2	2a	2	2	2	1	2	2	2	2	0.363
Future performance assessment	2	2	3	3	2	1a	3	3	3	4	2	1	2	2	2	3	0.128

*Where Med = median value, mod = mode value, scale 1= never use, 5= always use, a = multiple modes exists, the smallest is shown and *p < .001.*

As can be seen from Table 5.5 users were looking primarily for information relating to the present positions and secondly information related to the past and future positions. The closeness of the median and the mode reported support their usage for informed decision-making. The results of the Kruskal-Wallis H test, presented in Table 5.5, revealed statistically significant differences among user groups for using annual reports for past performance assessments.

The conclusion of the section is that the investigations of the usage of corporate annual reports in Libya reveal that corporate annual reports are commonly used by their users to make informed decisions with different levels of frequency. The null hypothesis is accepted. Thus, there is a difference among user groups on their frequency of corporate annual reports usages. In addition, this finding is supported by the reported result of the Pearson Chi-square test (see Tables 5.2 -5.4) and the Kruskal-Wallis H test (see Table 5.5).

5.4 The importance of corporate information sources

One of the main objectives of this research study is to measure the importance of different corporate information sources in Libya. More specifically, this research is concerned with the status of corporate annual reports among other corporate information sources. To address this aim, the working hypothesis regarding the importance of corporate information sources is:

(H_1): **There is no difference among user groups regarding the importance they attach to corporate information sources.**

In order to test the hypothesis, various user groups of the questionnaire were asked to rank the importance of corporate information sources for informative decision-making. The corporate information sources selected were:

- Corporate annual report;
- Financial analyst's advice;
- Business magazines and newspapers;
- Company visit and communication with the managers and
- Discussion with friends.

The various target user groups were asked to determine the importance of each informative source on 5 point-scales where score 1 means not important at all, score 2 means not important, score 3 means moderate, score 4 means important, and score 5 means very important. Tables 5.6 to 5.13 present the median and mode of respondents pertaining to the importance of different corporate information sources.

5.4.1 Individual investors

Table 5.6 shows the importance that individual investors attached to different sources of corporate information. The results presented in Table 5.6 show that the corporate annual reports and financial analyst's advice, as sources of corporative information, were considered by the individual investors as being the most important sources of information. The highest median and mode scores of this variable indicated that the individual investor group rated corporate annual reports and financial analyst's advice as corporative information as very important. About

48.5 per cent of this user group indicated the corporate annual report is very important.

Table 5. 6: Source of corporate information for individual investors

Variable	Not important at all	Not important	Moderately important	Important	Very important	Median	Mode
Corporate annual report	3.0	-	9.1	39.4	48.5	4	5
Financial analyst's advice	-	24.2	9.1	30.3	36.4	4	5
Business magazine and newspapers	6.1	21.2	27.3	18.2	27.3	3	3
Visits and communication with managers	9.1	6.1	18.2	42.4	24.2	4	4
Discussion with friends	6.1	12.1	18.2	51.5	12.1	4	4

Sample 33, Score 1= not important at all, 5 = very important

Meanwhile, business magazines and newspapers as a source of corporative information is the least important compared with the other sources. While this result is consistent with the previous findings that the corporate annual report is the most important corporate information source for shareholders, it is inconsistent with the other studies. For instance, the empirical research study conducted by Mirshekary and Saudagaran, (2005) in Iran, reported that the corporate annual report was the most important source.

Epstein and Anderson (1995) reported that shareholders in Australia relied more heavily on the advice of their stockbroker and financial newspapers and magazines than on the annual report for making investment decisions. In general, users of corporate annual reports in developing countries relied more heavily on corporate annual reports as a source of information because there is no alternative source of information. This result is expected in Libya, due to the fact that Libya is in the process of liberalising the economy and the media is still under state control. Further, most of the magazines and newspaper published in the country are general and there are no specialist business magazines and newspapers.

5.4.2 Academics (researchers)

In general, academics (researchers) use corporate information mainly for research and teaching purposes. Table 5.7 shows the importance academic (researchers) attached to different sources of corporate information. The results presented in Table 5.7 indicate that the vast majority of the academics (researchers) who responded to the questionnaire survey attached high degrees of importance to corporate annual reports.

Table 5. 7: Source of corporate information for academics (researchers)

Variable	Not important at all	Not important	Moderately important	Important	Very important	Median	Mode
Corporate annual report	-	6.1	9.1	24.2	60.6	5	5
Financial analyst's advice	-	3.0	12.1	30.3	45.5	5	5
Business magazines and newspapers	-	9.1	30.3	30.3	30.3	4	3
Visits and communicatio n with managers	-	15.2	27.2	21.2	36.4	4	5
Discussion with friends	3.0	9.1	24.2	42.4	21.4	4	5

Sample 33, Score 1= not important at all, 5 = very important

The financial analyst's advice was found to be the second most important information source for academics (researchers). Table 5.7 also reveals that there is a high degree of consistency among the participants as far as the importance of financial analyst's advice and corporate annual reports as the main sources of information is concerned. Business magazines and newspapers were reported to be the third most important source by academics (researchers). These results are confirmed by the close median and mode scores.

5.4.3 Government employees

Various corporate information sources about a company were put before government representatives, who were asked to indicate these sources in terms of importance. Table 5.8 summarises their responses. It is evident from the findings presented in the Table 5.8 that government representatives attach a high degree of importance to the corporate annual reports.

Table 5. 8: Source of corporate information for government employees

Variable	Not important at all	Not Important	Moderately important	Important	Very important	Median	Mode
Corporate annual report	-	-	-	42.5	57.5	5	5
Financial analyst's advice	5.0	5.0	15.0	47.5	27.5	4	4
Business magazines and newspapers	10.0	2.5	37.5	35.5	15.0	3.5	3
Visits and communication with managers	-	10.0	27.5	40.0	40.0	4	4
Discussion with friends	10.0	5.0	35.0	40.0	10.0	3.5	4

Sample 40, Score 1 = not important at all, 5 = very important

The financial analyst's advice and visits and communication with managers were considered the second and the third most important respectively. Discussion with friends as a corporative information source was reported as being the least important. The high score of the median mode shows a high degree of consistency among the participants regarding the importance of these corporate information sources.

5.4.4 Institutional investor

Institutional investors are viewed as an important user of corporate information. Therefore, a number of fund managers were asked to indicate the importance they attached to various sources of corporate information for informed decision purposes. Table 5.9 presents the results of this user group. It is clear from the results presented in Table 5.9 that institutional investors in Libya use the corporate annual report and a financial analyst's advice when making decisions about a particular company. More than two thirds of this user group rated the corporate annual reports as the most important source of information to make informed decisions.

Table 5. 9: Source of corporate information for institutional investor

Variable	Not important at all	Not important	Moderately important	Important	Very important	Median	Mode
Corporate annual report	-	-	11.1	16.7	72.2	5	5
Financial analyst's advice	-	-	5.6	55.6	38.9	4	4
Business magazines and newspapers	5.6	16.7	38.9	33.3	5.6	3	3
Visits and communication with managers	11.1	11.1	27.8	33.3	16.7	3.5	4
Discussion with friends	16.7	11.1	27.8	27.8	16.7	3	3

Sample 18; Scale: 1 = not important at all, 5 = very important

The second most important source was the financial analyst's advice. The median and mode scored for this source was 4. The third most important source of information used by institutional investors in Libya to make informed decisions was visits and communication with managers. Business magazines and newspapers and discussion with friends were stated as being the least important sources. Both sources scored the same median. Hence, the mode was the same. This result was expected because the vast majority of these banks and institutions' funds were state owned. Discussion with friends as an information source relied on the degree of trust.

5.4.5 Bank credit officer

Another important user group of corporate information is the bank credit officer. Table 5.10 summarises the results of this user group about the importance they attach to corporative information when making informative decisions. Bank credit officers indicated that the corporate annual report was the most important corporate information source for their decision-making.

Table 5. 10: Source of corporate information for bank credit officers

Variable	Not important at all	Not important	Moderately important	Important	Very important	Median	Mode
Corporate annual report	3.2	3.2	-	29.0	64.5	5	5
Financial analyst's advice	-	3.2	19.4	38.7	38.7	4	4
Business magazines and newspapers	3.2	6.5	54.8	25.8	9.7	3	3
Visits and communication with managers	3.2	3.2	25.8	41.9	25.8	4	4
Discussion with friends	-	12.9	41.9	29.0	16.1	3	3

Sample 31; Scale: 1= not important at all, 5 = very important

The second most important information source was considered to be the financial analyst's advice. About 39 per cent of bank credit officers who responded to the questionnaire survey selected financial analyst's advice as the second most important source of information upon which to make informed decisions. Visits and communication with managers, discussion with friends and business magazines and newspapers were ranked third, fourth and fifth respectively. Interestingly, the bank credit officer user group indicated that discussion with friends was the fourth most important information source among the five listed corporate sources. This result might be attributed to the fact that the bank credit officers share information when making decisions about their clients.

5.4.6 Chief executive

Chief executives represent another important user group of corporate information. This user group uses corporate information for informative decision-making. A group of chief executives were asked to specify the importance attached to different sources of corporative information. The outcome of this analysis is presented in Table 5.11. It is clearly evident from the results presented in Table 5.11 that chief executives turn first to corporate annual reports and the financial analyst's advice when making decisions about dealing with a particular company.

Table 5. 11: Source of corporate information for chief executives

Variable	Not important at all	Not important	Moderately important	Important	Very important	Median	Mode
Corporate annual report	5.9	-	5.9	29.4	58.8	5	5
Financial analyst's advice	-	5.9	11.8	55.9	26.5	4	4
Business magazines and newspapers	11.8	8.8	47.1	26.5	5.9	3	3
Visits and communication with managers	8.8	5.9	8.8	50.0	26.5	4	4
Discussion with friends	14.7	14.7	41.2	23.5	5.9	3	3

Sample 34; Scale: 1 = not important at all, 5 = very important

The results presented in Table 5.11 revealed that the chief executives user group rated the financial analyst's advice and visits and communication with managers as the second most important source of information. Both of these information sources scored median and mode 4. About one third of this user group indicated that the financial analyst's advice and visits and communication with managers are the second most important source of information upon which to make informed decisions. By contrast, business magazines and newspapers and discussion with friends are considered to be the least most important information source upon which to make an informed decision. The results reported in this question could be attributed to one of the following reasons; first, the chief executives occupying key positions in Libyan corporations are all government appointees and have not been selected by company stockholders and, second, the vast majority of the corporation are state owned.

5.4.7 Accounting professionals

Table 5.12 shows the importance that accounting professionals attached to the list of corporate information sources used in the research study. The results shown in Table 5.12 clearly show that the vast majority of professional accountants who completed the questionnaire survey seek the financial analyst's advice when making informative decisions about a company. The high score of the median on the one hand and the selection of the financial analyst's advice as the main source of information upon which to make informed decision by the respondents on the other hand show a high agreement among the professional accountants user group. The second most important source of information for this user group was visits and communication with managers.

Table 5. 12: Source of corporate information for accounting professionals

Variable	Not important at all	Not important	Moderately important	Important	Very important	Median	Mode
Corporate annual report	-	7.1	-	42.9	50.0	4.5	3
Financial analyst's advice	-	-	3.6	35.7	60.7	5	5
Business magazines and newspapers	14.3	10.7	42.9	28.6	3.6	3	3
Visits and communication with managers	7.1	7.1	21.4	39.3	25.0	4	4
Discussion with friends	17.9	3.6	35.7	21.4	21.4	3	3

Sample 28; Scale: 1= not important at all, 5 = very important

The results presented in Table 5.12 further reveal that the corporate annual report is considered to be the third most important source of information for the accounting professional's user group. In contrast, business magazines and newspapers were selected as the lowest most important source of information. Only 3.3 per cent of this user group selected business magazines and newspapers as a source of information upon which to make informed decisions. The results reported in this user group could be attributed to the fact that accounting professionals rely on analysis extracted from the reports. In addition, this user group are professional, well educated and have experience of accounting and finance.

5.4.8 Overall user group

Table 5.13 summarises the importance that overall user groups attach to the various corporate sources, used in this study. It is clear from the results presented in the Table 5.13 that the vast majority of respondents who took part in the survey questionnaire either use direct information from the company or consulted intermediary sources of corporate information in order to make informative decisions.

Table 5. 13: Overall user groups

Variable	Not important at all	Not important	Moderately important	Important	Very important	Median	Mode
Corporate annual report	1.8	2.3	4.6	33.2	58.1	5	5
Financial analyst's advice	0.9	6.5	11.5	41.5	39.5	4	4
Business magazines and newspapers	7.4	10.1	39.6	28.1	14.7	3	3
Visits and communication with managers	5.1	8.3	22.1	38.7	25.8	4	4
Discussion with friends	9.2	9.7	32.3	34.6	14.3	3	4

The corporate annual report was considered as being the main source of information. The second most important source of information was considered to be a financial analyst's advice. The third most important source of information was considered to be visits to companies and communication with management. This means that users groups of corporate annual reports in Libya depend mainly on companies to provide necessary information for their informative decisions, either through the published corporate annual reports, or by seeking financial advice or through contacts and communication with management.

Discussions with colleagues and newspapers, business magazines and journals as sources of information for informative decision-making purposes were considered to be the least important sources respectively. This might be due to the fact that in Libya, being a newly liberalised developing country, there is a lack of published information. The absence of a stock market contributes further to this limitation. The outcome of the study is consistent with other studies conducted in both developed and developing countries. For instance, Anderson (1981) reported that institutional investors in Australia relied mostly on annual reports when making their investment decisions, followed by visits to companies. On the other hand, an empirical research study such as undertaken in the USA by Baker and Haslem (1973) documented that the majority of the individual investors rely on stockbroker advice as their main source of information.

5.5 Analysis of the level of consensus between various user groups regarding the importance they attach to different corporate information sources

In the previous section, the importance attached to possible corporate information sources that various target user groups use for informative decisions making was investigated. However, it is important to examine whether or not there is a difference of views among various user groups regarding the importance of possible corporate information sources. The degree of importance that various user groups attach to corporate information sources was investigated by gathering their views. The investigation was on a 5-point scale with score 1 meaning not important at all, score 2 meaning not important, score 3 meaning moderately important, score 4 meaning important, and score 5 meaning very important. The findings of the two tests are presented in Table 5.14.

Table 5. 14: Differences between pairs or overall various user groups and the importance attached to sources of corporate information

Variable	1-2	1-3	1-4	1-5	1-6	1-7	2-3	2-4	2-5	2-6	2-7
	U	U	U	U	U	U	U	U	U	U	U
Corporate annual report	0.484	0.240	0.151	0.199	0.484	0.797	0.779	0.402	0.633	0.954	0.626
Financial analyst's advice	0.049	0.944	0.197	0.354	0.669	0.009**	0.026*	0.572	0.216	0.054	0.421
Magazines and journals and newspapers	0.176	0.845	0.535	0.817	0.307	0.215	0.169	0.039*	0.040*	0.006**	0.004**
Visits and communication with manager	0.775	0.935	0.294	0.734	0.570	0.976	0.795	0.233	0.883	0.865	0.781
Discussion with friends corporative	0.543	0.409	0.346	0.581	0.016*	0.416	0.164	0.169	0.266	0.004**	0.196

Table Continuing	3-4	3-5	3-6	3-7	4-5	4-6	4-7	5-6	5-7	6-7	All
	U	U	U	U	U	U	U	U	U	U	H
Corporate annual report	0.476	0.719	0.755	0.399	0.660	0.379	0.207	0.573	0.305	0.656	0.737
Financial analyst's advice	0.127	0.366	0.679	0.002**	0.499	0.200	0.160	0.589	0.037*	0.004**	0.016*
Magazines and journals and newspapers	0.305	0.389	0.105	0.075*	0.679	0.752	0.585	0.393	0.276	0.781	0.059*
Visits and communication with manager	0.261	0.616	0.469	0.974	0.158	0.128	0.320	0.790	0.707	0.568	0.834
Discussion with friends corporative	0.660	0.893	0.064*	0.805	0.524	0.419	0.843	0.052*	0.669	0.239	0.114

*Where, 1= individual investor; 2 = academics (researchers), 3 = government employee, 4 = institutional investor, 5 = bank credit officer, 6 = chief executive, 7 = accountant professional user groups, U = Mann-Whitney Test, H = Kruskal-Wallis Test and *p <.05. And **p <.001.*

Table 5.14 shows that two different statistical tests were used to test the consensus between various user groups. While the Mann-Whitney U test was used to test whether or not there was a difference in the views between two user groups, the Kruskal-Wallis H test was used to test whether or not there was a difference in the views among overall user groups. Table 5.14 shows there was significant disagreement between all pairs of groups on the importance that they attach to various sources of corporate information. Thus, the null hypothesis could not be rejected for three sources of corporate information. There is a difference in view among various user groups concerning the importance of corporate information sources.

Table 5.14 further reveals that there is a high degree of consensus that the corporate annual reports and visits and communication with the mangers are the main corporate information sources. The analysis indicates that the user groups questioned relied mainly on information made directly available by the company in order to make informative decisions. Business magazines, journals and newspapers are not used as credible sources of corporate information.

5.6 The useful characteristics of corporate information sources

The previous section has illustrated that the various user groups involved in the study in Libya perceived some sources of information to be more important than others. However, it is important to investigate how the various target user groups perceive the importance of criteria that might affect the quality of corporate information sources. The working hypothesis is:

(H_1): There is no a difference view among user groups in the importance attached to a variety of characteristics that might affect the useful corporate information.

To investigate how different user groups of corporate information sources perceived the importance of different sets of criteria that affect the quality of corporate information sources, the various target user groups were asked to indicate the importance of a set of characteristics concerning quality of the corporate information sources. The selected characteristics are:

- Credibility of the source;
- Timeliness of the information;
- Neutrality of the source;
- Independent verification;
- Accessibility of the source;
- Presence of specific information and
- Simplicity.

Like the previous sections that dealt with corporate information sources, the target user groups were asked to select the importance of each characteristic using a five point Likert scale. The five point Likert scale classified 1 as means not important at all, 2 not important, 3 moderately important, 4 important and 5 means very important. The results of the analysis are reported in Tables 5.15 to 5.21.

5.6.1 Individual investor

Table 5. 15: Useful criteria of corporate information for individual investor

Variable	Not important at all	Not important	Moderately important	Important	Very important	Median	Mode
Credibility	-	03.00	15.20	21.20	60.60	5	5
Timeliness	03.00	03.00	12.10	30.30	51.50	5	5
Neutrality	03.00	03.00	12.10	36.40	45.50	4	5
Independent	-	06.10	18.20	36.40	39.40	4	5
Accessibility	-	06.10	06.10	48.50	39.40	4	4
Presence of specific information	-	-	12.10	54.50	33.30	4	4
Simplicity	-	06.10	21.20	48.50	24.20	4	4

Scale 1 = not important at all, 5 = very important

It is clear from the results reported in Table 5.15 that individual investors in Libya believed that the most important criteria of useful corporate information is the credibility of the information. More than 60 per cent of the individual investors selected credibility of the information as being the most important criteria for useful information. The second most important was timeliness followed by either the presence of specific information or accessibility of the corporative resources. Independent verification and the simplicity of the information were reported as being the least important for useful criteria that impact the corporate information.

5.6.2 Academics (researchers)

Table 5.16 outlines the useful criteria of corporate information for academics (researchers). The results presented in Table 5.16 indicate that academics (researchers) who took part in this research study, believed that the credibility and timeliness of the information is the most important feature that might impact on the quality of information sources. Both simplicity and the independency of the information were ranked as being the second most important features.

Table 5. 16: Useful criteria of corporate information for academics (researchers)

Variable	Not important at all	Not important	Moderately important	Important	Very important	Median	Mode
Credibility	-	-	12.10	24.20	63.60	5	5
Timeliness	-	-	09.10	27.30	63.60	5	5
Neutrality	-	-	15.20	27.30	57.60	5	5
Independent	03.00	-	18.20	27.30	51.50	5	5
Accessibility	06.10	-	15.20	30.30	45.50	4	5
Simplicity	-	-	12.10	48.50	39.40	4	4
Presence of specific information	-	06.10	09.10	48.50	36.40	4	4

The presence of specific and accessible corporate information was ranked the least important characteristic in the list provided in this study which could impact on the quality of the information sources. One explanation is that the academic (researcher) user group use corporate information for teaching or research purposes and the credibility and timeliness of the information is very important.

5.6.3 Government employee

Table 5. 17: Useful criteria of corporate information for government employees

Variable	Not important at all	Not important	Moderately important	Important	Very important	Median	Mode
Credibility	-	-	07.50	20.00	72.50	5	5
Timeliness	-	-	02.50	27.50	70.00	5	5
Independent	-	-	15.00	30.00	55.00	5	5
Presence of specific information	-	02.50	05.00	37.50	55.00	5	5
Neutrality	-	02.50	15.00	30.00	52.50	5	5
Simplicity	-	-	12.50	50.00	37.50	4	4
Accessibility	-	02.50	20.00	42.50	35.00	4	4

Like the preceding users of corporate information, government employees believe that the timeliness, credibility, neutrality and presence of specific information are the most important criteria that could impact on the quality of the information. The high scores of the median and the mode reported by respondents reflected the importance that government employees attach to various features of good corporative information sources.

The lowest median and mode reported were meanwhile attached to the simplicity of the understanding and accessibility of the information sources. These results could be explained by the fact that government employees in Libya can obtain any information they request from any particular company. The close median and mode reported imply a high degree of consistency among government employees who responded to the questionnaire survey.

