ACCOUNTING INFORMATION DISCLOSURE AND ACCOUNTABILITY CASES FROM LIBYA

Mustafa Mohamad Saleh

A thesis submitted in partial fulfilment of the
requirements of
Sheffield Hallam University
for the degree of Doctor of Philosophy

June 2001

Dedication

To my beloved parents, brothers and sister,

for their continuous support, patient and love.

ACKNOWLEDGEMENT

I would like to acknowledge my indebtedness to many people for their contribution and support in undertaking this study. My particular thanks are due to my director of studies, **Professor Anthony Berry** of the School of Business and Finance at Sheffield Hallam University. Professor Berry's guidance, encouragement and criticism have helped shaping and producing this study. My special thanks are also due to **Professor John Cullen**, my second supervisor, for his constant and valuable guidance and comments throughout the duration of this study.

I am also grateful to participants of the School of Business and Finance Doctoral seminars for their comments and criticisms and to the Management Control Association, especially Professor Berry, for giving me the opportunity to attend its meetings and to present and discuss the study's issues.

My gratitude is also due to many people in Libya, especially employees at **the Secretary of Industry** and **the National Trailers Company** for their patient, co-operation and participation in the study.

I am indebted to the Accounting Department, Faculty of Economics at Garyounis University, Libya, for the grant they awarded me to undertake this study.

My thanks are also due to my friends, in Libya and the UK, for their support, understanding and encouragement throughout the study period.

Last but not least, my deep thanks and gratitude are to my family for their continuous support, patient and love.

ABSTRACT

Research to date has focused on explaining disclosure and accountability practices mainly in liberal market economies. Accountability and disclosure studies have been embedded in Western/Euro-centric economic and social theories. Although there have been a growing number of theoretical accountability studies, few empirical studies have been conducted to explore the nature of accountability in the public sector and the private sector. Disclosure and accountability practices in non-competitive markets have been given little attention in the literature. The focus of this thesis is to understand information disclosure practices and accountability construction processes in the predominant socialist and Arabic context of Libya. This study contributes to knowledge by explaining how the practices of disclosure and accountability in such context occur. Explaining disclosure and accountability practices in relation to the state and the public contributes to the current debate around these practices.

This study reported on data collected from two case studies conducted in Libya: the Secretary of Industry (SI) and the National Trailers Company (NTC). The Secretary of Industry's responsibilities included supervising thirty-one companies including the National Trailers Company. The National Trailers Company was a joint venture company where the State, represented by the Secretary of Industry, owned 75 per cent of the capital and an Italian company, Calabrese, owned 25 per cent of the capital. The aim of the study was to understand how information was disclosed and accountability was constructed and to explain the relationships between disclosure and accountability in the SI-NTC context. The study used Sinclair's (1995) forms of accountability as a point of reference to explore whether these forms were identified and understood similarly in the Libyan context.

The study's observations showed that disclosure and accountability practices within the SI-NTC context were different from those identified in the literature. Information was disclosed upon request and followed mainly accountability routes. The role of managerial and financial accountability in this process was emphasised. The study proposed an explanation for the SI-NTC disclosure and accountability practices that took into consideration the role of not only economic, but also social and cultural aspects in these practices. This explanation encompassed values and beliefs that were related not only to secular, but also to sacred activities. The observations showed that Islamic construction of identity and accountability of a person (all persons) to Allah was embedded in the accountability process.

The study's contribution was two-fold. The first was related to the process and the practice of disseminating the company's information - information enclosure - and the second was related to the accountability construction process - accountability webs. Information enclosure theory was proposed to explain the company's disclosure (enclosure) practices. The proposed theory was different from the conventional disclosure theories in that it reflected the role of not only economic but also social relationships in the information provided. Information was provided to those who constituted "the organisational web" of accountability where the influence of social relationships and personal connections - "the social web" - was present.