5.6.4 Institutional investors

Table 5. 18: Useful criteria of corporate information for institutional investor

Variable	Not important at all	Not important	Moderately important	Important	Very important	Median	Mode
Timeliness	-	-	-	22.20	77.80	5	5
Credibility	-	-	05.60	22.20	72.20	5	5
Neutrality	-	-	-	33.30	66.70	5	5
Presence of specific information		-	-	33.30	66.70	5	5
Independent	05.60	05.60	05.60	22.20	61.10	5	5
Simplicity	05.60	-	16.70	27.80	50.00	4.5	5
Accessibility	-	-	-	55.60	44.40	4	4

Scale 1 = not important at all, 5 = very important

It is evident from the Table 5.18 that institutional investors agreed with almost all features listed in the questionnaire. The respondents indicate that for corporate information to be of high quality and, therefore, to be useful in informative decision making, it should be timely, credible, neutral and should contain specific information. In addition, it should be easy to obtain and independent information as supported by the reported median and the mode. The closeness of median and mode results show a high degree of agreement among the respondents about the criteria of corporate information that they consider important. The bank credit officers who took part in this study believe that the most important characteristics of useful information of corporate information are credibility, followed by the timeliness and the presence of specific information features respectively.

5.6.5 Bank credit officers

Table 5. 19: Useful criteria of corporate information for bank credit officers

Variable	Not important at all	Not important	Moderately important	Important	Very important	Median	Mode
Credibility	-	06.50	06.50	16.10	71.00	5	5
Timeliness	03.20	03.20	06.50	16.10	71.00	5	5
Presence of specific information	-	06.50	03.20	35.50	54.80	5	5
Simplicity	-	-	12.90	64.50	22.60	4	4
Neutrality	-	06.50	12.90	51.60	29.00	4	4
Accessibility	-	03.20	19.40	45.20	32.30	4	4
Independent	03.20	06.50	16.10	45.20	29.00	4	4

Scale 1 = not important al, 5 = very important

This result is consistent with the findings of Al-Hussein (2001) in Kuwait. Accessibility and neutrality features are not viewed as being highly important. This fact is reflected by the median and mode. There was a high degree of agreement among bank credit officer regarding the important characteristics of useful corporate information as illustrated by the mode figures.

5.6.6 Chief executives

Table 5. 20: Useful criteria of corporate information for chief executives

Variable	Not important at all	Not important	Moderately important	Important	Very important	Median	Mode
Credibility	-	02.90	05.90	14.70	76.50	5	5
Simplicity	-	02.90	08.80	23.50	64.70	5	5
Neutrality	-	02.90	05.90	29.40	61.80	5	5
Timeliness	02.90	05.90	08.80	23.50	58.80	5	5
Independent	-	05.90	08.80	35.30	50.00	4.5	5
Accessibility	02.90	02.90	20.60	29.40	44.10	4	5
Presence of specific information	-	05.90	08.80	44.10	41.20	4	4

Scale 1 = not important at all, 5 = very important

Chief executives (Table 5.20) like previous user groups also believe that credibility is the most important characteristic of good quality corporate information followed by both neutrality and simplicity of the resource. The reported median reflects the importance that chief executives attach to various characteristics of good quality reporting. Further, a high degree of agreement among chief executives is evident from the closeness of the median and the mode.

5.6.7 Accountant Professional

Table 5.21 summarizes the result of useful criteria of corporate information for accountant professional. The median and mode results reported in Table 5.20 illustrate that timeliness and credibility of information were perceived to be the most important criteria for professional accountants who responded to the questionnaire in this study.

Table 5. 21: Useful criteria of corporate information for accountant professional

Variable	Not important at all	Not important	Moderately important	Important	Very important	Median	Mode
Timeliness	03.6	-	-	14.30	82.10	5	5
Credibility	-	-	-	28.60	71.40	5	5
Independent	-	-	10.70	28.60	60.70	5	5
Presence of specific information	03.60	-	-	35.70	60.70	5	5
Neutrality	03.60	-	03.60	35.70	57.10	5	5
Accessibility	-	-	14.30	42.90	42.90	4	4
Simplicity		-	07.10	53.60	39.30	4	4

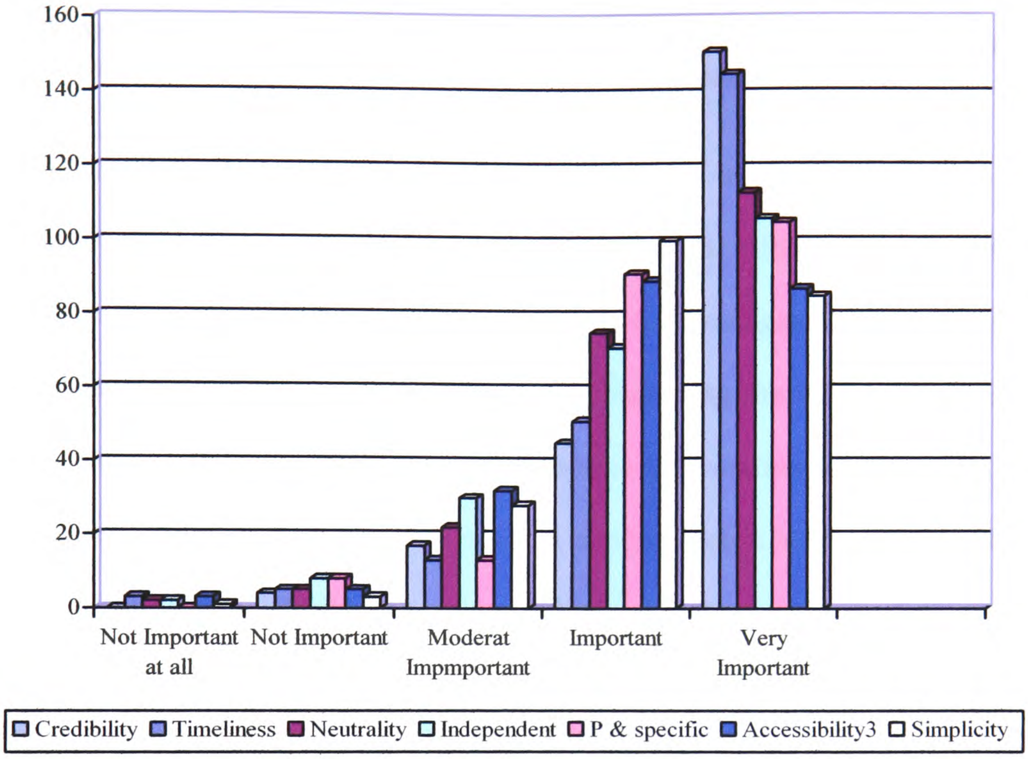
Scale 1 = not important at all, 5 = very important

More than 80 per cent of the respondents selected the timeliness of the information as being the most important criteria that impacts the quality of the information. In addition, the reported mode of selection indicated that the different respondents of this group are more consistent in their rating of these two aforementioned features than they are of the other criteria.

5.6.8 Overall user groups

Chart 5.2 shows the importance attached by various user groups to different characteristics of useful corporate information. It is evident from the Figure 5.2 that the various target user groups in Libya rated all listed features of useful corporate information as being important and very important. Furthermore, the results reveal that at 69.6 per cent credibility of the information is the most important criteria, followed by timeliness of the information at 66.8 per cent.

Figure 5. 2: Overall user groups rating different characteristics of useful corporate information sources



On the other hand, accessibility at 40.1 per cent and simplicity at 39.2 per cent are ranked the least important criteria that affect corporate information. Overall, the user group selected the credibility and timeliness of the information source as being the most important feature of information that impacts upon the quality of information sources. The findings of this study are similar to other studies undertaken in both developing and developed countries and indicate that although Libya is a developing country, its corporate reporting is reliable (see, for example, on Kuwait, Naser, Nuseibeh and Al-Hussein, 2003; and on Iran, Mirshekary and Saudagaran, 2005). However, it is slightly different from research findings on other developing countries by Abu-Nassar and Rutherford (1996) on Jordan, which showed that user groups in Jordan do not view the corporate annual reports as reliable in making decisions.

5.7 Analysis of the level of consensus between user groups regarding the characteristics of useful corporate information sources

The preceding section has illustrated the target user group's views about the importance of a variety of characteristics that might affect the quality of corporate information sources. It is important, in turn, to investigate whether or not there is a consensus between various user groups regarding the variety of characteristics that might affect the usefulness of corporate information sources. Since the data were examined using an ordinal scale, a nonparametric test is suitable (Cohen and Holliday, 1982). While the Mann-Whitney U test was used to analyse the consensus between pairs, the Kruskal-Wallis H test was employed to test the degree of agreement between overall user groups. Table 5.22 presents the results of serial tests. The overall user group, Table 5.22 shows clearly that there were no significant differences among the groups regarding the rating of the importance of the credibility, timeliness and accessibility of the information sources. Therefore, the null hypotheses cannot be rejected for these features. Furthermore, the different groups seem to have similar views on the importance of other qualitative characteristics. The overall user groups attached more importance to the simplicity of information than other features. The Mann-Whitney U test was employed for each pairs. The results show that there is a statistically significant difference at the level 5 per cent and 10 per cent between user groups about simplicity, the presence and specificity of information and the neutrality of corporate information sources.

Table 5. 22: The degree of agreement within the pairs and overall user groups in the importance attached to useful characteristics of corporate information sources

Variable	1-2	1-3	1-4	1-5	1-6	1-7	2-3	2-4	2-5	2-6	2-7	3-4	3-5	3-6	3-7	4-5	4-6	4-7	5-6	5-7	6-7	Overall
	U	U	U	U	U	U	U	U	U	U	U	U	U	U	U	U	U	U	U	U	U	H
Credibility	.672	.211	.311	.425	.159	.201	.396	.484	.656	.289	.361	.983	.758	.766	.924	.794	.819	.954	.580	.730	.824	.749
Timeliness	.241	.052*	.041*	.154	.651	.011*	.467	.244	.697	.502	.115	.516	.833	.170	.290	.469	.110	.769	.334	.275	.040*	.108
Presence for Specific information	.838	.077*	.015*	.135	.730	.029*	.135	.031*	.209	.877	.058*	.323	.911	.189	.583	.315	.047*	.630	.279	.549	.087*	.077*
Simplicity	.078*	.086*	.170	.423	.002**	.051*	.879	.872	.238	.084*	.828	.784	.282	.052*	.703	.311	.259	.980	.005**	.151	.121	.032*
Neutrality	.338	.587	.076*	.304	.147	.260	.644	.339	.045*	.641	.851	.172	.106	.341	.523	.005**	.585	.430	.010	.026*	.769	.078*
Accessibility	.949	.472	.440	.386	.772	.849	.505	.536	.428	.792	.898	.148	.857	.769	.375	.117	.338	.548	.660	.310	.627	.794
Independent	.386	.146	.230	.476	.314	.069*	.616	.616	.119	.929	.345	.850	.028*	.683	.593	.075*	.624	.836	.081*	.012*	.376	.154

*Where, 1 = individual investor; 2 = academics (researchers), 3 = government employee, 4 = institutional investor, 5 = bank credit officer, 6 = chief executive, and 7 = accountant professional user groups. U = Mann-Whitney Test, H = Kruskal-Wallis Test and *p <.05 and **p <.001.*

5.8 The importance of different sections of corporate reports

One of the main objectives of this research study is to explore the views of various target user groups toward the importance of different sections of corporate annual reports published by Libyan companies. The working hypothesis in this case is:

(H_1): There is no difference among user groups in the importance they attached to the different sections of a corporate annual report.

In order to test this hypothesis, the respondents were asked to indicate which sections of the corporate annual report are important when making an informed decision. In general, the information in the corporate annual reports is typically organised into the following 7 main sections:

- The Board of Directors Report,
- The Auditor Report,
- The Balance Sheet Statement,
- The Profit and Loss Statement,
- The Flow Fund Statement,
- The Cash Flow Statement and
- The Notes of the Statements.

The questions were presented in a 5 point Likert scale. Score 1 meant not important at all, score 2 meant not important, score 3 meant moderately important, score 4 meant important, and score 5 very important. The median and the mode for each section were calculated using the SPSS software. The findings are presented in Table 5.23. It can be observed from the results presented in Table 5.23 that the vast majority of the various user groups involved in this research study indicated that financial information is the most important section of the corporate annual reports. The financial information includes the balance sheet and profit and loss statement. The respondents graded the profit and loss statement section as their first priority of the corporate annual report, followed by the balance sheet statement, audit reports, and the sources and application fund statements respectively.

These corporate information sources scored the highest median compared with other sources listed. In addition, the result reported implies a certain degree of agreement among the various target groups. These results are confirmed by the proximity of the mode reported. The explanation of these results might be attributed to the ability of this information to help the users to make informed decisions about a particular company. For the profit and loss statement, the possible explanation might be attributed to its ability to help users to assess the performance of the companies. Although the balance sheet statement does not reflect the current value of many items, various target users groups valued it as the second most important section.

On the other hand, the Board of Directors Report was found to be the least popular among the respondents who took part in this research study. The lowest median and mode scores confirm this result. This result is consistent with results reached by Epstein and Pava (1994), Abu-Nassar and Rutherford (1996), Nasser and Nuseibeh (2003), Alrazeen and Karbhari (2004). This finding is inconsistent with the findings of empirical studies in developed countries such as Epstein and Anderson (1994) who found that the Board of Directors' report is the most thoroughly read section in Australia. The profit and loss statement and balance sheet statements being the most important sections selected by various target user groups are however consistent with the findings of Anderson (1981) who surveyed the Australian institutional investors. Abu-Nassar and Rutherford (1996) meanwhile who gathered the perceptions of external user groups of Jordanian annual reports and Alrazeen and Karbhari (2004) who conducted their research in Saudi Arabia reported different findings to Epstein and Anderson's study (1995) on Australian individual investors. Abu-Nassar and Rutherford (1996) reported the profit and loss statement and balance sheet as the second most important section and Alrazeen and Karbhari (2004) as the fourth.

These finding are inconsistent with Bartlett and Chandler's (1997) study of British individual investors, where the profit and loss statements and balance sheet ranked third and ninth respectively. Furthermore, respondents ranked the Board of Directors' Report in seventh position. A possible explanation is that the directors' report provides a summary of a company's achievement during the year and gives little indication of future plans. This finding is similar to those undertaken in developing countries by Abu-Nasser and Rutherford (1996) in the Jordanian environment. Other studies conducted in developed countries place the Board of Directors' Report in the middle of other sections of the corporate report (for example, see Lee and Tweedie, 1975; Anderson, 1981 and Bartlett and Chandler, 1997).

Table 5. 23: The importance of sections of corporate annual reports

Corporate annual report 's sections variable	Individual Investor (Obs. 33)		Academic/ Researcher (Obs. 33)		Government Employee (Obs. 40)		Institutional Investor (Obs. 18)		Bank Credit Officer (Obs. 31)		Chief Executive (Obs. 34)		Accountant Professional (Obs. 28)		Overall User Groups (Obs. 217)		Kruskal-Willies H Test
	Med	Mod	Med	Mod	Med	Mod	Med	Mod	Med	Mod	Med	Mod	Med	Mod	Med	Mod	
The Board of Directors' Report	4	4	4	5	4	4	4	5	4	4	5	5	4	5	4	4	12.120, (p = 0.059)*
The Auditor's Report	4	5	4	5	4	4	5	5	4	4	4	4	5	5	4	5	9.599, (p = 0.143)
The Balance Sheet Statement	5	5	4	5	5	5	5	5	4	5	5	5	4	5	5	5	4.219, (p = 0.647)
The Profit and Loss Statement	5	5	5	5	5	5	5	5	4	4	5	5	4	4	5	5	6.100, (p= 0.412)
The Flow Fund Statement	4	5	4	5	4	4	4	4.50	5	4	4	5	5	5	4	5	4.305, (p =0 .635)
The Cash Flow Statement	4	4	4	5	4	4	4	4	4	4	5	5	5	5	4	5	7.010,(p = 0.316)
The Notes of the Statements	4	5	4	4	4	4	5	4.50	5	4	4	4	5	5	4	5	4.522, (p = 0.606)

*Where, Med = Median value, mod = mode value, Scale 1= very difficult, 2 = difficult, 3= moderate, 4 = easy, 5 = very easy, Obs. = Observation, a multiple modes exists. The smallest is shown and *p >.05.*

In general, the findings are consistent with previous studies on developed countries that found the balance sheet and income statement to be the most important section of annual reports (see, for example, Lee and Tweedie, 1975 and Epstein and Anderson, 1994). This suggests that information is broadly used in the same way in developing countries as in developed countries. The main difference between the current research study and those covering developed countries was related to the auditor's report. While the auditor's report is generally one of the least read sections in developed countries, it ranked the third most important section in the current study. This may be attributable to a general concern about the reliability of information disclosed in Libyan reports, which would increase the extent to which internal and external user groups depend on information gleaned from the auditor's report.

5.9 Analysis of the level of consensus between the user groups regarding the importance of sections of annual reports

Although the profit and loss account and the balance sheet statement were perceived to be the most important section of the corporate annual report, statistical tests reveal that there is a slight difference in opinions between the respondents, as documented by the Mann- Whitney U test and the Kruskal-Wallis H test. Table 5.24 shows a consensus between pairs and overall user groups in the importance of corporate sections. The result of the Kruskal-Wallis H test reveals that there is a significant difference in opinions among the overall respondents' groups regarding the importance of the corporate annual reports sections. Therefore, the null hypothesis is accepted. The highest degree of agreement was attached to the sources and application fund statement.

Table 5. 24: Consensus between pairs and overall user groups in the importance of corporate sections

Variable	1-2	1-3	1-4	1-5	1-6	1-7	2-3	2-4	2-5	2-6	2-7
	U	U	U	U	U	U	U	U	U	U	U
The Board of Directors' Report	0.059	0.884	0.181	0.988	0.010	0.104	0.107	0.924	0.080	0.464	0.692
The Auditor's Report	0.432	0.525	0.107	0.762	0.872	0.103	0.120	0.308	0.588	0.494	0.330
The Balance Sheet Statement	0.885	0.524	0.813	0.964	0.292	0.460	0.388	0.694	0.609	0.204	0.531
The Profit and Loss Statement	0.868	0.509	0.902	0.450	0.152	0.827	0.433	0.811	0.535	0.116	0.743
The Flow Fund Statement	0.918	0.879	0.545	0.424	0.989	0.244	0.789	0.845	0.486	0.909	0.214
The Cash Flow Statement	0.669	0.569	0.623	0.724	0.221	0.200	0.909	0.925	0.903	0.143	0.130
The Notes of the Statements	0.531	0.913	0.462	0.847	0.627	0.253	0.378	0.165	0.648	0.232	0.061

Table continuing	3-4	3-5	3-6	3-7	4-5	4-6	4-7	5-6	5-7	6-7	Over all
	U	U	U	U	U	U	U	U	U	U	H
The Board of Directors' Report	0.247	0.901	0.021	0.165	0.230	0.477	0.990	0.015*	0.136	0.449	0.059
The Auditor's Report	0.016*	0.324	0.360	0.018*	0.133	0.094	0.989	0.915	0.156	0.104	0.143
The Balance Sheet Statement	0.800	0.506	0.595	0.140	0.782	0.510	0.368	0.272	0.469	0.070	0.647
The Profit and Loss Statement	0.743	0.116	0.308	0.634	0.435	0.293	0.990	0.020*	0.306	0.174	0.412
The Flow Fund Statement	0.615	0.314	0.891	0.259	0.191	0.555	0.761	0.420	0.047	0.258	0.653
The Cash Flow Statement	0.985	0.827	0.075	0.072	0.830	0.146	0.133	0.118	0.106	0.935	0.316
The Notes of the Statements	0.482	0.765	0.710	0.247	0.838	0.705	0.759	0.525	0.195	0.443	0.606

Where, 1 = individual investor; 2 = academics (researchers), 3 = government employee, 4 = institutional investor, 5 = bank credit officer, 6 = chief executive, 7 = accountant professional user groups, U = Mann-Whitney Test, H = Kruskal-Wallis Test and $*p < .05$.

While the balance sheet statement achieved the third highest degree of agreement among overall user groups, the lowest degree of agreement however was attached to the Board of Directors reports. Between pairs, however, the highest degree of agreement was achieved between institutional investors and the accounting professional about the importance of the profit and loss account. This result is expected, since both of these user groups consider the profit and loss account and the balance sheet statements to be more important for evaluating performance and liquidity. On the other hand, the lowest degree of agreement was reached between the institutional investors and the government employees.

5.10 The understandability of information contained in corporate reports

One of the main objectives of this study is to investigate how easy the information contained in corporate annual reports is to understand. The working hypothesis is:

(H_1): There is no difference among user groups about the understandability of information disclosed in a corporate annual report

In order to test this hypothesis, the various target user groups were asked to indicate how well they understand each of the 7 sections of corporate annual reports. The results are reported in Table 5.25. Table 5.25 noticeably reveals that almost all the respondents agreed that the financial statements and notes to the accounts are relatively easy to understand. This was evident across the various user groups and within the overall sample. Furthermore, the closeness of the median and the mode scored for the different sections confirmed these results.

The results might be attributed to either the fact that most of the participants have been well educated, or have careers in accountancy and finance (see Table 5.1). In addition, the questionnaire survey showed that the accounting professionals and institutional investor followed by the bank credit officers are the user groups with the highest level of understanding of the content of corporate annual reports. These results are confirmed by the highest median and mode reported by those user groups to the various corporate annual reports sections.

The result is expected since these user groups are experts in this field. In addition, they have the knowledge and experience to understand the technical issues. In contrast, individual investors consider cash flow statements to be difficult to understand. The result is consistent with the previous reported result in this study (see personal profile section). The result of the Kruskal-Wallis test presented in Table 5.24 clearly shows that significant difference at different levels among overall user groups. The null hypothesis is accepted.

Table 5. 25: The participants perception toward the understandability of corporate annual reports sections

Corporate annual report 's sections variable	Individual Investor (Obs. 33)		Academic/ Researcher (Obs. 33)		Government Employee (Obs. 40)		Institutional Investor (Obs. 18)		Bank Credit Officer (Obs. 31)		Chief Executive (Obs. 34)		Accountant Professional (Obs. 28)		Overall User Groups (Obs. 217)		Kruskal-Willies H Test
	Med	Mod	Med	Mod	Med	Mod	Med	Mod	Med	Mod	Med	Mod	Med	Mod	Med	Mod	
The Board of Directors Report	3	4	4	4a	4	3	5	5	4	3a	4	5	4.5	5	4	4	24.107, (p = 0.000)
The Auditor's Report	4	4	4	5	4	3	5	5	4	4	3.5	3	5	5	4	4a	20.595, (p = 0.002)
The Balance Sheet Statement	4	4	4	4a	4	4	4.50	5	4	4	4	4	4	5	4	4	18.192, (p = 0.006)
The Profit and Loss Statement	4	4	4	4a	4	3	4	5	4	4	4	4a	4	4a	4	4	15.697, (p= 0.015)*
The Flow Fund Statement	4	3	4	4	4	3	4	5	4	4	4	3a	5	5	4	4	21.414, (p =0 .002)
The Cash Flow Statement	3	3	4	4	4	3	4	4	4	4	4	5	5	5	4	4	17.704,(p = 0.007)
The Endnote of the Statements	4	3a	4	3	4	3	5	5	4	4	4	4	5	5	4	4	26.547, (p = 0.000)

*Where, Med = Median value, Mod = Mode value, Scale 1= very difficult, 2 = difficult, 3 = moderate, 4 = easy, 5 = very easy, and a = multiple modes exist. The smallest value is shown, *p < 0.05.*

5.11 The importance of information items and user groups needs

The main objective of corporate annual reports is to provide their user groups with useful information for making informed decisions. For the information to be useful it should meet certain basic interests of users. Previous sections covered characteristics of useful information. In a further investigation of the usefulness and the importance of issue, this section investigates the importance of information items to be disclosed in a corporate annual report. The working hypothesis regarding the importance of information items is:

(H_0): **There is no difference among user groups in the importance they attach to the different information items.**

In order to determine to what extent the general purpose of information suits the various target user groups needs, respondents were asked to indicate the degree of importance of 65 information items[2] that might be disclosed in corporate annual reports. An item-by item process was carried out to calculate the mean of all 65 information items for individual and overall user groups.

The investigation (on a 5-point scale for which 1is not important at all, 2 not important, 3 moderately importance, 4 important, and 5 very important) measured the importance attached to the information items by each user group and identified the extent of significant differences or harmony that exists within each user group about each information item. The mean value was calculated for ranking information item purposes. The aim was to determine which information item is

[2] The selec*ion of 65 items was based on the IASs requirements and previous studies (see Chapter Four).

most important for individuals and for the overall user group. The results are summarised in Appendix 4 and Table 5.26. As can be seen in Appendix 4, column 1 shows the number of the item, column 2 shows the information item, columns 3 to 7 rate the importance of items, column 8 details the total samples involved and columns 9 to 13 rank the degree of importance as a percentage. Finally column 14 ranks the importance of items as a whole.

Table 5.25 provides a summary of the overall median and mode of the respondents' perceptions toward the importance of information items. The results of the investigation presented in Appendix 4 show that respondents rated 34 per cent of items as being very important, 39 per cent as being important, 18.3 per cent as being of moderate importance, 6 per cent as being not important and only 2 per cent as being not important at all. Furthermore, Table 5.25 demonstrates that the vast majority of respondents at an individual level, as well as the whole sample level, rated all disclosure items that appeared in the questionnaire as either important or very important.

The result shows that the profit and loss statement and the balance sheet are among the top 5 information items[3]. Meanwhile, general information such as information about employees for example, number, gender, etc, donations to, and support given to charities, and university graduate recruitment policy and achievement, were ranked at the end of the information items list provided in the questionnaire.

[3] The information items are: provision of current and previous year figures, net income, gross margin, classification of assets and liabilities into current and non current and administrative and general expenses.

Table 5. 26: The Overall user groups perceptions toward importance of information items

No.	Information Items	Individual Investor		Academic (researcher)		Government Employee		Institutional Investor		Bank Credit Officer		Chief Executive		Accountant professional		Overall	
		M	R	M	R	M	R	M	R	M	R	M	R	M	R	M	R
1	Provide current and previous year figures	4.60	(01)	4.48	(04)	4.53	(1)	4.83	(1)	4.65	(1)	4.58	(2)	4.57	(2)	4..9	(1)
2	Assets and liabilities classified in the balance sheet into current and non current	4.30	(10)	4.52	(02)	4.47	(3)	4.56	(3)	4.42	(4)	4.50	(6)	4.32	(6)	4.44	(4)
3	Arrange assets as its liquidity	4.00	(30)	4.36	(10)	4.15	(20)	3.78	(60)	3.90	(28)	4.12	(28)	4.04	(17)	4.07	(24)
4	Current assets classified in the balance sheet statement by components	4.12	(18)	4.34	(11)	4.32	(7)	4.11	(33)	4.13	(14)	4.41	(11)	4.14	(11)	4.24	(11)
5	Showing the total current assets in the balance sheet statement	4.09	(22)	4.15	(36)	4.23	(15)	4.44	(9)	4.00	(24)	4.32	(16)	4.21	(7)	4.19	(16)
6	Fixed assets classified by major components	4.15	(16)	4.36	(09)	4.40	(5)	4.28	(21)	4.13	(13)	4.32	(15)	3.96	(25)	4.24	(10)
7	Depreciation assets shown net of depreciation	4.30	(09)	4.30	(14)	4.30	(12)	4.28	(20)	4.00	(23)	4.35	(14)	3.96	(24)	4.22	(12)
8	Arrange liabilities into current and non-current	4.09	(21)	4.30	(16)	4.30	(11)	4.11	(32)	4.03	(22)	4.50	(5)	4.00	(23)	4.21	(13)
9	Current liabilities classified by major components	3.97	(36)	4.42	(06)	4.25	(13)	3.89	(51)	4.16	(12)	4.44	(9)	3.93	(26)	4.18	(17)
10	Showing the total of the current liabilities in the balance sheet	4.18	(15)	4.33	(14)	4.10	(24)	4.06	(41)	3.87	(30)	4.29	(19)	4.18	(8)	4.15	(19)
11	Non-current liabilities classified by major components	4.09	(20)	4.16	(34)	4.22	(16)	4.11	(31)	4.16	(11)	4.29	(18)	4.07	(15)	4.17	(18)
12	Arranging owners equity by major components	4.36	(07)	4.36	(08)	4.30	(10)	4.39	(12)	4.35	(5)	4.47	(7)	3.89	(27)	4.31	(7)
13	Amount of sales or net sales	4.48	(04)	4.39	(07)	4.30	(9)	4.56	(2)	4.32	(6)	4.44	(8)	4.46	(3)	4.41	(6)
14	Cost of sales	4.39	(06)	4.24	(21)	4.23	(14)	4.39	(11)	4.10	(18)	4.35	(13)	4.07	(14)	4.25	(9)
15	Gross margin	4.48	(03)	4.52	(01)	4.35	(6)	4.50	(7)	4.48	(2)	4.50	(4)	4.32	(5)	4.45	(3)
16	Administrative and general expenses	4.41	(05)	4.48	(03)	4.40	(4)	4.39	(10)	4.26	(8)	4.53	(3)	4.39	(4)	4.41	(5)
17	Selling expenses	4.27	(11)	4.30	(15)	4.18	(18)	4.33	(18)	4.03	(21)	4.26	(21)	4.00	(22)	4.19	(15)
18	Other revenues	4.33	(08)	4.24	(20)	4.30	(8)	4.33	(17)	4.23	(9)	4.26	(20)	4.07	(13)	4.25	(8)
19	Net income	4.55	(02)	4.45	(05)	4.50	(2)	4.50	(6)	4.45	(3)	4.62	(1)	4.64	(1)	4.53	(2)
20	The presence of the statement of retained earnings	4.00	(29)	4.33	(13)	4.13	(23)	4.33	(16)	4.06	(19)	4.15	(25)	4.04	(16)	4.14	(22)
21	The presence of the statement of changes in the owners' equity	4.00	(28)	4.13	(37)	3.95	(31)	4.33	(15)	4.03	(20)	4.03	(36)	4.00	(21)	4.05	(25)
22	Brief description of the nature of the entity's activities	3.76	(33)	3.97	(49)	3.88	(37)	3.89	(50)	3.94	(26)	3.82	(46)	3.50	(52)	3.82	(44)
23	Brief description of the significance accounting policies	3.97	(35)	4.19	(25)	3.87	(39)	4.11	(30)	3.74	(46)	3.97	(42)	3.61	(46)	3.92	(39)
24	Donations to, and support given to charities	3.39	(65)	3.85	(59)	3.40	(64)	3.67	(63)	3.29	(64)	3.41	(65)	3.29	(63)	3.46	(64)

25	University graduate recruitment policy and achievement	3.45	(64)	3.88	(56)	3.28	(65)	3.44	(65)	3.32	(63)	3.50	(64)	2.82	(65)	3.39	(65)
26	Description of property, plant and equipment	4.09	(19)	4.16	(33)	3.85	(42)	4.06	(40)	3.90	(27)	4.00	(40)	3.57	(48)	3.94	(36)
27	Information about the accountancy principles that have been used	4.03	(25)	4.33	(12)	3.98	(27)	4.06	(39)	4.16	(10)	4.12	(27)	4.14	(10)	4.12	(23)
28	Planning for human resource development	3.76	(49)	4.18	(28)	3.70	(50)	3.89	(49)	3.74	(45)	3.62	(57)	3.18	(64)	3.72	(53)
29	Statement of cash flow	3.97	(34)	4.18	(27)	3.87	(38)	4.11	(29)	4.10	(17)	4.09	(29)	3.78	(37)	4.01	(29)
30	Discussion of major factors affecting current year operations	3.97	(33)	4.15	(35)	4.13	(22)	4.50	(5)	4.10	(16)	4.41	(10)	3.86	(29)	4.14	(21)
31	Discussion of major factors expected to affect future operations	4.00	(27)	4.18	(26)	4.00	(26)	4.50	(4)	3.84	(33)	3.91	(43)	3.79	(36)	4.00	(31)
32	Advertising expenses for the current year	3.61	(58)	3.94	(52)	3.58	(55)	3.78	(59)	3.42	(59)	3.50	(63)	3.54	(51)	3.61	(57)
33	Amount of directors annual remuneration	3.61	(57)	3.88	(55)	3.75	(47)	3.78	(58)	3.68	(49)	3.62	(56)	3.71	(39)	3.71	(55)
34	Amount of top management's annual remuneration	3.79	(48)	3.85	(58)	3.70	(49)	3.50	(64)	3.61	(54)	3.53	(61)	3.82	(35)	3.70	(56)
35	Percentage of local employees in different company level	3.58	(59)	3.73	(61)	3.53	(59)	3.78	(57)	3.19	(65)	3.82	(45)	3.36	(58)	3.56	(60)
36	Description of future capital expenditure	3.73	(52)	4.25	(19)	3.55	(57)	4.22	(23)	3.61	(53)	4.15	(24)	3.68	(43)	3.86	(42)
37	Percentage of total wages paid to Libyan employees	3.67	(54)	3.66	(64)	3.50	(60)	3.94	(45)	3.32	(62)	3.62	(55)	3.32	(62)	3.56	(59)
38	Amount of revenue generated from foreign market	3.91	(40)	4.22	(22)	3.90	(36)	4.06	(38)	3.45	(58)	4.03	(35)	4.00	(20)	3.93	(37)
39	Details of revenue sources	4.03	(24)	4.09	(39)	3.90	(35)	3.94	(44)	3.74	(44)	4.15	(23)	3.86	(28)	3.96	(33)
40	Details of equity investment	3.97	(32)	4.00	(46)	3.97	(29)	4.28	(19)	3.94	(25)	4.00	(39)	4.00	(19)	4.00	(30)
41	List of names of directors	3.45	(63)	3.69	(63)	3.43	(62)	3.78	(56)	3.58	(55)	3.50	(62)	3.36	(57)	3.52	(61)
42	List of names of the top management	3.48	(61)	3.72	(62)	3.40	(63)	3.7[illegible]	(55)	3.74	(43)	3.56	(59)	3.36	(56)	3.56	(58)
43	Market value of the inventory	3.85	(44)	4.16	(32)	3.63	(54)	4.06	(37)	3.81	(36)	3.59	(58)	3.68	(42)	3.80	(46)
44	Description of the components of the inventory	3.73	(51)	3.94	(51)	3.68	(53)	3.89	(48)	3.77	(39)	3.79	(47)	3.64	(45)	3.77	(48)
45	Company policy regarding dividends	4.12	(17)	4.26	(18)	3.68	(52)	4.11	(28)	3.77	(38)	4.06	(31)	3.75	(38)	3.95	(34)
46	Significant shareholders(i.e. who obtain 5% or more)	3.85	(43)	4.03	(43)	3.55	(56)	3.83	(54)	3.74	(42)	3.71	(52)	3.43	(53)	3.73	(52)
47	Market value and breakdown of non equity investment	3.82	(45)	4.10	(38)	3.75	(46)	4.00	(43)	3.74	(41)	4.03	(34)	3.54	(50)	3.85	(34)
48	Monetary amounts of locally produced raw materials	3.70	(53)	4.00	(45)	3.68	(51)	4.06	(36)	3.74	(40)	3.74	(50)	3.57	(47)	3.76	(49)
49	Details of long term debt (i.e. source, amount, interest rate, etc)	4.06	(23)	4.16	(31)	3.93	(32)	4.17	(26)	4.10	(15)	4.03	(33)	3.82	(34)	4.03	(27)
50	Audit fees	3.79	(47)	3.90	(53)	3.73	(48)	3.83	(53)	3.45	(57)	3.65	(54)	3.64	(44)	3.71	(54)
51	Description of major types of products information	3.64	(56)	3.97	(48)	3.75	(45)	4.11	(27)	3.52	(56)	4.00	(38)	3.32	(61)	3.75	(50)
52	Company policy regarding temporary investment	3.88	(42)	4.19	(24)	3.85	(41)	4.00	(42)	3.84	(32)	3.71	(51)	3.82	(33)	3.89	(40)

53	Summary of the ageing of the accounts receivables	4.00	(26)	4.00	(44)	3.95	(30)	4.17	(25)	3.84	(31)	4.15	(22)	4.14	(9)	4.02	(28)
54	Earning per share	4.24	(12)	4.19	(23)	3.90	(34)	4.33	(14)	3.81	(35)	4.06	(30)	3.82	(32)	4.03	(26)
55	Statements of source and application of funds	4.18	(14)	4.16	(30)	4.13	(21)	4.33	(13)	3.87	(29)	4.29	(17)	4.07	(12)	4.14	(20)
56	Method used to determine the cost of inventories	3.94	(38)	4.06	(42)	4.03	(25)	4.22	(22)	3.61	(52)	3.85	(44)	3.82	(31)	3.92	(38)
57	Number and amount of authorised and issued shares	3.94	(37)	4.16	(29)	3.83	(44)	4.17	(24)	3.81	(34)	4.12	(26)	3.82	(30)	3.96	(32)
58	Statement of company's objectives	3.91	(39)	4.06	(41)	3.85	(40)	4.06	(35)	3.68	(48)	4.00	(37)	3.68	(41)	3.88	(41)
59	Discussion of competitive position of the company	3.79	(46)	3.87	(57)	3.97	(28)	3.83	(52)	3.61	(51)	4.03	(32)	3.39	(55)	3.80	(45)
60	New product development information	3.64	(55)	3.94	(50)	3.90	(33)	3.89	(47)	3.65	(50)	3.76	(48)	3.32	(60)	3.73	(51)
61	Share of market in major product/service areas	3.88	(41)	3.88	(54)	3.83	(43)	3.89	(46)	3.77	(37)	3.74	(49)	3.54	(49)	3.79	(47)
62	Discussion major factors could influence the next year's results	3.97	(31)	3.97	(47)	4.20	(17)	4.06	(34)	3.71	(47)	3.97	(41)	3.68	(40)	3.94	(35)
63	Budgeted capital expenditures for the next fiscal year	4.18	(13)	4.06	(40)	4.15	(19)	4.44	(8)	4.26	(7)	4.38	(12)	4.00	(18)	4.20	(14)
64	Information about the employees (i.e. No, gender, etc)	3.45	(62)	3.77	(60)	3.53	(58)	3.72	(61)	3.32	(61)	3.53	(60)	3.32	(59)	3.51	(63)
65	Information on corporate social responsibility	3.48	(60)	3.61	(65)	3.45	(61)	3.67	(62)	3.35	(60)	3.65	(53)	3.39	(54)	3.51	(62)

Where, M = Mean value, which 1= not important at all, and 5 = very important and (R) rank as the mean sor..

This information used to appear in the Board of Directors' report. These findings confirm those of preceding sections. In addition to the main results, an item by item examination was carried out to investigate the degree of agreement among user groups overall on the 65 information items by using the Kruskal-Wallis Test. The result of the examination revealed that there is a significant difference at the 10 per cent level for 57 information items (88 per cent overall and no significant difference for 8 items[4]. This result provides an indication of which items are of interest to user groups and should be disclosed in corporate annual reports. Therefore, the null hypothesis could not be rejected.

5.12 Analysis of the level of consensus between user groups regarding the importance of information items and users' needs

The Kruskal-Wallis H test showed significant difference between user groups overall on about 88 per cent of items included in the questionnaire. To find out which user groups have significant differences, the Mann-Whitney U test was conducted for 21 possible pairs of user groups and for 65 information items to measure the agreement between each pair of user groups. Table 5.27 summarizes the number of significant differences between user group pairs on the importance of 65 information items. The results of this test are only intended to provide an overall picture of similarities and differences between any two user groups.

[4] The (8) information items are: description of future capital expenditure, current liabilities classified in the statement by major components, planning for human resource development, university graduate recruitment policy, achievement and description of future capital expenditure, arranging liabilities into current and non current, discussion of major factors affecting current year operations, and description of major types of products information respectively.

The overall picture clearly shows that the highest and the lowest number of significant differences was 22 and 2 items respectively. The highest numbers of significant differences were reported between the user group pair of academics (researchers) and professional accountants and the lowest number of significant differences was reported between individual investors and government employee pairs, individual investor and institutional investor pairs, academics (researchers) and institutional investor pairs.

Table 5. 27: Number of significant differences between target user groups pairs on the importance of 65 information items

	Individual Investor	Academic/ Researcher	Government Employees	Institution-al Investor	Bank Credit Officer	Chief Executive	Accountant Professional
Individual Investor	0						
Academic/ Researcher	3	0					
Government Employees	2	16	0				
Institutional Investor	2	2	7	0			
Bank Credit Officer	4	19	3	8	0		
Chief Executive	3	4	3	3	12	0	
Accountant Professional	4	22	6	9	4	12	0

This also shows that the fourth closest user groups are individual investors, government employees, academics (researchers) and institutional investors who differ by only 4 per cent. The user groups showing the most differences meanwhile are academics (researchers) and professional accountants who differ on 34 per cent of the selected items.

5.13 Conclusion

The main purpose of this research study was to examine the level of the quality of corporate annual reports published by Libyan companies. Seven user groups were selected to respond to a questionnaire survey in order to discover their perceptions towards the usefulness and some other aspects (particularly, use, importance, ability to understand, useful characteristics, information needs) of corporate annual reports. This subsection provides the conclusion of the outcomes of the research study's questionnaire survey. The main finding shows that the user groups surveyed in this study are using corporate annual reports reciprocally and do not consult intermediary sources in order to make informative decisions. They depend heavily upon the information made directly available by the company concerned.

In addition, the user groups considered the corporate annual reports as the most important primary source of information when making informed decisions. Hence, most user groups regarded credibility and timeliness as the most important characteristics of useful corporate information. The results unambiguously reveal that the surveyed groups seem to understand the information contained in corporate annual reports. The study indicates that professional accountants and bank credit officers seem, among others, to achieve a high level of understanding of the information contents. Furthermore, the respondents mostly agreed on the usefulness of information contained in corporate annual reports in making informed decisions. The profit and loss statement and the balance sheet statement are considered to be the most important sections of annual reports. This was followed by the auditor's report. With regard to the importance of the information items needed to be disclosed in annual reports, the highest numbers of significant differences were reported between academics (researchers) and professional accountants' user group pairs.

Chapter 6
Empirical evidence on the extent of disclosure in corporate report stat in Libya

6.1 Introduction

The preceding chapter investigated the perceptions of various Libyan user groups regarding various aspects of corporate annual reports. This chapter reports the findings regarding the extent of disclosure of corporate annual reports published by Libyan companies. For this purpose, the items that were expected to be disclosed in corporate annual reports were classified into three main categories. The first category is mandatory disclosure. These items are required by International Accounting Standards (IAS) as a minimum requirement of disclosure in corporate annual reports. The second category includes "voluntary close to mandatory" disclosure. These items enhance the minimum requirements of the IASs. The third category includes optional disclosure. This chapter seeks to answers the last two research questions of this study. These are:

Research question 7: To what degree do Libyan companies comply with the requirements of financial disclosure set by the International Accounting Standards (IAS)?