CONTENTS

Title	Page

Chapter Nine: Critical analysis of the SI-NTC disclosure and accountability practices

Chapter Ten: Discussions and conclusions

LIST OF FIGURES

Figure **Page**

LIST OF TABLES

LIST OF APPENDICES*

** Appendices page numbers are numbered separately from the main text at the end of the thesis.*

Chapter 1

The rationale and purpose of the study

1.0- Introduction:

The focus of this thesis is to understand information disclosure practices and accountability construction processes in a predominantly socialist context: the case of Libya. The aim is to understand the interrelationship between disclosure and accountability at the organisational level and the interaction between societal and organisational environments in such context. Disclosure is defined as "the release outside the organisation of information concerning the economic performance, position or prospects of the organisation, particularly as measured in financial terms" (Gibbins et al, 1992: 5). The release of this information, either on a voluntary or mandatory basis, is influenced by accountability relationships within and outside organisations. Accountability involves "explaining or justifying through the giving of information what has been done, what is currently being done and what is planned" (Jackson, 1982: 220).

The aim of this chapter is to explain the research aims and objectives, to discuss the rationale and motives for the study and to provide a background for the study (See Chapter 6). The chapter is divided into three sections the first of which explains the rationale for the study. This is followed by a discussion of the research aims and objectives. The final section of the chapter provides the structure of the thesis.

1.1- The rationale for the study:

A number of theories, both economically and socially oriented, have been used to explain disclosure and accountability practices in many, but mainly Western, countries. These theories include capital market theory (Watts and Zimmerman, 1986), agency theory (Jensen and Meckling, 1976; Baiman, 1982, 1990; Scapens, 1984, 1991; Hill and Jones, 1992; Earnhart, 1999), political process theory (Watts, 1977; Watts and Zimmerman, 1986), social construction theory (Berger and Luckmann, 1967), new institution theory (DiMaggio and Powell, 1983; Scott, 1987, 1995; Edwards et al, 1995) and Giddens' structuration theory (Giddens, 1979; Roberts and Scapens, 1985). The use of economic theories has provided different explanations for disclosure practices and accountability construction processes. Capital market theory suggests that companies voluntarily disclose their information not only to enable them to raise capital at lower possible costs and determine the worth of company's securities, but also to reduce information asymmetry between users which in turn can reduce the company's cost of capital. Proponents of capital market theory argued that market mechanisms can be relied upon to induce companies to disclose all available information (Bird and Locke, 1981; Watts, and Zimmerman, 1986). Benston (1982) argued that market imperfection exists and therefore market mechanism cannot be relied upon to reflect all available information. Agency theory is used to provide an explanation of the agency relationship between companies' managers and owners and disclosure practices (Hills and Jones, 1992). Agency theory links disclosure to implementing contracts and argues that agents provide information to their principals who may incur costs to monitor the agents' actions and may impose sanctions whenever the agent fails to meet the contractual requirements. This process reflects the accountability relationship between principals and agents. The Principal-Agent model was developed primarily from an economical perspective under the conditions of competition in financial and labour markets. The political process theory links disclosure activities with political parties' interests. Watts (1977) argued that political crises may lead governments to issue disclosure-related regulations to shift the emphasis from crises to solutions. Politicians may use these crises as a vehicle to implement new legislation otherwise opposed. This theory argues that politicians may pressurise governments to pass laws that restrict or demand the release of more information according to their self-interests. For instance, the South Sea Bubble crisis was argued to have led to the UK Parliament Act in 1720 which prohibited the formation of joint-stock companies whereas the US stock market crash in 1929 was argued to have led to the Securities Acts of 1933 and 1934 (Watts, 1977).

Social theories have been used to understand and explain disclosure and accountability practices (e.g. Tetlock, 1985; Laughlin, 1990; Roberts and Scapens, 1985; Willmott, 1996). Social construction theory enables the role played by culture in accountability construction to be illuminated and understood (Berger and Luckmann, 1967). Socio-psychological, social construction and interpretive perspectives are used to understand accountability construction and disclosure practices (Sinclair, 1995; Carnaghan et al, 1996; Willmott, 1996; McSweeney, 1996). New institution theory highlights the importance of wider social and cultural environments within which organisations are rooted (Edwards et al, 1995; Scott, 1995). Giddens' structuration theory is used in understanding the process of accounts production and reproduction (Roberts and Scapens, 1985).