Research Question 8: Do Libyan companies disclose more information than that required by the IAS?

6.2 The extent of corporate disclosure in the sample of Libyan companies

Corporate reporting is classified into three categories. The first category is the disclosure that meets the minimum legal requirements, such as the disclosure of net income. The second category highlights the disclosure of information that enhances the minimum requirements, such as disclosing the details of revenue sources. The third category of corporate disclosure refers to the disclosure of information that has no link to the legal requirements, such as the description of major types of products. The following three subsections examine corporate disclosure practices pertaining to each of these categories.

6.2.1 Mandatory disclosure

In this subsection, the extent of mandatory disclosure in a sample of 45 Libyan companies is measured. To form the mandatory disclosure category, 23 disclosure items were extracted from the Statement of Financial Accounting Concepts No. 1 to 5 (FASB, 1978-1984). These statements were issued by the IAS. The IAS was used as there are no accounting standards regulating corporate annual reports in Libya. Although the disclosure of these items is required by the IAS as a minimum requirement to be disclosed in published corporate reports, the disclosures of any of the items are voluntary for Libyan companies. In addition to the IAS requirements, legal regulations related to the corporate reporting issued in Libya such as, the Libyan Commercial Code (1972) and the Tax Law (1973) and their amendments were taken into account to formulate the mandatory disclosure category. Therefore, the working hypothesis is:

(H_1): There are no differences among the Libyan companies regarding the disclosure of the mandatory items.

Before the descriptive statistics of the mandatory disclosure are presented, it is important to note that the term 'revenue' in the profit and loss statements of the financial companies was treated as 'sales' in the non-financial companies included in the sample. The outcomes of descriptive statistics pertaining to the mandatory corporate disclosure are given in Table 6.1; the results presented indicate that the Libyan companies included in this study strongly comply with the contents of the mandatory disclosure index.

On average, the range was between 89 to 96 per cent. In the whole sample level, more than 92 per cent of the selected items have been found in the published corporate reports by Libyan companies. Therefore, the Libyan companies offer 92 per cent of the minimum requirements of the IAS in their published annual reports. The manufacturing sector scored the highest level of compliance and the construction companies offer the lowest level of compliance with the IAS. About 96 per cent of the items examined were disclosed in the manufacturing companies' reports. The compliance of mandatory disclosure was found, however, to vary across the companies examined.

There was evidence from Table 6.1 that the frequency of the mandatory disclosure items aggregated to each company examined. Further, Table 6.1 clearly shows that the vast majority of the selected mandatory information items are present in the content of the corporate annual reports published by Libyan companies. This result is reflected in the frequency descriptive statistics of the items examined.

Table 6. 1: Mandatory information items

Mandatory information items	Financial Sector % N = 11	Manufac -turing Sector % N = 16	Services Sector % N = 13	Construction Sector % N = 5	Whole Sample % N = 45
	Frequency	Frequency	Frequency	Frequency	Frequency
Provide current and previous year figures	73	38	38	20	44
Assets and liabilities classified in the balance sheet into current and non current	82	94	85	100	89
Arranging assets as liquidity	100	100	100	100	100
current assets classified in the balance sheet statement by components	100	100	100	100	100
Showing the total current assets in the balance sheet statement	100	100	100	100	100
Fixed assets classified by major components	91	100	100	100	98
Depreciation assets shown net of depreciation	91	100	100	100	98
Arranging liabilities as current and non-current liabilities	100	100	92	100	98
Current liabilities classified by major components	100	100	92	100	98
Showing the total of the current liabilities in the balance sheet statement	100	100	92	100	98
Non-current liabilities classified by major components	91	100	100	100	98
Arranging owners' equity by major components	100	100	85	100	96
Showing amount of sales or net sales	100	100	100	100	100
Cost of sales	0	94	92	100	71
Gross margin	73	88	92	80	84
Administrative and general expenses	100	100	100	100	100
Selling expenses	73	100	85	60	96
Other revenues	82	100	100	100	100
Net income	100	100	100	100	100
The presence of the statement of retained earnings	100	100	92	100	98
The presence of the statement of changes in the owners' equity	100	100	100	100	100
Brief description of the nature of the entity's activities	100	94	62	40	80
Brief description of the significance accounting policies	100	94	62	40	80
Average	89.39	95.72	89.9	88.69	92.43

The minimum frequency of the mandatory items was 14 out of 23 items tested. With the exception of the disclosure of the 'cost of sales' and 'provide current and last years' figure' information items, the frequency of disclosure items ranged from 80 per cent to 100 per cent of all information items included in the category. Other information items in some of the companies, however, were not reported.

These included for example the cost of sales in the financial companies. This result was expected, due to the fact that the 'cost of sales' item does not exist in the profit and loss statements of the financial companies.

Previous studies excluded the financial companies from their sample, for instance Al-Khatib (1999). The reason was that financial companies follow specific disclosure requirements and do not have comparable information items such as cost of sales, as in non-financial companies (Wallace and Naser, 1995). In this study, financial companies were included in the sample study for valid reasons. Firstly, the main purpose of the current study is to assess the corporate annual reports published by Libyan companies and excluding financial companies would have made the study incomplete. Secondly, the aim is to investigate the variation of disclosure across company sectors. Thirdly, the study explores whether or not Libyan companies comply with IAS.

The second item that reports low frequency was the 'provide current and previous years' figures. Only 44 per cent of the companies included were found to disclose this information. The vast majority of these companies were in the financial sector. In contrast, other items such as the disclosure of net income were disclosed in all companies' corporate reports included in the sample. This is clearly evident from the frequency results reported in Table 6.1.The overall user groups attach most importance to the 'provide current and previous year's figures' item (see Table 5.23). This result may indicate that the user groups in Libya use the last and current financial years' figures to predict future performance about a particular company, but companies do not offer this information. However, other items are in line with the user groups need to make informed decisions. For instance, the 'net income' disclosure was ranked the second most important item (Table 5.23). This item was found to exist in all the companies' annual reports included in the study. However, the variation of the results might be attributed to the fact that there are no accounting standards in Libya to regulate corporate reporting. Nevertheless, the variation in disclosure across the sectors of the companies suggests that it is important to identify which sector discloses more than another. The next subsection discusses the mandatory disclosure index across individual and overall company sectors.

6.2.2 Mandatory disclosure index

The preceding chapter showed how the index was calculated (see Chapter Four). Before the results of the mandatory disclosure index are presented, it is important to note that the mandatory index is computed by sector. Table 6.2 presents the mandatory index for the Libyan companies included in the sample of the current study.

Table 6. 2: Mandatory disclosure index

Variable	Sample	Mean	Minimum	Maximum N = 23
Finance Sector	11	21.00	19	22
Manufacturing Sector	16	22.00	21	23
Services Sector	13	20.69	14	23
Construction Sector	5	20.40	19	24
Whole Sample	45	21.20	14	23

Table 6.2 clearly shows that the manufacturing companies recorded the highest mandatory disclosure index in the sample. In addition, more than 90 per cent of the mandatory index was found to exist in the published corporate annual reports. The vast majority of these companies disclose the minimum requirements of the mandatory disclosure items. This can be seen by examining the mean, minimum and maximum number of disclosure items in their corporate annual reports.

These results might be attributed to one of the following reasons. Firstly, the majorities of these companies are large, in a Libyan context, and have had a large amount of money invested in them (see Chapter Two: 23). Secondly, some of these companies are joint ventures with international investors such as the Italian Vehicle Corporation.

The international investor may therefore influence the adherence to the IAS. Finally, other industrial companies either deal directly or indirectly with international companies. For instance, the Libyan Iron and Steel Company have large operations with European countries such as Germany. This could lead the company to follow the international standards in disclosing accounting information. Financial companies had the second highest mandatory disclosure index in the sample. The index of the mandatory disclosure varies between these companies. The minimum disclosure items were 19 out of the 23 mandatory items provided and the maximum disclosure items contained in the published corporate annual report were 22 items out of 23 provided. Thus, the results of the mandatory information reported are as expected and might be attributed to one of the following reasons.

Firstly, the 'cost of sales' disclosure items was not applicable for the financial companies. Therefore, this item was treated as not disclosed and given a value of 'zero'. Secondly, it might be attributed to the variation of the company's characteristics included in this sector. The banking services in Libya are divided into two categories. While some of the banks provide the traditional banking services such as opening bank accounts and providing the letters for credit services, other banks are specialised. Therefore, their customers are also specialised, for example the Agriculture Bank provides credit services to farmers and other similar clients.

Finally, the level of the mandatory disclosure might be related to the variation of the ownership or the objectives of the companies included. While some financial companies are joint ventures between government and local investors such as the National Banking Corporation, other financial companies are 100 per cent government owned. Further, some companies operate locally while others are overseas - the Libyan Arab Foreign Bank for instance (see Chapter Two: 34).

Other sectors were found to have a low level of mandatory disclosure: service and construction companies scored the least, with the service companies sector reporting the lowest level of mandatory disclosure. This presents the highest level of variation across the companies. This result is supported by the minimum disclosure items scored. The results are expected and might be attributed to one of the reasons listed below. Firstly, one of the sectors, the services sector, includes a variety of services such as health and trading services. Thus, the level of mandatory disclosure might be related to the variations in the nature of the services provided. Further research is needed to identify other reasons. Secondly, the sample size of the construction sector is relatively small (N = 5).

In summary, Libyan companies strongly comply with the minimum requirements of the mandatory disclosure demanded by the IAS. Different levels of disclosure were reported across the companies included, therefore the null hypothesis could not be completely accepted. There are differences among the Libyan companies regarding the disclosure of the mandatory items. A comparison between the results reported and other studies are discussed later in this chapter.

6.2.3 Voluntary disclosure

Voluntary disclosure in this study is classified into two categories. The first category contains 27 voluntary close to mandatory items that enhance the minimum requirements of IAS. The second category includes 15 optional items. The selection of items was extracted from the IAS and legal regulation relating to corporate reporting in Libya and prior studies. In addition, the information disclosed in published corporate annual reports was taken into account. Therefore, the working hypothesis is:

(H_1): There are no differences among Libyan companies regarding voluntary disclosure.

6.2.3.1 Voluntary close to mandatory disclosure

Table 6.3 shows the frequency of the voluntary close to the mandatory disclosure. As can be seen in the data presented in Table 6.3, the level of voluntary close to the mandatory disclosure is low compared to the level of mandatory disclosure reported in the preceding subsection. It ranges between 1.9 to 25.8 per cent of the standard numbers of items forming the voluntary close to the mandatory disclosure index.

Further, five items are disclosed by at least 24 per cent of the companies: (1) description of property, plant and equipment; (2) advertising expenses for the current year; (3) details of revenue sources; (4) details of equity investment (5) summary of the age of the accounts receivables. Some of these items related to profit and loss accounts. The previous chapter, however, reported that the user groups rated the profit and loss statement section as being the most important section of annual reports.

From this result it may be concluded that some of the voluntary disclosure is in line with the needs of users in order for them to make informed decisions. At the other extreme, no companies examined in the sample were found to disclose these three items: (1) market value and breakdown of non equity investment; (2) company policy regarding temporary investment and (3) method used to determine the cost of inventories.

Table 6. 3: Voluntary close to mandatory disclosure

Voluntary close to mandatory disclosure	Financial Sector % N = 11	Manufacturing Sector % N =16	Service Sector N = 13	Construction Sector % N = 5	Whole Sample % N = 45
Description of property, plant and equipment	81.8	100.0	69.2	80.0	24.5
Advertising expenses for the current year	72.7	100.0	76.9	60.0	23.9
Amount of director's annual \remuneration	27.3	31.3	15.4	100.0	6.5
Amount of top management's annual remuneration	18.2	18.8	7.7	100.0	3.9
Amount of revenue generated from foreign market	36.4	25.0	38.5	100.0	8.4
Details of revenue sources	100.0	87.5	84.6	80.0	25.8
Details of equity investment	60.0	87.5	53.8	40.0	24.9
Market value of the inventory	9.1	18.8	15.4	100.0	3.9
Description of the components of the inventory	00.0	75.0	23.1	100.0	9.7
Market value and breakdown of non equity investment	00.0	00.0	0.0	00.0	00.0
Monetary amounts of locally produced raw materials	36.4	81.3	30.8	20.0	14.2
Details of long term debt	72.7	75.0	53.8	80.0	20.0
Audit fees	36.4	100.0	23.1	100.0	4.5
Company policy regarding temporary investment	00.0	00.0	00.0	00.0	00.0
Summary of the age of the accounts receivables	81.8	93.8	84.6	80.0	25.2
Earning per share	18.2	6.3	00.0	100.0	1.9
Statements of source and application of funds	27.3	43.8	23.1	100.0	8.4
Method used to determine the cost of inventories	00.0	00.0	00.0	00.0	00.0
Number and amount of authorised and issued shares	63.6	50.0	15.4	40.0	12.3
Statement of company's objectives	81.8	75.0	53.8	20.0	18.7
Discussion of competitive position of the company	27.7	25.0	15.4	100.0	5.8
New product development information	18.2	31.3	7.7	100.0	5.2
Share of market in major product/service areas	9.1	6.3	7.7	100.0	1.9
Discussion of the major factors which will influence next year's results	45.5	12.5	7.7	20.0	5.2
Budgeted capital expenditures for the next fiscal year	18.2	50.0	7.7	20.0	7.7
Information about the employees	81.8	100.0	38.5	20.0	20.0
Information on corporate social responsibility	81.8	93.8	61.5	60.0	22.6

Due to the variation of disclosure items across sectors as reported in Table 6.3, it was decided to compute a disclosure index. The aim was to identify which sector discloses most information. Table 6.4 summaries the voluntary close to mandatory disclosure index.

Table 6. 4: Voluntary close to mandatory disclosure index

Variable	Sample	Mean	Minimum	Maximum N = 27
Finance Sector	11	11.45	7	20
Manufacturing Sector	16	12.87	8	20
Services Sector	13	8.30	1	18
Construction Sector	5	6.40	2	12
Whole Sample	45	10.48	1	20

Table 6.4 obviously shows that unlike mandatory disclosure, the level of disclosure was low. Looking at the results scored by the whole sample, the minimum disclosure is one item and the maximum disclosure is 20 out 27 items. In contrast, 100 per cent of some of the mandatory items were found to exist in the published corporate reports tested.

At the industry level, while the mean of voluntary close to the mandatory disclosure index of the manufacturing and finance sectors exceeded the mean of the whole sample, the mean items score by the services and construction companies was below that of the whole sample. Only 12 items were found to exist as maximum items in the corporate annual reports published by construction companies. Table 6.4 also reveals that while the highest level of voluntary close to mandatory disclosure was achieved by manufacturing companies, the lowest was scored by construction companies closely followed by services companies. Another important point is the variation in the level of disclosure within the companies examined. This can be seen from the minimum and the maximum disclosure scored. Both the manufacturing and finance companies reported a high mean of disclosure and a low level of variation. On the other hand, construction and services companies reported low mean disclosure and a high level of variation. The minimum items scored were 2 and the highest was 20 out of 27 items examined. This can be explained by the small sample size, when a high variation in disclosure can be expected.

The low levels of disclosure in the sample could be for many reasons. One reason could be that the companies do not receive any pressure from outside parties for such disclosure. Such pressure might come from the mechanism of a stock market or the media. Another reason is the ownership of these companies. The vast majority of the companies included have an individual owner: the Libyan government or its agency. Hence, the chief executive and the members of the company's board are appointees of the government. The individual owner may therefore be satisfied with the information disclosed.

In contrast, in developed countries such as the UK, the chief executive and members of the company's board are appointed by the company's shareholders. Therefore, these shareholders may require different qualitative and quantitative information to form their judgement on the performance of the managements. It is very important to note that there is no significant difference in the salary of government employees in Libya. Government employees such as a chief executive or an ordinary worker receive the same salary and the level of employee salary is dependent on the educational level achieved and the number of years worked. Therefore, there is no need for voluntary information to attract the owner's attention and increase the rewards. In other words, there are no management motivations to increase disclosure in Libyan companies.

Previous research conducted in developed countries by Singhvi and Desai (1971) find that higher earnings motivates members of the board to provide greater information because they feel that greater disclosure provides assurance to shareholders of profitability and, therefore, increases the amount of directors' annual remuneration or bonuses. Alternately, corporations may increase disclosure as they seek to attract potential investors. Another reason is that companies fear disclosing information to competitors.

In a small developing country such as Libya, the number of companies operating within sectors is small. For instance, only one electricity company operates across the region. Therefore, there is no competitor to encourage voluntary disclosure. In contrast, in the UK there are more than two companies providing electricity services. Future research in this area may reveal more reasons for the companies' low levels of voluntary disclosures. This could be conducted by interviewing the chief executive or, the financial director who typically signs the corporate reports for a company.

6.2.3.2 Optional disclosure

The preceding subsection has described the pattern of selected information items of voluntary close to mandatory disclosure. This section describes the pattern of corporate disclosure of a selection of items that are optional information. A number of 15 items were used to explore the pattern in published corporate reports by Libyan companies. The information items were extracted from previous studies such as the work conducted by Mirshekary and Saudagaran (2005).

The reason for choosing previous research for selecting the items was that it was expected that Libyan companies would disclose some of these items. Table 6.5 presents the frequency of optional disclosure. Furthermore, the first column of Table 6.5 presents optional disclosure items, columns 2 to 5 industry classifications and column 6 the sample as a whole. The results presented in Table 6.5 noticeably show that the level of optional disclosure of the whole sample is lower than the level of the mandatory disclosure.

The range of the frequency of the items disclosed was between 7 to 24 per cent of the sample examined. In other words, at least 3 companies included in this study disclosed their cash flow statements and 10 companies disclosed information about the accounting principles that have been used in their corporate annual reports. An analysis of industry levels, financial companies and manufacturing sectors were found to disclose more items than other companies included in the sample. The minimum frequency of the items disclosed was 20 per cent and the maximum was 100 per cent of the companies included. At least 2 items were disclosed by all financial companies and 4 items by all manufacturing companies.

Table 6. 5: Optional disclosure

Voluntary Disclosure	Financial Sector % N = 11	Manufacturing Sector % N =16	Service Sector N = 13	Construction Sector % N = 5	Whole Sample N = 45
Donations to, and support given to charities	72.7	87.5	46.2	40.0	19.4
University graduate recruitment policy and achievement	100.0	100.0	61.5	20.0	23.2
Planning for human resource development	72.7	100.0	46.2	20.0	20.0
Discussion of major factors affecting current year operations	81.8	100.0	38.5	20.0	18.7
Discussion of major factors expected to affect future operations	54.5	87.5	38.5	20.0	13.5
Statement of cash flow	18.2	62.5	30.8	20.0	7.1
Description of future capital expenditure	45.5	56.3	15.4	40.0	10.3
List of names of directors	72.7	37.5	46.2	20.0	13.5
List of names of the top management	81.8	25.0	38.5	40.0	11.6
Percentage of Libyan employees in different levels of the organisation	81.8	87.5	69.2	60.0	20.6
Company policy regarding dividends	72.7	43.8	38.5	40.0	12.9
Significant shareholders (i.e. who hold 5 per cent or more)	45.5	81.3	61.5	80.0	19.4
Description of major types of products	81.8	75.0	61.5	40.0	20.0
Information about accountancy principles used	100.0	100.0	61.5	60.0	24.5
Percentage of total wages paid to Libyan employees	63.6	83.3	46.2	20.0	17.4

Furthermore, two items were disclosed by both sectors examined. The items were: (1) the university graduate recruitment policy and achievement, (2) the information about the accountancy principles used (see Table 6.5). At least 11 companies were also found to disclose these items. This result might be explained by the fact that Libyan companies disclose this optional information to avoid pressure from the owners. However, the users of accounting information are predominantly the state and state agencies (Nassr and Simon, 2003). Initially, this appears to be significantly different from Western economies where private investors and creditors are among the major users of accounting information, for the users of UK annual reports see for example The Corporate Report (1975).

6.2.3.3 Voluntary disclosure index

In line with the preceding subsections, the following paragraph discusses the index of optional disclosure in the published corporate reports by the Libyan companies examined. The results of the optional disclosure index are presented in Table 6.6.

Table 6. 6: Optional disclosure index

Variable	Sample	Mean	Minimum	Maximum N = 15
Finance Sector	11	10.45	5	11
Manufacturing Sector	16	10.50	7	14
Services Sector	13	7.00	0	14
Construction Sector	5	3.40	0	7
Whole Sample	45	8.69	0	14

From the results reported here, it is clear that Libyan companies disclose some of the optional information in their corporate annual reports. The minimum disclosure is 'zero' items. The maximum disclosure is 14 out of the 15 items examined, with an average of 9 items. In the individual sector, the manufacturing companies disclose more information than the other companies examined. This result is confirmed by the mean of the optional disclosure items reported score. The second highest score in the optional information section was reported by the financial companies. This result was in line with the result reported in the preceding subsections. On the other hand, a low level of optional disclosure was reported in the construction and service companies. Only 7 items were found to exist in the published corporate reports by the construction companies. In addition, no optional disclosure at all was found to exist in some of the companies examined.

6.2.4 Total disclosure index

This subsection discusses the total disclosure index of Libyan companies included in this study. Table 6.7 shows a summary of the disclosure index of Libyan companies. In general, the overall disclosure indexes vary between companies. As shown in Table 6.7, the total disclosure scores by Libyan companies vary from a high of 86 per cent to a low of 28 per cent; the average is 62 per cent. Further, none of the corporations examined scored 100 per cent of the items provided. Thus, it appears that even those companies that disclose the most information items still fail to meet a considerable number of mandatory and/or voluntary disclosures. This result is close to the findings of previous studies in the same geographical region.

For instance, Al-Khatib (1999) reported that the mean level of disclosure reported in the companies' annual reports of Jordanian companies is 63.51 per cent. It ranged between a low of 33 to a high of 82 per cent. In addition, Al-Modahki (1995) reported that the aggregate disclosure indexes of Saudi Arabia companies were 33 per cent to 95 per cent for the three years 1988, 1989, and 1990. The variation in the level of disclosure ranges between this study and that of Al-Khatib, on the one hand and of Al-Modahki's study on the other hand, might be caused by the fact that those countries, Jordan and Saudi Arabia, introduced a stock market exchange several years ago.

Table 6. 7: Disclosure index of Libyan companies

Company Name	Industry type	Index
Commerce & Development Bank	Finance	0.8615
General Electricity Company	Services	0.8154
General Electronics Company	Manufacturing	0.8154
Buses and Lorries Company	Manufacturing	0.7846
Libyan Iron & Steel Company	Manufacturing	0.7538
General National Spinning & Textile Company	Manufacturing	0.7538
United Insurance Company	Finance	0.7385
Oumma Bank	Finance	0.7385
Libyan Arab African Investment Company	Services	0.7385
Libyan Tractors Company	Manufacturing	0.7385
General Chemical Manufacturing Company	Manufacturing	0.7385
Arabic Geometrical Manufacturing Company	Manufacturing	0.7385
Libyan & Italian Joint Company	Manufacturing	0.7277
Libyan Cement Company	Manufacturing	0.7231
Wahada Bank	Manufacturing	0.7077
General Tobacco Company	Manufacturing	0.7077
Tripoli National Marketing Company	Services	0.6923
Albreaga Oil Marketing Company	Services	0.6923
National Trailers Company	Manufacturing	0.6769
National Commerce Bank	Finance	0.6615
Jomhuria Bank	Finance	0.6615
Libyan Arab Foreign Bank	Finance	0.6577
Industry Development Bank	Finance	0.6462
General Plastics & Sponge Manufacturing Company	Manufacturing	0.6462
Bangazzi General Pipes Company	Manufacturing	0.6462
Aterneat National Pipes Manufacturing Company	Manufacturing	0.6462
National Digging & Service Oil Well Company	Construction	0.6308
Libyan Arab Foreign Investment Company	Services	0.6308
General Houses Industrial Company	Construction	0.6154
National Pharmaceutical & Medical Cosmetics Company	Services	0.6154
Libyan Insurance Company	Finance	0.6154
General National Fodder & Mill Company	Manufacturing	0.6154
National Banking Corporation	Finance	0.5692
Azzawiya Oil Refining Company INC	Manufacturing	0.5692
Saving & Real-Estate Investment Bank	Finance	0.5538
Foreign Exchange & Financial Services Company	Finance	0.5538
Medical Services Company	Services	0.5231
Banigazzi Investment & Operating Parks Organization	Construction	0.4462
Azzawiya Real-Estate Investment Company	Services	0.4308
Janzour General Construction Organization	Construction	0.4154
General Post & Communication Company	Services	0.4154
National General Sea Transportation Company	Services	0.4000
Libyan Tourism & Travel Company	Services	0.4000
Great Man Made River Construction & Reformation Company	Construction	0.3385
National Investment Company	Services	0.2769

In Saudi Arabia for example, the trading in companies' shares was traced back to 1934 (Alrazeen, 1999). The existence of a stock market in a country may require a regulations governing for the company to be listed on the stock market.

Furthermore, since January 1990 Jordan has adopted the IAS (Abu-Nassar and Rutherford, 1996). Hence, Saudi Arabia has developed an articulation of the requirement of the general presentation and disclosure standard (Alrazeen, 1999).

6.3 Comparison between user needs and actual disclosure

In this subsection, a comparison of the overall user groups need and the actual disclosure by Libyan companies is given. The overall user groups need was employed due to the fact that corporate annual reports are presumably prepared for all user groups. Due to the similarity of the information items used to gather the perception of users' needs, as reported in Chapter 5, the items used for analysis, and the actual disclosure by Libyan companies, it is worth comparing results between the Libyan user groups need to make informed decisions and the actual disclosure by Libyan companies.

Before the comparison is discussed, it is important to note that the data for perceived important items were gathered in a five point Likert scale. So the means, as a measure of central tendency, were computed for ranking purposes. Then, the computed means for all the 65 information items were ranked using an 'A to Z sort' function; this is provided in the Microsoft Office Word Processor, version 2003. In contrast, the descriptive statistics frequency of actual items disclosed by the whole sample was used. The whole sample was used due to the small size of the companies included in this study. In addition, only 20 items were used for the comparisons, to explore the gap between the users' needs and the actual discloser. The choice of the first and the last 10 most important items for the comparison was due to the fact that the total number of items is quite large.

The first 10 most important items of the perceived overall user groups compared with the top 10 disclosed by all companies included. The same procedure was used with the 10 last most important items, with the last 10 items disclosed.

Table 6.8 shows the comparison of the 10 most important items perceived by overall user groups. This data shows that the three most important items were disclosed by all the companies examined. These three items include net income, administrative and general expenses and amount of sales or net of sales. By contrast, only 44 per cent of the companies examined disclosed the most important items as perceived by the overall user groups.

Table 6. 8: Comparison of the 10 most important items

Information items	Users importance Score	Percentage of companies disclosing
Provide current and previous year figures	4.90	44
Net income	4.53	100
Gross margin	4.45	84
Classify assets and liabilities into current and non current	4.44	89
Administrative and general expenses	4.41	100
Amount of sales or net sales	4.41	100
Budgeted capital expenditure for next fiscal year	4.31	27
Other revenues	4.25	96
Amount and breakdown of owners' equity	4.25	96
Amount and breakdown of fixed assets by components	4.24	98

Further, the budgeted capital expenditure for the next fiscal year information item was ranked as the sixth most important item (see Table 6.8). Hence, only 27 per cent of the companies examined were found to disclose this item in their published corporate reports. Other information items were strongly compliant with the users need to make informed decisions. Table 6.9 provides a comparison of the least 10 most important items as perceived by overall user groups and the percentage of companies disclosing these items.

Table 6. 9: Comparison of the least 10 most important items

Information items	Users importance score	Percentage of companies disclosing %
University graduate recruitment policy and achievement	3.46	80
Information about the employees	3.51	69
Information on corporate social responsibilities	3.51	78
List of names of directors	3.52	47
Percentage of local employees in different company level	3.56	71
Percentage of total wages paid to Libyan employees	3.56	60
List of management names	3.56	40
Amount of top managements annual remuneration	3.70	13
Donations to, and support given to charities	3.94	67
Advertising expenses for the current year	4.41	82

It is clear from the results reported in Table 6.9, that there is a variance between the users needs and the companies achieved disclosure. These results are sorted by the mean users importance score and the percentage of the actual disclosure by the companies examined in their published corporate annual reports. The result also shows evidently that while one of the items were reported the least most important by user groups, it was nevertheless disclosed by 80 per cent of the companies examined. These information items of disclosure, however, used to appear in the Board's Director Reports' section.

Although the Board's Director Report was rated the last most important section within corporate reports by the user groups (see Chapter 5), the vast majority of the companies reports examined disclosed this information. One item reported in the last 10 most important items was disclosed by 82 per cent of the companies examined. These items previously appeared in the profit and loss account section.

This section was reported the most important section within corporate reports (see Chapter 5). Thus, it can be concluded that some of the items disclosed by Libyan companies in their published corporate annual reports are in line with the user groups needs, while other items perceived as the least important, were disclosed by the majority of the companies examined.

6.4 Factors that might explain the variation in corporate disclosure

In the preceding subsections, the mandatory and voluntary disclosures of the sample of Libyan companies and across industries were investigated. Significant variations in the level of financial disclosure were reported. In this subsection, a number of a company's characteristics were used to explain the variance of financial disclosure. The company's characteristics include the company's size (measured by book value of total assets, total sales, number of employees), the company's profitability (measured by rate of return and profit margin), the company's industry type (1 = finance, 2 = manufacturing, 3 = services and 4 = construction companies), the company's external auditor (1 = government agency and 2 = private small bureau) and the company ownership (1 = government or their agency, 2 = government or their agency and local investor and 3 = government or their agency and international investor).

Then, the mandatory, the voluntary close to mandatory and the optional and total financial disclosure were regressed against the company's characteristics. It was decided to test the validity of the models used in the literature pertaining to the Libyan environment. The following analysis provides a test for these hypotheses.

Hypothesis 1: There is an association between the extent of disclosure, whether mandatory or voluntary, and corporate size.

Hypothesis 2: There is an association between the extents of disclosure, whether mandatory or voluntary, and corporate profitability.

Hypothesis 3: There is an association between the extents of disclosure, whether mandatory or voluntary, and the corporate type of industry.

Hypothesis 4: There is an association between the extent of disclosure, whether mandatory or voluntary, and the corporate external auditor.

Hypothesis 5: There is an association between the extents of disclosure, whether mandatory or voluntary, and corporate ownership.

6.4.1 Descriptive statistics

Before the descriptive statistics are given, it is important to identify the dependent and independent variables. The dependent variables are as follows:

- Disclosure index of mandatory disclosure
- Disclosure index of voluntary disclosure
- Disclosure index of total disclosure

Table 6.10 shows the distribution of the dependents' code name, mean, standard deviation and the minimum and the maximum value of the variables.

Table 6. 10: Descriptive statistics for the dependent variables

Variable	Code name	Mean	Min	Max	St.D
Mandatory index	MINDEX	0.92	0.61	1.00	0.07
Voluntary index	VINDEX	0.45	0.05	0.81	0.19
Total disclosure index	TDINDEX	0.62	0.27	0.86	0.14

The result presented in Table 6.10 noticeably shows that the mean level of the total disclosure index reported in the companies' annual reports of the sample is 62 per cent. The data presented also indicates a degree of variation in the level of disclosure between the sample companies. The disclosure index scores between a low of 27 per cent and a high of 86 per cent. Furthermore, there is a notable variation in the level of mandatory and voluntary information items.

This can be observed in the minimum and the maximum figures reported. Hence, two types of independent variables are used to provide explanations to the extent of financial disclosure. The continuous variables include size and profitability variables. The dummy independent variables include industry type, ownership and audit status. The measurements of these variables are as follows:

- Size - measured by book value of the total assets, the total sales and the number of employees;
- Profitability - measured by the rate of return and the profit margin;
- Classification type - industry type (1 = finance sector, 2 = manufacturing sector, 3 = service sector and 4 = construction sector);
- Ownership - ownership (1 = government or their agency, 2 = joint venture between government or its agency and local investor and 3 = joint venture between government or its agency and the international investor) and

- Audit company status - external auditor (1 = government agency and 2 = small private bureau).

Table 6.11 shows the distribution of the continuous independent variables. It is clear from the results presented that some of the continuous independent variables required a transformation in order to approximate a normal distribution. These variables are, namely, the book value of total assets, the total sales and the number of employees. Logarithms of these variables were used to reduce the effect of the non-normality of the data distribution. This approach has been widely adopted in the literature (see Ahmed and Nicholls, 1994; Ho and Shun Wong, 2001 and Archambault and Archambault, 2003). The transformed variables revealed that the data was generally normally distributed thereafter.

Table 6. 11: Descriptive statistics for the independent variables

Variable	Code name	Mean	Minimum	Maximum	St.D*
Assets		5.1 E+08	1015370	4.9 E+09	9.4 E+08
Log assets	LASSETS	8.04	6.00	9.60	0.90
Total sales		6.0 E+07	58178	5.7 E+08	1.2 E+08
Log total sales	LSALES	7.07	4.72	8.75	0.93
Total employees		2350	178	31694	4725
Log total employee	LEMPLOYEE	3.07	2.25	4.50	0.49
Rate of return	RETURN	0.06	-0.16	1.79	0.33
Profit margin	MARGIN	- 0.039	- 7.57	7.80	1.80
Industry type	INDUSTRY	2.27	1	4	0.96
Ownership	OWNERSHIP	1.3	1	3	0.67
External auditor	AUDITOR	0.91	0.00	1.00	0.29

**St.D: Standard deviation*

Table 6.11 shows that more than a third of the sample companies were owned by one owner. The vast majority of the sample companies were audited by one of the two external categorical auditors. The mean number of people employed was 2,350. The results in Table 6.11 show that there are notable variances among the value of independent variables. This can be observed from the reported results of the minimum and maximum values of these variables. It also shows that significant differences in the standard deviations of the variables values were reported. Thus, variations in corporate characteristics will lend more credibility to the results of the study and make it possible to generalise the results to all Libyan companies.

6.4.2 Correlation among variables

Although the dependent and the independent variables are interrelated, it is often useful to analyse simple correlation statistics among all dependent and independent variables included. The aim of testing simple correlation among all variables is to assess the possibility of nonlinearity problems among these variables. This approach is recommended in the literature, in particular, when there are a number of independent variables (see for example, Naser and Al-Khatib, 2000; Archambault and Archambault, 2003).

The simple correlations among all variables were computed using Pearson's product-moment correlation. The results of the simple correlation matrix for the dependent and independent are presented in Table 6.12. Further, below the simple correlation matrix are the multiple correlation coefficients (R squared) and adjusted R squared.

Table 6. 12: Simple correlation among dependent and independent variables

	MINDEX	VINDEX	TDINDEX	LASSETS	LSALES	LEMPLOYEE	MARGIN	RETURN	INDUSTRY	OWNERSHIP	AUDITOR
MINDEX	1.000 .										
VINDEX	.657(**) sig. = .000	1.000 .									
TDINDEX	.717(**) sig. = .000	.995(**) sig. = .000	1.000 .								
LASSETS	.088 sig. = .567	.258 sig. = .087	.249 sig. = .100	1.000 .							
LSALES	.260 sig. = .084	.373(*) sig. = .012	.373(*) sig. = .012	.598(**) sig. = .000	1.000 .						
LEMPLOYEE	.200 sig. = .189	.072 sig. = .638	.085 sig. = .579	.081 sig. = .599	.433(**) sig.= .003	1.000 .					
MARGIN	.060 sig. = .693	.018 sig. = .908	.027 sig. = .862	.319(*) sig.= .032	.354(*) sig. =.017	.142 sig. = .351	1.000 .				
RETURN	.029 sig. = .851	.084 sig. = .584	.085 sig. = .579	.298(*) sig. = .047	.283 sig.= .060	.106 sig. = .487	.870(**) sig. = .000	1.000 .			
INDUSTRY	-.152 sig. =.319	-.467(**) sig. = .001	-.436(**) sig. = .003	-.481(**) sig. = .001	-.368(*) sig.= .013	.165 sig. = .280	-.112 sig. = .462	-.157 sig. = .304	1.000 .		
OWNERSHIP	.200 sig. = .188	.244 sig. = .106	.248 sig. = .100	-.130 sig. = .395	-.240 Sig.= .112	-.221 Sig. = .145	-.056 Sig. = .712	-.160 Sig. = .293	-.240 sig. = .113	1.000 .	
AUDITOR	.164 sig. = .282	-.072 sig. = .637	-.057 sig. = .709	.018 sig. = .906	.210 sig.= .165	.415(**) sig. = .005	-.259 sig. = .086	-.198 sig. = .191	.195 sig. = .200	-.362(*) sig. = .014	1.000 .
R squared			0.422	0.668	0.669	0.394	0.447	0.531	0.610	0.325	0.420
Adjusted R squared			0.294	0.594	0.595	0.295	0.324	0.427	0.523	0.175	0.291

*** Correlation is significant at the 0.01 level (2-tailed), and *Correlation is significant at the 0.05 level (2-tailed).*

These values were obtained by regressing each variable against other variables to gain insight into the degree of multicollinearity among the variables. This approach has been suggested by Johnston (1972) and used by Ahmed and Nicholls, (1994), Inchausti (1997) and Alrazeen (1999). Table 6.12 also shows a number of significant correlations between the dependent and the independent variables and that there are significant and positive associations between the dependent variables. These associations were at the 1 per cent level between the mandatory, the voluntary and the total disclosure index.

Thus, the result reflects a very high level of similarity between the disclosures in the published corporate annual reports of Libyan companies. The results of this study are consistent with previous research. For instance, Dye (1986) reported that companies with a high level of mandatory disclosure in their corporate annual reports tended to disclose more voluntary items. Further, Table 6.12 demonstrates that a positive significant correlation relation (0.598) existed between the two measures of size (LASSETS and LSALES).

According to Cohen and Holliday (1982:110) "*a multiple correlation coefficients of 0.7 or above (i.e. $R^2 \geq .49$) are considered high relationship*". Thus, the multiple correlation coefficients of 0.668, 0.669 (adj. R^2 = 0.594, 0.595) confirmed the high level of association between log assets and log sales. Furthermore, significant and positive correlation relation (0.433) was also evident between total sales (LSALES) and the number of employees (LEMPLOYEE).

The existence of multicollinearity is a serious problem in multiple regressions, as the effect of each independent variable on the dependent variable can be difficult to identify. Therefore, the three size variables indicate that multicollinearity woula be a problem if these size variables were incorporated in the same model. In fact, the high level of correlation between the different measures of size has been observed in other studies (Cooke, 1989; Ahmed and Nicholls, 1994; Wallace *et al* 1994; Alrazeen 1999 and Al-Katib, 1999). To control the effects of multicollinearity, the regression models were estimated using a one size variable because it was considered that one of the collinear variables (log assets, log sales and log employee) was unnecessary.

In this study, the log assets and log employees were omitted from the regression model because their correlation coefficients with other variables are higher than those of log sales. Moreover, there was also a concern about the level of correlation among the other variables, so it was decided to compute the Variance Inflation Factor (VIF) to assess the strength of the correlation problem. The degree of multicollinearity is considered harmful if the VIF exceeds 10 (for example, Neter *et al*, 1989; Silver, 1997 and Naser, Al-Khatib and Karbhari, 2002).

6.4.3 Multivariate analysis

Multivariate analysis was used on the variables measuring voluntary and total disclosure. The exploitation of this technique was to predict the factors that might have an influence on the level of information disclosed in the annual corporate reports published by Libyan companies. Mandatory disclosure was excluded from the multivariate analysis as there is a low degree of variation in the items scored (see Table 6.1). Before the results of the regression are presented, it is important to note that two methods of regression were used in this study. The methods include Enter and Stepwise regressions. While the aim of using Enter method is to predict the variations that might have an influence on the dependent variables, a Stepwise regression is used to predict the most important variables that might have an influence on the dependent variables. Further, all independent variables were regressed against voluntary disclosure and total disclosure each time. The regression equations are:

1) Total voluntary disclosure $= \beta_0 + \beta_1 \text{lsales}\, x + \beta_2 \text{ margin}\, x + \beta_3 \text{ return}\, x + \beta_4$ industry type (manufacturing = 1 or 0 + finance = 1 or 0 + service = 1 or 0 + construction = 1 or 0) $x + \beta_5$ (auditor1 = 1 or 0 + auditor2 = 1 or 0) $x + \beta_6$ (owner1 = 1 or 0 + owner2 = 1 or 0 + owner3 = 1 or 0) $x + \varepsilon x$

2) Total disclosure $= \beta_0 + \beta_1 \text{lsales}\, x + \beta_2 \text{ margin}\, x + \beta_3 \text{ return}\, x + \beta_4$ industry type (manufacturing = 1 or 0 + finance = 1 or 0 + service = 1 or 0 + construction = 1 or 0) $x + \beta_5$ (auditor1 = 1 or 0 + auditor2 = 1 or 0) $x + \beta_6$ (owner1 = 1 or 0 + owner2 = 1 or 0 + owner3 = 1 or 0) $x + \varepsilon x$

Where, β_0 = constant, β_1, β_2, β_3, β_4, β_5, β_6, = Parameters of the Model and x = company.

In addition, regarding the interpretation of the results, three values are important. These values include the constant and its Sig.-T, adjusted R^2, Beta, the signs of Beta and it's Sig.-T. The next subsection discusses the predictions of voluntary disclosure using two methods of regression.

6.3.3.1 Predictors of voluntary disclosure

Voluntary disclosure was regressed against the independent variables by using two methods of regression. The next subsection discusses the Enter method.

6.3.3.1.1 Enter method

Table 6.13 presents the adjust R^2 (coefficient of determination), F-ratio and Sig.-F, Beta (regression coefficient) and t-statistics for model and summarises the multiple regression results of voluntary disclosure (Y) on the explanatory variables included. It can be observed from the results presented in Table 6.14 that 3 independent variables were excluded. These variables include auditor status as measured by government agency auditor, services companies and owner3 (joint venture between government or its agency and international investors). These variables were excluded because the minimum tolerance value was zero, indicating that they were not important in predicting the variation of the dependent variables.

As Table 6.13 shows, the multiple regression result of the model was significant at the 0.001 per cent level and it explained 36.4 per cent of the disclosure variations in corporate annual reports. The results show that only 2 out of 9 explanatory variables used in the model were found to be significant and positive to explain the variation of disclosure. The other 7 variables with Sig.-T value ranging between 0.10 to 0.696 exceeded the required value for Sig. ≤ 0.05 to be considered significant.