The above disclosure and accountability literature, whether based on economic or social theories, has been mainly developed in liberal market contexts. These theories explain disclosure practices each from different standpoints and assumptions. The use of theories that were originated in an economic, cultural and political setting to explain disclosure practices in a different economic, cultural and political setting is questioned (Hofstede, 1980-1981, 1983; Perera, 1989; Ali, 1996). The application of these theories may not explain disclosure practices in different economic settings (i.e. Libyan economy). Research has been carried out to explain disclosure practices using theories that were developed in liberal market economies. Empirical evidence from different studies indicates that there are many factors that influence disclosure practices in liberal market and developing countries economies (e.g. Belkaoui, 1981; Perera, 1989; Cooke and Wallace, 1990; Hagigi and Williams, 1993; Alford et al, 1993; Kantor et al, 1995; Jaggi and Low, 2000). These include economic, social, cultural and political factors which influence the form and substance of disclosures. Lev and Penman (1990) showed that managers adopt less than full disclosure strategies but they have a tendency toward full disclosure over a long time horizon. Scott (1994), in his study of incentives and disincentives for financial disclosure by Canadian firms, found that the incentives to disclose information is a decreasing function of the potential cost attached to a disclosure and an increasing function of the favourableness of the news in a disclosure. Relatively few empirical disclosure-related studies have been conducted on developing countries. Many of these studies (e.g. Wallace, 1988, in Nigeria; Ibrahim and Kim, 1994, in Egypt; Owusu-Ansah, 1998, in Zimbabwe; and Al-Modahki, 1995, in Saudi Arabia) concluded that many firms publish annual reports that do not adequately comply with these countries' minimum disclosure requirements. Economic and political ideologies have an influence on the structure and the type of economy adopted in a country and thereafter disclosure practices. Differences in culture, economic, social and political factors between developed and developing countries may explain, in part, disclosure differences. Therefore, differences in culture, economic, social and political elements are expected to lead to differences in disclosure practices and accountability processes in different countries. This expectation gives the study its theoretical argument and leads to the assumption that disclosure and accountability in Libya cannot be explained from a liberal market theories' point of view. Therefore, the knowledge problem of this study is to explain disclosure practices and accountability processes in Libya.

Studying disclosure and accountability practices in a Libyan context is motivated in part by the eagerness to explore the secrecy attitude at the societal, organisational and individual levels in this context (Hofstede, 1984a, 1984b; Gray, 1988). In addition, limited research on accounting in general and accountability and disclosure in particular in Libya has motivated this study. The literature is relatively poor in relation to disclosure as one of the managerial devices for satisfying accountability pressures in socialist economy. This study aims to contribute to this literature through providing empirically-based accounts and proposing a theory of disclosure practices and accountability processes in a Libyan context. The study's prior expectation is that financial information disclosure practices and accountability processes in a socialist economy are different from those practices and processes identified in the literature within liberal market economies. This expectation is due to differences, not only in economic systems employed by developed and developing countries, but also in accounting systems, culture, political systems and social and demographic attributes. Therefore, this study aims to provide an understanding of how disclosure is practised and how accountability is constructed and the influence of societal, organisational and personal factors on these practices and processes in such context. The study complements previous studies (Sinclair, 1995; Dye and Sridhar, 1995; Carnaghan et al, 1996; Baydoun and Willett, 2000) in the attempt to obtain a wider understanding of disclosure practices and accountability processes towards theorising disclosure and accountability processes.