Table 6. 13: Multiple regression analysis of the extent of voluntary disclosure and company characteristics

Variables	Beta	T	Sig. T	Collinearity	
				Tolerance	VIF
(Constant)	-4.384	-0.456	0.651		
FINANCE	2.976	0.966	0.341	0.491	2.038
MANUFACTURING	5.654	0.351	0.039*	0.540	1.852
CONSTRUCTION	-2.896	-0.783	0.439	0.636	1.572
LSALES	3.387	2.376	0.023*	0.505	1.981
MARGIN	-0.697	-0.985	0.331	0.543	1.843
RETURN	2.438	0.715	0.479	0.696	1.436
AUDITOR2	4.341	0.797	0.431	0.358	2.797
OWNER1	-4.226	-1.232	0.226	0.456	2.191
OWNER2	0.386	0.058	0.954	0.235	4.250
$R^2 = 0.494$	Adjusted $R^2 = 0.364$		F = 3.797	Sig. F 0.002	

Where, auditor 2 = small private bureau, owner1 = government or its agency, owner2 = joint venture between government or its agency and local investor. Significant at 5 per cent.*

In other words, industry type (manufacturing sector) and company size as measured by total sales significantly and positively influence the level of voluntary disclosure in the published corporate reports by Libyan companies. In contrast, profit margin, rate of return, finance and construction companies, government or its agency and joint venture between government or its agency ownership and small private bureau auditor variables do not influence the level of disclosure significantly.

6.3.3.1.2 Stepwise methods

The stepwise regression is used to predict the most important independent variables that might have an influence of level of voluntary disclosure. Table 6.14 shows three models of stepwise regression. It shows also Beta, T statistics, Sig.-T, collineanty, R^2 and adjusted R^2 and F and Sig-F test. Model-1 clearly shows that the most important factor influencing the level of disclosure was the company size as measured by total sales. This variable explains 19.4 per cent of the variation of the voluntary disclosure appearing in corporate reports published by Libyan companies. The result is confident at the < 0.001 level. Thus, this result suggests that Libyan companies that have large sales tend to disclose more voluntary information in their published corporate reports than other companies. This result is in line with previous research. For example, Chow and Wong-Boren (1987) reported that the voluntary disclosure is found to increase with the company size.

Table 6. 14: Multiple regression analysis of the extent of voluntary disclosure and company characteristics (the Stepwise method)

Variable	Beta	T	Sig. T	Collinearity	
				Tolerance	VIF
Model-1					
(Constant)	-8.290	-1.020	0.314		
LSALES	3.884	3.407	0.001**	1.000	1.000
$R^2 = 0.213$, Adjusted $R^2 = 0.194$			F = 11.608, Sig.-F = 0.001		
Model-2					
(Constant)	-6.328	-1.020	0.314		
LSALES	4.383	4.080	0.000**	0.972	1.028
OWNER1	-6.864	-2.791	0.008**	0.972	1.028
$R^2 = 0.336$, Adjusted $R^2 = 0.304$			F = 10.617, Sig.-F = 0.000		
Model-3					
(Constant)	-4.469	-0.611	0.314		
LSALES	3.819	3.602	0.001**	0.915	1.093
OWNER1	-6.159	-2.592	0.013*	0.955	1.048
MANUFACTURING	4.410	2.196	0.034*	0.933	1.072
$R^2 = 0.406$, Adjusted $R^2 = 0.362$			F = 9.330, Sig.-F = 0.000		

*Where, LSALES = log of total sales, OWNER1 = government or its agency ownership and MANUFACTURING = manufacturing companies sector type, ** Significant at 1per cent and * significant at 5 per cent.*

Model-2 clearly shows the second most important variable is the ownership. The ownership variable added 11 per cent, adjusted R^2 = 0.304, in explaining the variation of voluntary disclosure. The regression coefficient for the ownership variable is significant – 6.159. This suggests that companies owned by the government or its agency were influenced by the voluntary disclosure at the 1 per cent significance level. The result suggests that companies not owned by government or its agency that have large amount of sales tend to disclose more voluntary information in their published corporate reports than government or government agency owned companies.

In other words, companies that are owned either as a joint venture between the government or its agencies and local investor or as a joint venture between the government or its agencies and an international investor, that have large amounts of sales tend to disclose more voluntary information than companies owned by government or its agencies. Model-3 presents the industry type as the third most important variable. This variable contributes by 5.8 per cent to explain the variation of the voluntary disclosure in corporate reports published by Libyan companies. The regression coefficient for this variable is 4.410. This result suggests that Libyan manufacturing companies that have a large amount of sales and are not owned by the government or its agency tend to disclose more voluntary information than other companies.

6.3.3.2 Predictors of total disclosure

This subsection discusses the results of multiple regression of independent variable against total disclosure variables. As with the procedure followed in the preceding subsection, all independent variables are regressed against a total disclosure index into two methods of regression.

6.3.3.2.1 Enter method

Table 6.15 shows the result of all independent variables against the total disclosure index using the Enter method. These variables include industry type (manufacturing, finance, services and construction), lsales (log of total sales), margin (profit margin), return (rate of return), auditor status (auditor1and auditor2) and ownership variables (owner1, owner2 and owner3). The results presented in Table 6.15 reveal that the largest VIF factor observed for the model was 4.250 (OWNER2) and the VIFs of all other independent variables were below 2.80. Thus, the results support the lack of presence of multicollinearity between the independent variables in the research model.

Table 6.16 shows clearly that the resulted regression is significant (F = 3.42, Sig. F = 0.00) and explains 33.2 per cent of the variations in the level of total disclosure in corporate annual reports published by Libyan companies included in the sample. The model indicates that there were three out of nine independent variables are statistically significant and that there is a positive association between dependent and independent variables. These variables are finance, manufacturing and a company's size as measured by total sales.

Table 6. 15: Multiple regression analysis of the extent of total disclosure and company characteristics (Enter method)

Variables	Beta	T	Sig. T	Collinearity	
				Tolerance	VIF
(Constant)	14.736	1.315	0.197		
FINANCE	3.098	0.862	0.035*	0.491	2.038
MANUFACTURING	6.760	2.199	0.035*	0.540	1.852
CONSTRUCTIONS	- 2.719	- 0.630	0.533	0.636	1.572
LSALES	3.691	2.220	0.033*	0.505	1.981
MARGIN	- 0.642	- 0.778	0.442	0.543	1.843
RETURN	2.215	0.557	0.581	0.696	1.436
AUDITOR2	3.335	0.525	0.603	0.358	2.797
OWNER1	- 4.793	- 1.198	0.239	0.456	2.191
OWNER2	0.927	7.834	0.118	0.235	4.250
$R^2 = 0.468$	Adjusted $R^2 = 0.332$		F = 3.42	Sig.-F = 0.004	

Where, auditor 2 = small private bureau, government or its agency, owner2 = joint venture between government or its agency and local investor. Significant at 5 per cent.*

The result suggests that large companies as measured by total sales either in the financial sector or the manufacturing sector tends to disclose more information than other companies. These findings support Hypothesis 1 and Hypothesis 4 which state that there is an association between the extent of total disclosure and both corporate size and industry. Therefore, the two hypotheses cannot be rejected.

6.3.3.2.2 Stepwise method

In this method, all the independent variables and the voluntary disclosure index that was used in the Enter methods were used. The main difference was the selection of the stepwise method of liner regression. Table 6.16 shows three models that could explain the level of variation of total disclosure. It also presents Beta, T statistic and Sig.-T, collinearity, adjusted R^2 (determination coefficient) and F and Sig.-F. It can be seen from Table 6.16 that the reported VIF factor for independent variables declined sharply to 1.09 in the highest case. The decline of VIF value might be related to the reduced number of independent variables regressed against total disclosure. Furthermore, the regression coefficient for the constant is not significant at the 5 per cent level. Further, Table 6.16 shows 3 models that might explain the variation of the level of disclosure in the corporate reports published by Libyan companies.

Model-1 presents the company's size variable. This variable is measured by total of sales. The regression coefficient for this variable is significant 4.345. Further, the variable explains 18.7 per cent of total disclosure variance in the published corporate reports by Libyan companies. This result indicates that a company's size variable is the most powerful variable in explaining the variation of information disclosed. Thus, this result suggests that Libyan companies with a large amount of total sales tend to disclose a high level of information, mandatory and voluntary, in their corporate reports.

Model-2 shows, in addition to the total sales variable, that ownership is the second most powerful variable in explaining the variation of the level of information disclosure. The regression coefficient is a negative and significant - 7.644 (adjusted R^2 = 0.291, Sig. 0.00). Further, the ownership variable is responsible for 10.4 per cent of the variation of the level total disclosure in the corporate reports published by Libyan companies.

This result suggests that Libyan companies that have a large amount of sales and are owned by the government or its agency tend to provide less level of disclosure in their published corporate reports than other companies' sectors.

Table 6. 16: Multiple regression analysis of the extent of total disclosure and company characteristics (Stepwise method)

Variable	Beta	T	Sig.-T	Collinearity	
				Tolerance	VIF
Model-1					
(Constant)	9.654	1.039	0.305		
LSALES	4.345	3.335	0.00?**	1.000	1.000
R^2 = 0.205, Adjusted R^2 = 0.187			F = 11.120, Sig.-F = 0.002		
Model-2					
(Constant)	11.839	3.972	0.181		
LSALES	4.900	0.511	0.000**	0.972	1.028
OWNER1	- 7.644	- 2.707	0.010*	0.972	1.028
R^2 = 0.324, Adjusted R^2 = 0.291				F = 10.044, Sig.-F = 0.000	
Model-3					
(Constant)	14.132				
LSALES	4.204	3.485	0.001**	0.915	1.093
OWNER1	- 6.774	- 2.506	0.016*	0.955	1.048
MANUFACTURING	5.440	2.381	0.022*	0.933	1.072
R^2 = 0.406, Adjusted R^2 = 0.362				F = 9.330, Sig.-F = 0.000	

*Where, LSALSE = log of total sales, OWNER1 = government or its agency ownership and MANUFACTURING = manufacturing companies, ** significant at the1 level per cent level and * significant at the 5 per cent level.*

Model-3 presents the industry type as the third most important variable to explain the variation of level of disclosure. Industry type added 7.1 per cent to explain the variation of level of disclosure in corporate reports published by Libyan companies. The result suggests that Libyan manufacturing companies that have a good amount of total sales and are owned by the government or its agency tend to provide less level of disclosure in their published corporate reports than other companies' sectors. Thus, there is an association between the extent of total disclosure and corporate size, type of industry, and ownership. Therefore, the Hypothesis 1, Hypothesis 2, and Hypothesis 5 cannot be rejected. It can be concluded that only three independent variables with a regression coefficient significant at the 5 per cent level or less were found to have an influence on the level of disclosure. The most important variables to predict the variation of total disclosure in the published corporate reports by Libyan companies are; company's size as measured by total sales, ownership by the government or its agency and the fact of company being in the manufacturing sector.

In contrast, a company's performance as measured by profit margin and rate of return and audit status was found to be insignificant. The most significant variable is the company size as measured by total sales. This provides support for the Hypothesis 1 that there is an association between the extent of total disclosure and corporate size. The next most significant variable is the government or its agency ownership. This supports Hypothesis 4, which states that there is an association between the extent of total disclosure and corporate ownership. The third most important variable is industry type. Therefore, there is an association between the total disclosure and corporate industry type.

6.5 Discussion of the results

The preceding subsection reported the results of the variables that might have an influence on the level of information disclosed in the corporate reporting published by Libyan companies. This subsection provides a discussion of the findings of previous research. The aim of this section is to compare the study's results with previous research, particularly those results discussed in Chapter 3. However, the empirical results of the multiple regressions reported earlier indicate that this study differs from past studies in some conclusions and supports past work in others.

6.4.1 Company size

The hypothesis that there is an association between the extent of mandatory or voluntary disclosure and corporate size cannot be rejected for voluntary and total disclosure. Large companies as measured by total sales were found to disclose more voluntary and overall information in their published corporate reports than other companies. Furthermore, the regression analysis has showed that the company's size as measured by total sales is significant and positively explains the variation in both the extent of the voluntary and the total disclosure in corporate annual reports published by Libyan companies. This result suggests that the larger Libyan companies, as measured by total sales, disclose more information in their published corporate reports than other companies.

The significant and positive relation between company size and level of corporate disclosure is consistent with the results of similar studies conducted in some developed and developing countries. For instance, these studies have been conducted in the USA (Cerf, 1961), in Japan (Cooke, 1992), in Mexico (Chow and Wong-Boren, 1987), in Bangladesh (Ahmed and Nicholls, 1994); in Zimbabwe (Owusu-Anasah, 1998), in Saudi Arabia (Alrazeen, 1999), in Kuwait (Al-Hussein, 2001) and in Jordan (Naser, Al-Katib and Karbhari, 2002). A possible explanation of this result is that large companies are much more in the public eye than other companies. Furthermore, small companies cannot meet the cost of collecting, analysing and disclosing corporate information compared with large companies.

6.4.2 Ownership

The hypothesis that there is an association between the extent of mandatory or voluntary disclosure and corporate ownership is accepted for voluntary and total disclosure. Further, the reported result is that there is a significant and negative correlation between corporate ownership and the extent of the voluntary and the total disclosure. Companies owned by the government or its agency tend to disclose less voluntary and total disclosure in their corporate reports than other companies. This result is consistent with previous research conducted in Saudi Arabia by Alrazeen (1999); the study reported that companies with a high percentage of government ownership comply less than other companies.

Meanwhile, the study's result is inconsistent with the findings of Naser and Al-Katib (2000) which found that the proportion of government ownership showed a positive and significant correlation with the voluntary disclosure. The inconsistency between the study's result and the study conducted in Jordan by Naser and Al-Katib (2000) might be attributed to the fact that Jordan enjoys a free market economy thereby engendering competition between government ownership. This competition might have been significant in Naser and Al-Katib (2000) findings. Furthermore, companies with a high percentage of government ownership may tend to disclose more information to set an example to other companies owned by private individuals (Naser and Al-Khatib, 2000).

6.4.3 Industry type

The hypothesis that there is an association between the extent of mandatory or voluntary disclosure and corporate industry type cannot be rejected for voluntary and total disclosure. Companies in the manufacturing sector disclose more than other companies, their voluntary and overall disclosure is significantly higher than other companies. This result might be attributed to the fact that manufacturing companies are large. Thus, they are significant within the country's economy. This result is in line with previous research (for example, Cooke, 1992; Aderm, 1997; Alrazeen, 1999 and Al-Hussein, 2001). For instance, Cooke (1992) reported that Japanese manufacturing corporations' disclose significantly more information than corporations from any other sectors. Further, Al-Hussein (2001) reported that Kuwait Manufacturing companies tend to disclose more mandatory and voluntary information than other companies.

6.4.4 Company profitability

The hypothesis that there is an association between the extent of voluntary or mandatory disclosure and corporate profitability cannot be rejected for voluntary and total disclosure. Company profitability factors in this study were measured by two constant variables. These variables include rate of return and profit margin. Both variables found not to be significant in influencing the level of disclosure in the published corporate reports by Libyan companies. Furthermore, the regression analysis has shown mixed signs of Beta coefficient of both variables when regressed against the dependent variables.

While the profit margin variable reported a negative correlation relation with the dependent variables, a positive relation is reported between the extent of disclosure and the rate of return. The negative correlation between profit margin and the dependent variables suggest that companies with a high profit margin tend to disclose less information in their corporate reports than other companies.

This result is expected due to the fact that the vast majority of the companies included in the sample are owned by the government or its agency and the primary objectives of these companies are to service the public rather than gain profit. However, this result is not consistent with previous research (see for example, in Hong Kong by Wallace and Naser, 1995; in Zimbabwe by Owusu-Anasah, 1998; in Jordan by Al-Katib, 2000 and Naser, Naser, Al-Khatib and Karbhari, 2002).

A positive sign is however attached to the rate of return variable's regression coefficient. This shows that the level of disclosure, both voluntary and total disclosure, increases with the increase of rate of return, but has no significant relation. This result suggests that companies with a high rate of return tend to disclose more information than other companies. The effect of the company size variable is notable, so the positive result is reported. This finding is in line with previous research. These studies include Cerf (1961), Singhvi (1967), Singhvi and

Deai (1971), Abdulssalam (1985), Wallace and Naser (1995), Alrazeen, (1999) and Al-Hussein (2001).

6.4.5 Audit status

The hypothesis that there is an association between the extents of voluntary or mandatory disclosure cannot be rejected for voluntary and total disclosure. Table 6.18 summarises the multiple regression analysis results of all the independent variables tested. Table 6.17 shows there is no significant association between both the voluntary and total disclosure on the one hand and the audit status on the other hand. Further, the relation between the level of voluntary disclosure and the government agency's auditor is excluded. The exclusion is due to the fact that it is not important in explaining the variation of voluntary disclosure. It is also noted that the auditors of small private bureaus have some influence. The result shows that companies audited by a small private bureau's auditor disclose more information than other companies.

Table 6.17: Summary of the multiple regression results

Variables	Voluntary disclosure				Total disclosure			
	Sig.	Not Sig.	+	-	Sig.	Not Sig.	+	-
FINANCE		√	√		√		√	
MANUFACTURING	√		√		√		√	
SERVICES								
CONSTRUCTIONS	√			√		√		√
LSALE	√		√		√		√	
MARGIN		√		√		√	√	
RETURN		√	√		√		√	
OWNER1	√			√	√			√
OWNER2		√	√			√	√	
OWNER3	-	-	-	-		√	√	
AUDITOR1	-	-	-	-		√		√
AUDITOR2		√	√			√		√

The government should pay attention to this serious problem, due to the fact that the vast majority of the companies were subject to the government agency auditor. The result is inconsistent with the previous research. For instance, Naser, Al-Khatib and Karbhari (2002) reported a significant and positive relation between the auditor status and the level of disclosure.

6.6 Conclusion

The purpose of this chapter was twofold. First, the sections sought to investigate the extent of financial disclosure in the corporate annul reports published by Libyan companies. To achieve the objectives, the information contained in corporate annual reports was classified into two main categories. These categories include mandatory and voluntary disclosure items. While the mandatory items were extracted from the IAS, voluntary items were used in the majority of previous research. Despite there being no accounting standards to regulate corporate reporting in Libya the results of the descriptive analysis revealed that Libyan companies strongly comply with the minimum requirements of the mandatory disclosure of IAS. In respect of voluntary disclosure, different levels of corporate disclosure across companies were reported.

Second, the sections examined empirical factors that might explain the variations of disclosure level. Voluntary and total disclosure index were regressed against a number of company characteristics. These characteristics include industry type, company size, as measured by total assets, company performance, as measured by profit margin and rate of return, ownership and auditor status. According to the results of the statistical tests, manufacturing companies with a larger book value of assets and owned by the government or its agency disclose more information than the other companies examined. The next chapter provides a summary of the thesis, providing major findings, limitations and scope for further research.

Chapter 7

Summary, conclusions, limitations and suggestions for future research

7.1 Introduction

The aim of this study has been to assess corporate annual reporting practices in Libya. The main aim of this empirical study was to investigate whether corporate annual reports published by Libyan companies are constructed to meet their users' needs when making informed decisions. The study was conducted to achieve the following objectives.

The first objective was to explore the perceptions of various user groups of financial information about different aspects of corporate annual reports in the Libyan environment. This included the following areas:

1) The extent of the use of corporate annual reports;
2) The important sources of corporate information;
3) The useful characteristics of corporate information;
4) The importance of different sections of corporate reports;
5) The information items and the needs of users, and
6) The understandability of information contained in corporate reports.

The second objective was, to investigate actual disclosure practices in corporate annual reports published by a sample of Libyan companies. This included the following areas:

1) The extent to which the current items disclosed satisfy their user information needs, and

2) The extent to which the level of disclosure differs among the sample of companies studied.

Finally, the third objective was to examine factors that could influence the level of the disclosure in corporate annual reports. This included the extent to which company characteristics influence the level of disclosure.

7.2 Summary

In order to achieve the above objectives, the thesis is organised into seven chapters. Chapter 1 introduced the thesis by presenting the background and the main objectives of the study, as well as outlining the contents of each of the remaining chapters. Since this study concerns Libya, Chapter 2 provided comprehensive background information on Libya. This included a general overview of the geographical location as well as a brief history of Libyan politics and economics.

The rest of the chapter highlighted the accounting profession, accountancy education and the regulatory framework of financial reporting in Libya. The legal regulatory framework included commercial law and tax law. Further, the legal requirements were basic, as they required companies to provide a balance sheet, a profit and loss account and the auditors' reports. Chapter 3 reviewed the literature relating to the financial reporting. The review started with the development of financial reporting, the objectives of financial annual reports, qualitative characteristics of accounting information and the needs of users. Then, previous studies that have dealt with financial reporting and its usefulness to their users were reviewed. This included relevant literature that has dealt with the perceptions of users of corporate annual reports on different aspects. Previous research which investigated the financial disclosure either mandatory or voluntary was studied and empirical studies examined factors that might influence the disclosure level. Chapter 4 presented the research methodology.

The chapter had the following specific objectives:

- To discuss the various methods those have been used in previous research and similar studies;
- To justify the choice of the methods employed in this study;
- To describe the research tools design, pilot study and distribution procedures;
- To describe the statistical tests that was used to analyse the responses of the questionnaire.

The chapter began with addressing the research questions. It also clearly explained in detail the most used methods of data collection in similar studies. The methods were survey questionnaire and interview methods. The advantages and disadvantages were examined. In order to achieve the objectives of this study, it was decided to adopt two research methods. These were a mail questionnaire and content analysis.

While a mail questionnaire was used to gather primary data to achieve the first objective, content analysis was utilized to analyse a sample of corporate annual reports published by Libyan companies that provided data to attain the second and the third objective of the study. The primary data was used to gather the perceptions of various user groups towards different aspects of corporate annual reports. For this purpose, a structured questionnaire survey was designed into answer the first five research questions. The questionnaire was then translated to the Arabic language, pilot tested and a final draft of the questionnaire was distributed. The distribution method was carefully designed to increase the response rate of the target user groups.

These users included individual investors, government employees, academics (researchers), institutional investors, bank credit officers, chief executives and accounting professionals. The chapter also described the descriptive statistics, statistical tests and justification of the test selection. The Mann-Whitney U test was used to measure the level of consensus between pairs of users and the Kruskal-Wallis H test was used to gauge the level of agreement between overall user groups toward different themes investigated. These included the use of corporate reports, the importance of information sources, the importance of different sections of corporate reports, useful characteristics of corporate information, the understandability of information and the needs of information users.

In addition to the primary data gathered, secondary data were used to answer the remaining research questions. This data was utilized to achieve the second and the third objectives of this study. It was employed to capture the actual disclosure by analysing the published corporate annual reports by Libyan companies. For this purpose, a content analysis tool was developed. The tool contained a list of mandatory and voluntary information items. These items were extracted from three different sources. The sources included the published statements of financial accounting concepts No. 1 to 5 by FASB, previous similar research conducted in developed and developing countries, and a review of all of the sample corporate reports included. Chapter 4 also considered disclosure measuring. This includes the formation of explanatory models.

The findings of the study were presented in Chapters 5 and 6. While Chapter 5 presented empirical evidence on the perceptions of user groups and analysis of the level of consensus among user groups, Chapter 6 reported the extent of the level of financial disclosure in the published corporate annual reports by Libyan companies. Chapter 6 also reported evidence of the association between the company's characteristics and the level of disclosure. Chapter 7 concludes the thesis by summarising the thesis and major findings and discussing the limitations of the study and outlining some recommendations for future research.

7.3 Major findings

This section summarises the major findings of the study.

7.3.1 Perception of user groups

Chapter 5 reported the analysis of the survey questionnaire. Seven user groups were included in the survey. These user groups include individual investors, government employees, institutional investors, academics/ researchers, bank credit officers, chief executives and accounting professionals. The major findings of the analysis are:

1) **The extent of the uses of corporate reports**: the usage of corporate reports was measured by different means. These include the extent of uses, the number of report(s) read or analysed and the time spent reading or analysing corporate reports annually. The results show that most of the respondents have read or use these reports. Further, the results of the questionnaire clearly revealed that user groups communally used corporate annual reports and do not consult intermediary sources in order to make informed decisions.
2) **The important source of information:** the results of the study revealed clearly that the corporate report is the most important source of information for making informed decisions, followed by visiting and communication with managers. This result suggests that the respondents who took part view the information provided by a company as the most important source of information. Other corporate sources of information such as business magazines and newspaper were viewed as less important.
3) **The useful characteristics of corporate information:** with regard to the theme of how users perceive the importance of characteristics that might affect the usefulness of information sources about the performance of Libyan companies, the credibility and the timeliness of information were perceived to be the most important characteristics for all respondents.
4) **The importance of different sections of corporate reports:** the results demonstrate that the financial information section is the most

important section upon which informed decisions are made. It includes the profit and loss account and the balance sheet statements. Other part such as the Board of Director Reports' is the least important section.

5) **The information items and the needs of users:** the result is that both financial and non-financial information is significantly important. It also showed that there is an agreement among the respondents toward the importance of data presented in the profit and loss account and balance sheet statements.
6) **The understandability of information contained in corporate reports:** the result shows that the vast majority of the respondents understand the information. The statistical analysis has showed that there is agreement among the respondents who took part in the questionnaire survey that the information is easy to understand.

7.2.2 Actual disclosure

Chapter 6 presented the findings of the study regarding the level of disclosure in published corporate reports by Libyan companies and factors that might affect the disclosure level. In order to achieve the objectives of the study, the information contained in corporate reports is classified into two categories. The first category contains information items that are required by IAS as minimum requirements of information to be disclosed in corporate reports. The second category highlights voluntary disclosure. Further, the voluntary disclosure fell into two groups. The first group highlights voluntary close to mandatory disclosure. The second group includes optional information items. The main findings are:

1) **Mandatory disclosure:** the results evidently show that Libyan companies strongly comply with the minimum requirements of the IAS. Further, manufacturing and financial companies were found to disclose more mandatory information than other companies.
2) **Voluntary disclosure:** the findings of the study clearly reveal that the level of voluntary disclosure in published corporate reports of Libyan companies is low compared with the level of mandatory disclosure. Furthermore, manufacturing companies were found to comply more than other companies.
3) **Factors influencing disclosure level:** the results show that company size as measured by total sales, ownership and industry type respectively are significant. Further, a company's size as measured by total sales is the most important factor, followed by ownership. Moreover, companies not owned by the government or its agency tend to disclose more information than other companies.

7.3 Recommendations

Libya is a developing country. The government expends a large proportion of its income on economic programmes and activities for the purpose of development. It has placed economic reforms at the top of its priorities in order to pull the economy out of recession. It has sped up economic reform and attracted both local and international investors. It is very clear from the evidence in this study that the corporate report is the most important source of information for its users to make informed decisions. Furthermore, the study concentrated on the perceptions of user groups of financial reporting in order to improve the usefulness of the annual reports that would help them in their investment activates. Thus, the government and its authority bodies such as IPCFU might benefit from the conclusions and recommendations of this study, due to fact that it is the first ever study in Libya to deal with financial reporting. The following are some recommendations that should improve the development of corporate reports published by Libyan companies and to enhance their qualitative characteristics.

First, while the analysis of corporate report revealed that Libyan companies strongly comply with the mandatory requirements by the IAS, there is a need for concerned government bodies to ensure a proper disclosure of information. This can be achieved through accelerating the issuing of accounting and disclosure standards and imposing penalties on companies that do not adhere to these standards.

Furthermore, while the result of the study revealed that some of the disclosed items are in line with the users needs, others are not. The concerned bodies should also take this into account when addressing the development of accounting standards. Second, users including individual and institutional investors in Libya view the most important characteristics of corporate information to be credibility and timeliness of information sources. The concerned bodies should take this factor into consideration. In this respect, the preparers of annual reports of Libyan companies should present accounting information in a timely manner, in the sense that the date of its publication should be reasonably soon after the period to which it relates. Third, information items and users needs in relation to the importance of the information items when making informed decisions should be taken into consideration.

7.4 Contribution to existing knowledge

Economic reform in Libya is a new issue that requires in-depth investigation, especially due to the lack of empirical literature and a clear understanding of accounting practices. As far as the researcher is aware, this study is the first empirical study to examine the quality of corporate annual reports published by Libyan companies. Thus, the existing literature on corporate annual reports will be enhanced significantly.

In addition, it is anticipated that the results of this study will be useful not only locally to reform the economy, but also internationally because it will clarify many current and future obstacles and their cause which need to be solved in order to achieve successful reform. It also provides insights into other countries on the issue of corporate reporting and acts as a guide and basis for more studies on corporate reports.

7.5 Limitations of the study

The results of the study have a number of limitations. Firstly, the culture of providing data for research has not been developed in Libya. This is because of the lack of the transparency in administration and the plea of so-called secrecy. In most cases the providers of research data pretend that it is confidential information and cannot be given to a researcher. Entry to the sources of research data in Libya is not an easy job for any researcher. This is reflected in the small sample size. This includes a lack of a large group of respondents and a shortage of company reports. Accordingly, the small size sample limits the power of the statistical tests. It would have been preferable to have a more varied sample of companies as well as a wider range of respondents.

Secondly, the results of the study were based on respondents' perceptions which may not reflect the actual practices of the participants. For instance, sometimes respondents may answer questions to satisfy what they think the researcher expects. Finally, the cost and time constraints limited the researcher to the use of a mailed questionnaire survey technique. Therefore, unlike an interview method, in-depth and rich information could not be gathered from the mailed questionnaire survey. However, being the first formal perception survey on annual reporting in Libya, and in line with the objective of the study, a mailed questionnaire survey was drawn up to cover a wide range spectrum of issues concerning the annual reports.

Furthermore, within the same time frame, the questionnaire survey is expected to cover a larger number of respondents compared to the interview method. In measuring the quality of disclosure, a content analysis method was adopted, although a review of literature showed that the formulation of a disclosure index was also common. However, the content analysis and disclosure index each have thier strengths and weaknesses. The use of content analysis by counting the number of words was considered appropriate in achieving the objective of the study because the items to be measured were narrative in nature.

7.6 Further research

This study is the first comprehensive study of annual reporting in Libya. It explores a wide range of issues surrounding financial reporting. Therefore, it opens up opportunities and provides avenues for more in-depth research related to financial reporting, particularly in areas such as extent of disclosure.

One possibility for future research is to repeat the current study by examining the quality of corporate reports after the establishment of the stock market. Perhaps, in years to come, future research may consider a longitudinal study, that is, comparing annual reports before and after the establishment of a stock market. Further, this could open the door for future research into the cost and benefit of financial disclosure.

In addition, in this study only a small number of external user groups were surveyed to gather their perceptions towards different aspects of corporate reporting. Further research could include other external and internal user groups and/or gather the perceptions of those who prepare these reports. Furthermore, the analysis of annual reports involved only annual reports produced at one point in time, and as such, a long comparison was not possible. Interval studies would not only serve to validate the findings of this thesis, but would also enable reporting results to be uncovered.

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Appendix 1

1. Please indicate which is the primary role you are usually in when you make a decision about a company?

Individual investor		Institutional investor		Financial analyst	
Researcher/ academic		Bank officer			
Governmental official		Company's chief executive			

2. Gender

Male		Female	

3. Age

Under 25 years		36 to 45 years of age		Over 55 years of age	
25 to 35 years of age		46 to 55 years of age			

4. Education level

Not complete high school		Complete university Bachelor		Complete university Doctor	
Complete high school		Complete university Master			

5. Accounting and financial experience

Not at all		2 to 6 years		12 to 16 years	
Less than 2 years		7 to 11 years		More than 16 years	

Section 2

The aim of this section is to evaluate the current corporate annual reports practices in Libya.

1. To what extent do you use corporate annual report as a basis for any informative decisions to make?

Not at all		little		moderate		great		very great	

2. How many companies' annual reports do you read annually?

Less than 5 reports		From 11to10 reports		From 21-30 reports	
From 6-10 reports		From 16to 20 reports		More than 30	

3. How much time do you spend on reading the information contained in an annual report?

Not at all		10 to 20 minutes		61 to 120 minutes	
Less than 10 minutes		21 to 60 minutes		More than 120 minutes	

4. How useful do you find the current financial reporting in Libya?

Not useful at all		Not useful		Moderately		useful		Very useful	

5. Do you read corporate annual reports section?

	Not at all	Little	Moderate	Great	Very great
Director's report					
Auditors' report					
Balance sheet					
Income statement					
Source and application of funds					
Cash flow statement					
Notes to the financial statements					

6. Do you have any difficulty to understand any of the following sections of corporate annual reports?

	Not at all	Little	Moderate	Easy	Very easy
Director's report					
Auditors' report					
Balance sheet					
Income statement					
Source and application of funds					
Cash flow statement					
Notes to the financial statements					

7. Do find current annual report published by Libyan companies provides adequate information to make informed decisions?

	Not sufficient at all	Not sufficient	Moderate	Sufficient	Very sufficient
Adequacy of information contained					

8. To what extent do the current corporate annual reports in Libya provide you with information which can help you to?

	Not at all	Little	Moderate	Usually	Generally
Make decisions based on the assessment of past performance					
Make decisions based on the assessment of current position					
Make decision based on the assessment to estimate the future					

9. To what extent do you find the information contained in each section reliable for your decisions?

	Not important at all	Not important	Moderate	Important	Very important
The Board of Director's Report					
The Auditor's Report					
The Balance Sheet Statement					
The Profit and Loss Account					
The Flow Found Statement					
The Cash Flow Statement					
The Notes of the Statements					

10. In making decision about a company, what ranking of importance would you give to the following sources of information?

	Not important at all	Not important	Moderate	Important	Very important
Corporate annual report					
Financial analysts' advice					
Business magazines and newspapers					
Visits and communication with management					
Discussions with friends					

11. From your experience, do you find corporate annual reports improved in Libya for the last ten years?

	Very little	Little	Moderate	great	Very great
Quality of annual reports has improved					

12. How important is each of the following criteria of quality for sources of information?

	Not important at all	Not important	Moderate	Important	Very important
Credibility					
Timeliness					
Neutrality					
Independent					
Accessibility					
Presence of specific information					
Simplicity					

Section Three

This part of the questionnaire lists items of information which could be presented in corporate annual reports. You are asked to examine each item and attach a weight to it reflecting how important its appearance in corporate annual reports is, in your opinion. Your judgement in the item should be made as a user using such items for evaluating a decision to take. To accomplish that, simply tick under one of the numbers in the column headed "weight" opposite to each item using the scale below:

Not important at all	1	Not important	2	Moderate	3	Important	4	Very important	5

	Information items	Weight				
		1	2	3	4	5
1	Provide current and previous year figures					
2	Classify assets and liabilities into current and non current					
3	Arrange assets as its liquidity					
4	Classification current assets in the statement by components					
5	Amount and breakdown of current assets					
6	Amount and breakdown of fixed assets by components					
7	Depreciation assets shown net of depreciation					
8	Arranging liabilities into current and non-current					

9	Current liabilities classified by major components					
10	Disclose the total of the current liabilities in the balance sheet					
11	Non-current liabilities classified by major components					
12	Amount and liabilities classified by major components					
13	Amount of sales or net sales					
14	Cost of sales					
15	Gross margin					
16	Administrative and general expenses					
17	Selling expenses					
18	Other revenues					
19	Net income					
20	The presence of the statement of retained earnings					
21	The presence of the statement of changes in the owners' equity					
22	Brief description of the nature of the entity's activities					
23	Brief description of the significance accounting policies					
24	Donations to, and support given to charities					
25	University graduate recruitment policy and achievement					
26	Description of property, plant and equipment					
27	Information about the accountancy principles that have been used					
28	Planning for human resource development					
29	Statement of cash flow					
30	Discussion of major factors expected to affect current year operations					
31	Discussion of major factors expected to affect future operations					
32	Advertising expenses for the current year					
33	Amount of annual directors remuneration					
34	Amount of annual top management's remuneration					
35	Percentage of Libyan employees in different level					
36	Description of future capital expenditure					
37	Percentage of total wages paid to Libyan employees					
38	Amount of revenue generated form from foreign market					
39	Details of revenue sources					
40	Details of equity investment					
41	List of names of directors					
42	List of names of the top management					
43	Market value of the inventory					
44	Description of the components of the inventory					
45	Company policy regarding dividends					
46	Significant shareholders(i.e. who obtain 5% or more)					
47	Market value and breakdown of non equity investment					
48	Monetary amounts of locally produced raw materials					
49	Details of long term debt					
50	Audit fees					

51	Description of major types of products information					
52	Company policy regarding the temporary investment					
53	Summary of the age of the accounts receivables					
54	Earning per share					
55	Statements of source and application of funds					
56	Method used to determine the cost of inventories					
57	Number and amount of authorised and issued shares					
58	Statement of company's objectives					
59	Discussion of competitive position of the company					
60	New product development information					
61	Share of market in major product/service areas					
62	Discussion of factors that would influence next year's results					
63	Budgeted capital expenditures for the next fiscal year					
64	Information about the employees (i.e. No, gender, etc)					
65	Information on corporate social responsibility					

Comments Section

Please provide any other item(s) of information which you consider are important but not included in the list above.

... ...

... ...

... ...

... ...

... ...

... ...

... ...

Please feel free to use the space below to make any comments that you feel should be considered in the study.

... ...

... ...

... ...

... ...

... ...

... ...

... ... .Thank you once more.

Appendix 2

التاريخ:

الموافق: / /

عزيزي المشارك في الاستبيان

للشركات المسا همه المحدودة بمختلف القطاعات، سواء كانت شركات مالية، مصرفيه، خدمية، إنتاجه، أو صناعية دور رئيسي في تحقيق التنمية الاقتصادية للدولة و التي بدورها تنعكس على رفاهية الفرد. أضافه إلى أنها الوسيلة الرئيسية للاستثمار سواء كان ذلك المعروف بالاستثمار الجماعي و المتمثل في الشركات ألمملوكه ملكيه جماعية (الدولة) والاستثمار الفردي متمثلا في الشركات الفردية.

في الجماهيرية العربية الليبية الشعبية الاشتراكية العظمى تزايد الاهتمام الشعبي في السنوات الأخيرة بتفعيل دور هذه المؤسسات وذلك بإعطاء ألواويه لتنشيط الاستثمار و الحد من الاعتماد على النفط كمصدر أحادى للتنمية. ويعتمد نجاح تلك الشركات إلي حد كبير على توفر المعلومات المالية وغير المالية لمن لهم علاقة باتخاذ القرارات التي تتعلق بتلك الشركات لغرض ألرقابه أو التقييم أو البحث أو التمويل أو الاستثمار.

عزيزي المشارك، أفيدك بأنني أقوم في الوقت الحاضر بإجراء بحث عملي في ألمحاسبه لقياس جودة التقارير التجارية المالية السنوية المصدرة من قبل الشركات المساهمة الليبية لغرض اختبار جودتها في عرض و احتوائها المعلومات التي تساعد في ألتخاذ القرار السليم. وهو بحث ضروري و مهم جدا يخدم كل من له علاقة بتلك الشركات للغرض المنوهة عليه سالفا. ولن يتم إكمال هذا البحث إلا بمشاركتكم وتفاعلكم.

لذا تجدون برفقه هذا الكتاب استبيان لإبداء رأيكم عن عدد من الجوانب المتعلقة بتوفير المعلومات عن هذه الشركات المساهمة ألمسجله في غرفه ألتجاره و ألصناعه و الزراعة الليبية.

مع تقديمي الشكر لكم سلفا، خدمه للصالح العــــــــــــــــــــــــــــــــام

فتحي نصـر بـريـــــــــــش

جامعة قلامورقن- بريطانيا

إرشادات إلى طريقة إكمال الاستبيان

لقد روعي في إعداد هذا الاستبيان ألا يأخذ من وقتك وجهدك إلا القليل، مع تقديري التام لمشاركتك الثمينة في هذا البحث. فقط وضع دائرة على الرقم الذي يعبر عن رأيك حول المعلومة في معظم الفقرات، القليل منها يتطلب الاختيار حسب درجة أهميتها.

لقد قسم الاستبيان إلى ثلاثة أقسام رئيسيه. القسم الأول يحوى معلومات عامة عن المشارك في هذا الاستبيان لغرض المقارنة بين المشاركين، القسم الثاني يحتوى على تقييم التقرير التجاري /المالي السنوي للشركات المساهمة الليبية، إما القسم الثالث فقد خصص لجمع ألا أراء حول أهمية المعلومات الواجب نشرها قانونا و الاختيارية منها في هذا التقرير. مع ملاحظة أن كلمة (تقرير) في الاستبيان تعنى التقرير التجاري/المالي السنوي للشركة المساهمة وهو تقرير يتضمن معلومات و بيانات عن الشركة يتم إعداده في نهاية كل سنة مالية حسب النظام الإساسى للشركة. أرجو منك الإجابة على جميع الفقرات قدر الإمكان.

القسم الأول (معـلومـــات عامة)

1. ما السبب الذي يجعلك مهتمًا بالإطلاع على معلومات ألشركه المساهمة ومن ثم اتخاذ قرار بشأنها؟ (أرجو أن تختار واحدة تمثل جل اهتماماتك بالشركة المساهمة). المشارك يمثل:

مستثمر فردى	....	مسئول في وحدة الاستثمار	...	مستشار مالي	...
باحث /أكاديمي	....	ممول مصرفي	...	موظف حكومي	...
مسئول/ مدير تنفيذى	....				

2. الجنس

(أ) ذكر	......	(ب) أنثى	....

3. العمر:

اقل من 25 سنه	..	36 إلى 45 سنه	....	اكبر من 55 سنه	....
25 إلى 35 سنه	..	46 إلى 55 سنه	....		

4. ما هو المستوى التعليمي الذي تحمله؟

شهادة أعداديه	.	شهادة جامعيه	..	شهادة د كتوراة	..
شهادة ثانوية أو ما يعادلها (دبلوم متوسط)	.	شهادة ماجستير	..	شهادة أخرى	..

5. هل لديك خبرة في المحاسبة و المالية؟

(ا) لا توجد على الإطلاق	...	من 2 إلى 6 سنوات	...	(ه) من 12 إلى 16 سنه	...
(ب) اقل من 2 سنه	...	من 7 إلى 11 سنه	...	اكثر من 16 سنه	...

القسم الثاني (تقييم التقرير الحالي)

1. ما مدى استخدامك، بشكل عام، للتقرير بغرض اتخاذ قرار معين؟

لا يوجد	.	مدى محدود	.	متعادل	.	اهتمام كبير	.	اهتمام كبير جداً	.

2. في المتوسط، كم عدد التقارير التي تقرؤها عادة؟

اقل من 5 تقارير	...	من 11 إلى 15 تقريراً	....	من 21 إلى 30 تقريراً	....
من 6 إلى 10 تقريرا	...	من 16 إلى 20 تقريراً	....	أكثر من 30 تقرير	....

3. في المتوسط، كم من الوقت تستغرق في قراءة أو تحليل المعلومات المتضمنة في التقرير؟

لا أقرؤها أبدا	....	من 10 إلى 20 دقيقه	..	من ساعة إلى ساعتين	...
في اقل من 10 دقائق	....	من 20 إلى ساعة	..	أكثر من ساعتين	...