1.2- The study aims and objectives:

The principal aim of this study is to offer an initial understanding of disclosure practices and accountability relationships within a socialist economy, the case of Libya. Conducting a survey on a large sample of companies and information users and generalising the findings will neither explain why certain patterns exist nor understand how disclosure is practised and accountability is constructed. Therefore, studying limited number of cases may be more suitable to understand disclosure patterns and accountability relations within the Libyan context. Information producers and information users will be considered to achieve this understanding. Upon the data collected from a pilot study (See Chapter 6 for more details) which included four companies and a number of government institutions in Libya, two organisations (cases) were chosen to be studied. The National Trailers Company (NTC) and the Secretary of Industry (SI) were chosen to understand and explain disclosure practices within the former and accountability construction process within and between these two parties. The aim is to understand the NTC information disclosure practices and the SI-NTC accountability construction processes in the predominantly socialist context of Libya. To achieve this aim, the following objectives were set for the study:

1. To explore accounting information disclosure policies and practices in the absence of a stock exchange market, the case of NTC.
2. To understand the underlying assumptions of accountability relationships between the company and stakeholders in general and the Secretary of Industry in particular.
3. To explore accounting information users' perceptions about the information provided by the company.
4. To explore the influence of culture on accounting disclosure practices and accountability processes.

For the first objective, disclosure policies and practices will be explored through studying the company's official documents, annual reports and other data sources. The main issues to be explored include what type of information the company discloses, and when and how the company discloses its information. To achieve the study's second objective, the relationship between the company and the SI in terms of information provision and accountability structure will be explored. The influence of legal requirements and values and beliefs on the SI-NTC accountability relationship will be discussed. This involves exploring who demands the accounts and to whom these accounts are provided. In relation to the third objective, the aim is to understand whether information users – mainly the Secretary of Industry - are satisfied with the quality, quantity and timeliness of the information provided by the company. To achieve the fourth objective, Gray's (1988) accounting value dimensions and Hofstede's (1984a, 1984b) societal dimensions will be discussed and used to understand the influence of culture on disclosure and accountability processes.

Therefore, the focus of this study is on disclosure policies and practices and accountability construction processes, as described above, in the absence of a stock exchange market in a socialist economy. To this end, the following questions are set for the study:

- What role does accountability play in shaping the company's disclosure policies and practices?
- What are the underlying assumptions about accountability relationships between the company and the Secretary of Industry?
- What perceptions do information users have about the company's information quality, quantity and timeliness?
- How/does culture dimensions and accounting value dimensions affect accountability relationships and disclosure practices?

The above questions could be put into three main categories that represent the study's argument:

- How disclosure is practised?
- How accountability is constructed?
- How accountability influences disclosure and how disclosure influences accountability?

1.3- The structure of the study:

The thesis is divided into ten chapters. The first five chapters provide a historical background of Libya and a theoretical background to the study's main issues - disclosure and accountability. Chapter two provides a historical, political, economic and cultural background to Libya. This background is important as it provides a framework within which the observations of this study are to be interpreted and understood. The chapter explores accounting and economic development in Libya and the role of socialism in these developments.

The third chapter focuses on accounting disclosure development in liberal market economies. The meanings of information and disclosure are discussed in this chapter. The importance of accounting information in decision making process is explored. The influences of market mechanisms and regulation on disclosure practices are explained. The chapter discusses the underlying assumptions of disclosure theories.

The fourth chapter explores accounting development in developing countries and the influence of developed countries' accounting systems on this development. The chapter defines what is meant by developing countries in this study. Developing countries' economic and non-economic characteristics are explored. The influence of culture on accounting development and hence disclosure practices is discussed. Hofstede's (1984a, 1984b) culture dimensions and Gray's (1988) accounting values are discussed and used to explore the influence of culture on the development of accounting in developing countries. The chapter ends with a review of accounting practices classification studies and their implications for Libyan accounting practices.

Exploring the role of accountability process in disclosure practices is the focus of the fifth chapter. The chapter reviews the accountability literature, defines accountability, and explores the reasons for demanding and providing accounts. Economic and social reasons for providing accounts are discussed. The Principal-Agent model is then explored. The role of information in the accountability process is discussed. The chapter describes and defines different forms of accountability identified in the literature. Sinclair's (1995) accountability forms and O'Loughlin's (1990) accountability dimensions, which will be used in this study, are explored.