4. عموماً، هل تجد أن التقرير يمكن الاعتماد عليه في اتخاذ قرار؟

غير مفيد على الإطلاق	..	غير مفيد	..	معتدل	..	مفيد	....	مفيد جدا	....

5. هل تقرأ أقسام التقرير؟

البيان	لا أقرؤها أبداً	غالبا لا أقرؤها	أحيانا أقرؤها	غالبا أقرؤها	أقرؤها دوما
تقرير مجلس الإدارة					
تقرير المحاسب القانوني					
قائمه الميزانية					
قائمه الدخل					
قائمه التغير في المركز المالي					
قائمه التدفقات النقدية					
الإيضاحات الملحقة بالقوائم المالية					

6. هل تجد أية صعوبة في فهم المعلومات في إي قسم من أقسام التقرير؟

البيـــــــــــــــــــان	معقدة جداً	معقدة إلى حد ما	معقولة	سهلة	سهلة جداً
تقرير مجلس الإدارة					
تقرير المحاسب القانوني					
قائمه الميزانية					
قائمه الدخل					
قائمه التغير في المركز المالي					
قائمه التدفقات النقدية					
الإيضاحات الملحقة بالقوائم المالية					

7 هل تعتقد أن المعلومات المدرجة في التقرير تقدم إفادات كافية للمساعدة في اتخاذ قرار؟

البيـــــــــــــــــــان	غير كافية إطلاقا	غير كافية	متوسطة	كافية	كافية جداً
مقدار كفاية المعلومات و البيانات في التقرير					

8 . إلى أي مدى تعتقد أن التقرير يقدم معلومات تساعدك في اتخاذ أحد القرارات التالية؟

البيـــــــــــــــــــان	تماما	غالبا	أحيانا	قليلا	أبدا
(أ) أداء الشركة السابق					
(ب) أداء الشركة الحالي					
(ج) أداء الشركة في المستقبل					

9. رتب حسب درجة ألأهمية المصادر (أقسام التقرير) التي تعتمد عليها في اتخاذ قرار يخص الشركة؟

البيـــــــــــــــــــان	غير مهم نهائيا	غير مهم	متوسط	مهم	مهم جداً
تقرير مجلس الإدارة					
تقرير المحاسب القانوني					
قائمه ألميزانيه					
قائمه الدخل					
قائمه التغير في المركز المالي					
قائمه التدفقات النقدية					
الإيضاحات الملحقة بالقوائم المالية					

10. عندما تتخذ قراراً بشأن شركه معينة، ما ترتيبك للمصادر التي تعتمد عليها في الحصول على المعلومات؟

البيان	غير مهم نهائيا	غير مهم	متوسط	مهم	مهم جداً
نصيحة من محلل مالي					
دراسة تقرير الشركة					
قراءة جرائد ومجلات و دوريات					
الاتصال بالمدير التنفيذي					
مناقشة و استشارة الأصدقاء					

11. هل يوجد تطور في تقرير الشركات الليبية خلال العشرة سنوات الأخيرة؟

البيـــــــــــــــــان	كبير جدا	كبير	متوسط	صغير	صغير جداً
طرأ تطور على جودة التقرير					

12. فيما يلي مجموعة من الخصائص النوعية للتقرير. في رأيك ما مدا تأثير هزة الخصائص على جودة التقرير؟

البيـــــــــــــــــان	غير مهم نهائيا	غير مهم	متوسط	مهم	مهم جداً
حداثة المعلومة					
توفر معلومات معينة تريدها بزاتها					
بساطة وسهولة عرض المعلومات					
حيادية المعلومات					
مصداقية المعلومات					
سهولة الحصول على المصدر					
تحقق جهة مستقلة من صحة المعلومات					

ألقسم الثالث

(المعلومات الملزم أظهارها قانوناً والمعلومات التي تقدم اختيارياً من قبل الشركة)

هذا ألقسم من ألاستبيان يعرض بشكل متسلسل مجموعه من المعلومات الملزم الإفصاح عنها قانوناً والمعلومات المقدمة اختياريا من قبل الشركات المساهمة. المطلوب منك تحديد أهمية كل معلومة. (الحكم على المعلومة يجب أن يكون مستوحى من واقع التقييم لغرض اتخاذ قرار معين، مع ألآخذ في الاعتبار أن كل معلومة إضافية قد تكلف الشركة تكلفه إضافية). مع ملاحظة أن:

لا أهمية أطلاقاً	1	قليل أهمية	2	متوسط ألأهمية	3	مهم	4	مهم جدا	5

	1	2	3	4	5
إظهار بيانات السنة الحالية والسنة الماضية					
تبويب الأصول والالتزامات حسب كونها متداولة أو غير					

متداولة (قصيرة أو طويلة الأجل)					
ترتيب الأصول على النحو التالي:أصول متداولة، استثمارات، ثابتة، غير ملموسة					
تبويب الأصول المتداولة بحسب درجة سيوليها (النقد، الاستثمارات المؤقتة، المخزون، ...الخ)					
إظهار المجموع الكلي للأصول المتداولة					
تبويب الأصول الثابتة حسب نوعها الرئيسي (الأراضي، المباني، المعدات..... الخ)					
عرض القيمة الدفترية للأصول مخصوم منها مجموع الاستهلاك لتلك الأصول					
ترتيب الالتزامات المتداولة والغير متداول					
تبويب الالتزامات المتداولة حسب درجة التزامها (قروض قصيرة الأجل، الموردون، ....الخ)					
أظهار مجموع الالتزامات المتداولة					
تبويب الالتزامات طويلة الأجل حسب تاريخ استحقاقها (قروض، مخصص نهاية الخدم....الخ)					
ترتيب حقوق المساهمين حسب: رأس المال المدفوع، الاحتياطيات القانونية، الإرباح المحتجزة، المخصصات الغير قانونية، الأرباح الغير مخصصة					
الإفصاح عن قيمة المبيعات و (صافي المبيعات)					
إ ظهار تكلفة المبيعات حسب تفصيلها					
إظهار إجمالي الربح					
إظهار المصروفات الإدارية والعمومية مع التبويب					
إظهار مصروفات البيع (أو التسويق)					
إظهار الإيرادات أو الخسائر المحققة من غير النشاط العادي					
إظهار صافي الدخل					
إظهار قائمة الأرباح غير ألموزعه					
إظهار قائمة التغيرات في حقوق المساهمين					
إعطاء وصف مختصر لطبيعة نشاط الشركة					
إعطاء وصف واضح و مختصر للسياسات الهامة التي تتبعها الشركة					
إظهار التبرعات الشركة للهيئات الخيرية					
ألإفصاح عن سياسة الشركة في تعيين الخريجين الجدد					
تعريف بما تملكه الشركة من أصول ثابتة					
الإفصاح عن الأسس و المبادئ المحاسبية المتبعة					
الإفصاح عن الخطط في تدريب و تطوير الموظفون					
نشر قائمة التدفقات النقدية					
شرح للعوامل التي أثرت على نتائج السنة الحالية					
شرح للعوامل التي يتوقع أن تؤثر على نتائج عمليات العام القادم					
الإفصاح عن تكاليف الدعاية و الإعلان للعام الحالي					

					إظهار تفاصيل للمبالغ المدفوعة لأعضاء مجلس الإدارة
					إظهار تفاصيل للمبالغ المدفوعة لمديري الشركة
					الإفصاح عن نسبة الموظفون الليبيين في مختلف المستويات الإدارية في الشركة
					الإفصاح عن خطط الشركة المستقبلية للإنفاقات الرأسمالية
					إظهار نسبة المدفوع للموظفين الليبيين من إجمالي الأجور والمرتبات
					الإيرادات المحصلة من البيع للأسواق الخارجية
					التعريف بمصادر الإيرادات المختلفة
					معلومات عن استثمارات الشركة في شركات أخرى (أسماء الشركة، عدد الأسهم، تكلفتها..الخ)
					الإفصاح عن قائمة بأسماء أعضاء مجلس الإدارة
					إظهار قائمة بأسماء من يشغل المناصب العليا في الشركة
					الإفصاح عن القيمة السوقية إن وجد لمخزون التام الصنع للشركة
					التعريف بمكونات المخزون
					توضيح لسياسة الشركة في توزيع الإرباح
					الإفصاح عن أسماء المساهمين الرئيسيين (من يملك 5% أو أكثر من أسهم الشركة)
					معلومات عن استثمارات في غير الأسهم وقيمتها السوقية (مثل السندات، الأراضي، المباني)
					معلومات عن قيمة ما تستخدمه الشركة من منتجات محلية في مشاريعها المختلفة
					بيان مفصل بالقروض طويلة الأجل (مصادرها، مبالغها، الفوائد المستحقة عليها، وقت السداد)
					الإفصاح عن تكاليف المحاسب القانوني
					التعريف بمنتجات الشركة المختلفة
					التعريف بسياسة الشركة في الاستثمار المؤقت للنقد الزائد عن الحاجة في العمليات الأساسية
					بيان بالمبالغ المستحقة على العملاء حسب تاريخ استحقاقها
					إظهار ربحية السهم
					الإفصاح عن قائمة المصادر و استخدام الأموال
					الإفصاح عن طرق جرد المخزون المتبعة
					عدد و كمية الأسهم المصرح بها و المصدرة
					قائمة بألا هداف العامة للشركة
					مناقشة الوضع التنافسي للشركة
					معلومات عن تطوير منتج جديد للشركة
					الإفصاح عن حصة الشركة من المنتج في السوق
					مناقشة العوامل التي تؤثر على الزيادة المستقبلية في الإنتاج
					الميزانية التقديرية المستقبلية للشركة

معلومات عن الموظفين (عدد، الجنس ...... الخ)					
معلومات عن المسئولية الجماعية					

معلومات إضافية و ملاحظات

1. إذا كان لديك معلومات ترى أنها ضرورية نأمل أن تذكرها:

....
....
....
....
....
....
....
....
....

إذا كان لديك أية ملاحظات عن الدراسة نأمل التكرم مشكور بتدوينها في هذا القسم.

....
....
....
....
....
....
....
....شاكرين حسن تعاونكم معنا

الباحث

Appendix 3

Content Analyses (work sheet)

CODE: (   ) Company Name

Financial year-end: 31/12 /2003

Industry Classification

Banking	
Manufacturing	
Services	
Construction	

Auditor Information

Auditor state

Government Agencies	
Small privet bureau	

Is the audit report referred to in the index of the annual report?

Yeas		No	

Is the audit report signed?

Yeas		No	

Is the audit report dated?

Yeas		No	

The date of the audit report: / /

To who is the audit addressed?

Board of directors		General Assembly		Other	

Other Information

Number of employees		Number of directors	
Total assets		Total Liabilities	
Total sales		Current Assets	
Current liabilities		Inventory	
Debtors		Net Income	
Age of the company		Audit Fees	
Loss (0) profit (1) made last year		Directory remuneration	
Loss (0) profit (1) made this year		Number of Subsidiaries	

Share Ownership Information

Number of shares issued	
% of shares owned by international investors	
% of shares owned by government or its agencies	
% of shares owned by local investors	

Are the names of shareholders owning 10% or more of the share given?

Yeas		No	

Mandatory disclosure

Item	Score
Provide current and previous year figures	
Assets and liabilities classified in the balance sheet into current and non current	
Arranging assets as liquidity	
Current assets classified in the balance sheet statement by components	
Showing the total current assets in the balance sheet statement	
Fixed assets classified by major components	
Depreciation assets shown net of depreciation	
Arranging liabilities as current liabilities and non-current liabilities	
Current liabilities classified by major components	
Showing the total of the current liabilities in the balance sheet	
Non-current liabilities classified by major components	
Arranging owners' equity by major components	
Showing amount of sales or net sales	
Cost of sales	
Gross margin	
Administrative and general expenses	
Selling expenses	
Other revenues	
Net income	
The presence of the statement of retained earnings	
The presence of the statement of changes in the owners' equity	
Brief description of the nature of the entity's activities	
Brief description of the significance accounting policies	

Total actual score	
Total possible	23
Mandatory Disclosure Index (Actual/ Possible score	

Voluntary closely to mandatory disclosure	
Description of property, plant and equipment	
Advertising expenses for the current year	
Amount of directors annual /remuneration	
Amount of annual top management's remuneration	
Amount of revenue generated from foreign market	
Details of revenue sources	
Details of equity investment	
Market value of the inventory	
Description of the components of the inventory	
Market value and breakdown of non equity investment	
Monetary amounts of locally produced raw materials	
Details of long term debt	
Audit fees	
Company policy regarding temporary investment	
Summary of the ageing of the accounts receivables	
Earning per share	
Statements of source and application of funds	
Method used to determine the cost of inventories	
Number and amount of authorised and issued shares	
Statement of company's objectives	
Discussion of competitive position of the company	
New product development	
Share of market in major product/service areas	
Discussion of the major factors which will influence next year's results	
Budgeted capital expenditures for the next fiscal year	
Information about the employees	
Information on corporate social responsibility	

Total actual	
Total possible	27
Disclosure Index (total actual / total possible	

Optional disclosure

Item	Score
Donations to, and support given to charities	
University graduate recruitment policy and achievement	
Planning for human resource development	
Discussion of major factors affecting current year operation	
Discussion of major factors expected to affect future operations	
Statement of cash flow	
Descriptive of future capital expenditure	
List of names of directors	
List of names of the top management	
Percentage of Libyan employees in different level of the organisation	
Company policy regarding dividends	
Significant shareholders who hold obtain 5 per cent or more)	
Description of major types of products	
Information on the management of excess of cash	
Percentage of total wages paid to Libyan employees	

Total actual	
Total possible	15
Disclosure Index (total actual / total possible	

Appendix 4

The importance of information items attached by various target user groups

N	Information Items	1	2	3	4	5	Total	1 (%)	2 (%)	3 (%)	4 (%)	5 (%)	Range
1	Provide current and previous year figures	1		11	63	141	216	0.00	-	0.05	0.29	0.65	1
2	Assets and liabilities classified in the balance sheet into current and non current		4	13	84	116	217	-	0.02	0.06	0.39	0.53	4
3	Arranging assets as its liquidity	2	9	37	92	77	217	0.01	0.04	0.17	0.42	0.35	27
4	current assets classified in the balance sheet by components		8	23	94	91	216	-	0.04	0.11	0.44	0.42	15
5	Showing the total current assets in the balance sheet statement		11	34	74	98	217	-	0.05	0.16	0.34	0.45	11
6	Fixed assets classified by major components	1	11	20	88	97	217	0.00	0.05	0.09	0.41	0.45	10
7	Depreciation assets shown net of depreciation		7	24	100	86	217	-	0.03	0.11	0.46	0.40	18
8	Arranging liabilities into current and current	1	3	34	91	88	217	0.00	0.01	0.16	0.42	0.41	17
9	Current liabilities classified by major components	1	6	31	85	94	217	.00	0.03	0.14	0.39	0.43	13
10	Showing the total of the current liabilities in the balance sheet		8	39	82	88	217	-	0.04	0.18	0.38	0.41	16
11	Non-current liabilities classified by major components	1	9	25	99	82	216	0.00	0.04	0.12	0.46	0.38	20
12	Arranging owners' equity by major components	1	8	17	88	103	217	0.00	0.04	0.08	0.41	0.47	9
13	Showing amount of sales or net sales	1	1	15	91	109	217	0.00	0.00	0.07	0.42	0.50	6
14	Cost of sales	2	5	25	90	95	217	0.01	0.02	0.12	0.41	0.44	12
15	Gross margin	1	2	12	86	116	217	0.00	0.01	0.06	0.40	0.53	3
16	Administrative and general expenses		2	17	87	110	216	-	0.01	0.08	0.40	0.51	5
17	Selling expenses	3	6	29	87	92	217	0.01	0.03	0.13	0.40	0.42	14
18	Other revenues	4	5	25	81	102	217	0.02	0.02	0.12	0.37	0.47	8
19	Net income		1	12	75	129	217	-	0.00	0.06	0.35	0.59	2
20	The presence of the statement of retained earnings	1	5	36	95	79	216	0.00	0.02	0.17	0.44	0.37	22
21	The presence of the statement of changes in the owners' equity	2	11	37	91	75	216	0.01	0.05	0.17	0.42	0.35	26
22	Brief description of the nature of the entity's activities	3	18	45	99	52	217	0.01	0.08	.21	0.46	0.24	56
23	Brief description of the significant accounting policies	2	17	39	96	61	215	0.01	0.08	0.18	0.45	0.28	42
24	Donations to, and support given to charities	11	24	74	70	38	217	0.05	0.11	0.34	0.32	0.18	65

25	University graduate recruitment policy and achievement	13	38	63	57	46	217	0.06	0.18	0.29	0.26	0.21	61
26	Description of property, plant and equipment	3	14	48	77	73	215	0.01	0.07	0.22	0.36	0.34	31
27	Information about the accountancy principles used	2	10	28	98	79	217	0.01	0.05	0.13	0.45	0.36	24
28	Planning for human resource development	7	25	39	96	50	217	0.03	0.12	0.18	0.44	.23	58
29	Statement of cash flow	2	16	39	80	79	216	0.01	0.07	0.18	0.37	0.37	21
30	Discussion of major factors affecting current year operations	2	5	32	99	79	217	0.01	0.02	0.15	0.46	0.36	23
31	Discussion of major factors expected to affect future operations	2	14	38	90	73	217	0.01	0.06	0.18	0.41	0.34	30
32	Advertising expenses for the current year	6	21	63	88	39	217	0.03	0.10	0.29	0.41	0.18	64
33	Amount of annual directors remuneration	9	22	47	83	56	217	0.04	0.10	0 22	0.38	0.26	52
34	Amount of annual top management's remuneration	8	22	55	75	57	217	0.04	0.10	0.25	0.35	0.26	51
35	Percentage of Libyan employees in different company level	11	18	70	74	44	217	0.05	0.08	0.32	0.34	0.20	62
36	Description of future capital expenditure	4	23	34	94	61	216	0.02	0.11	0.16	0.44	0.28	41
37	Percentage of total wages paid to Libyan employees	11	25	63	67	50	216	0.05	0.12	0.29	0.31	0.23	57
38	Amount of revenue generated form from foreign market	5	14	37	95	65	216	0.02	0.06	0.17	0.44	0.30	39
39	Details of revenue sources	1	13	38	105	59	216	0.00	0.06	0.18	0.49	0.27	48
40	Details of equity investment	2	13	42	84	75	216	0.01	0.06	0.19	0.39	0.35	25
41	List of names of directors	10	27	66	66	47	216	0.05	0.13	0.31	0.31	0.22	59
42	List of names of the top management	12	26	59	67	52	216	0.06	0.12	0.27	0.31	0.24	55
43	Market value of the inventory	5	20	46	87	58	216	0.02	0.09	0.21	0.40	0.27	47
44	Description of the components of the inventory	4	17	59	81	55	216	0.02	0.08	0.27	0.38	0.25	54
45	Company policy regarding dividends	2	13	43	93	64	215	0.01	0.06	0.20	0.43	0.30	38
46	Significant shareholders(i.e. who hold 5% or more)	12	19	41	87	56	215	0.06	0.09	0.19	0.40	0.26	50
47	Market value and breakdown of non equity investment	4	16	50	84	61	215	0.02	0.07	0.23	0.39	0.28	40
48	Monetary amounts of locally produced raw materials	9	18	44	89	56	216	0.04	0.08	.20	0.41	0.26	49
49	Details of long term debt		14	40	87	74	215	-	0.07	0.19	0.40	0.34	29
50	Audit fees	9	25	45	77	59	215	0.04	0.12	0.21	0.36	0.27	46
51	Description of major types of products information	6	19	57	76	58	216	0.03	0.09	0.26	0.35	0.27	45
52	Company policy regarding the temporary investment	3	10	54	90	59	216	0.01	0.05	0.25	0.42	0.27	44

53	Summary of the ageof the accounts receivables	2	10	38	96	69	215	0.01	0.05	0.18	0.45	0.32	33
54	Earning per share	3	12	34	93	74	216	0.01	0.06	0.16	0.43	0.34	28
55	Statements of source and application of funds	4	6	27	98	81	216	0.02	0.03	0 13	0.45	0.38	19
56	Method used to determine the cost of inventories	10	10	39	85	72	216	0.05	0.05	0.18	0.39	0.33	32
57	Number and amount of authorised and issued shares	5	9	39	98	64	215	0.02	0.04	0.18	0.46	0.30	37
58	Statement of company's objectives	6	11	50	83	65	215	0 .03	0.05	0.23	0.39	0.30	36
59	Discussion of competitive position of the company	9	17	46	79	64	215	0.04	0.08	0.21	0.37	0.30	35
60	New product development information	10	18	49	81	57	215	0 .05	0.08	0.23	0.38	0.27	43
61	Share of market in major product/service areas	4	20	48	90	54	216	0.02	0.09	0.22	0.42	0.25	53
62	Discussion major factors could influence next year's results	4	14	40	90	68	216	0.02	0.06	0.19	0.42	0.31	34
63	Budgeted capital expenditures for the next fiscal year	3	10	28	74	100	215	0.01	0.05	0.13	0.34	0.47	7
64	Information about the employees	12	27	59	73	44	215	0.06	0.13	0.27	0.34	0.20	61
65	Information on corporate social responsibility	11	25	64	74	41	215	0.05	0.12	0.30	0.34	0.19	63
	Total	285	887	2575	5548	'756	14051						
	Mean	4.38	13.6	39.62	85.4	73.2							

Where, 1= not important at all, 2 = not important, 3 = moderate important, 4 = important, and 5 = very important.