Conducting fieldwork and collecting empirical data involve choosing and designing the research methodology and method. The study's purpose, methodology and method(s) are the focus of the sixth chapter. Different assumptions about ontology, epistemology, human nature and methodology are discussed. The differences between positivism and phenomenology and qualitative and quantitative methodologies are explored. The study's methodology and method are then discussed. Ethnomethodology and case study are adopted as the study's methodology and method respectively. Two organisations, the National Trailers Company and the Secretary of Industry, were chosen to represent two case studies. The chapter explains how data from these two cases and other sources was collected. Interviews and documentary analysis were the main data collection instruments. The data collection process and the fieldwork plan are outlined in this chapter.

The data collected from the Secretary of Industry and the National Trailers Company - the two case studies - are the focus of chapter seven and chapter eight respectively.

These two chapters will describe the data collected from each case study separately with less focus on the relationship between the data collected and the literature. Chapter nine will provide a critical reflection to the data collected from both cases in the light of disclosure and accountability literature. Upon the analysis of the data collected, the study's observations are drawn. Chapter ten will be devoted to the study's observations, conclusions, contributions and suggestions for further research.

The observations of this study show that disclosure practices and accountability processes are contextually dependent. The influence of values and beliefs on these practices and processes is recognised. The study's observations show that the NTC's disclosure practices are based on the notion of the need-to-know rather than the liberal market notion of the right-to-know. The study provides evidence of information enclosure rather than information disclosure. Information enclosure refers to providing information to a particular public which is different from information disclosure in that the latter involves providing information to stakeholders which include the general public.

The study's observations indicate that economic reasons for accountability did not explain social and cultural aspects of accountability. The study provides evidence of the importance and the impact of religion, *i.e. Islam,* on values and beliefs. It shows that personal accountability in Libya is about individuals' relation to *Allah*, which determines individuals' behaviour and relations with themselves and others. The emphasis is on managerial, financial and legal accountability forms.

The relationship between accountability and disclosure processes and the influence of personal and social relations on the construction of accountability are identified. The more widely spread the accountability relationships within and outside the company, the more chance for more information to be disclosed.

Having outlined the rationale for and the objectives of the research and the structure of the thesis, the next chapter explores the social, economic and accounting developments in Libya where this research was conducted.

Chapter 2

Social, economic and accounting developments in Libya

2.0- Introduction:

A brief introduction to the Libyan socio-economic factors as far as this study is concerned is helpful as disclosure and accountability cannot be studied in isolation of the surrounding environment in terms of economic, political and social aspects. These interrelated factors may influence individual's values, attitudes and behaviour towards and about disclosure practices and accountability relationships. Therefore, understanding these factors may help in understanding and explaining disclosure practices and accountability relationships. This chapter will provide some information about Libyan economic, political and social systems and developments. The chapter starts with a brief historical background of the country followed by an exploration of the origins and the applications of Arab socialism. The country's political system and social and cultural attributes are then explained. This is followed by a historical account of Libyan economic development. The role of accounting profession and laws in regulating Libyan accounting systems and practices is then described.

2.1- Summary of Libyan history:

Libya occupies a strategic geopolitical location in North Africa as it links Eastern with Western Africa and Southern Europe with the rest of Africa. It occupies nearly 1,760,000 square kilometres, one-half the size of Europe or one-quarter the size of the United Sates, and has a population of almost five and a half million (The Economist Intelligence Unit, 1997-1998). The Islamic religion and Arabic language are two elements that characterise Libyan culture. Libya was originally settled by the Berbers, but Arabs invaded the territory in AD 642, bringing Islam to the region. Arabs ruled the territory now called Libya until the 1500s when it was invaded and controlled by Europeans for about 40 years (The Economist Intelligence Unit, 1997-1998). However, the country was subsequently subjected to many foreign occupations the last of which was the Ottoman Empire's long occupation (1551-1911) and European tutelage (1911-1951). Early Libyan history was influenced by numerous foreign conquerors, including the Phoenicians, the Greeks, the Romans and most significantly the Arabs. The Arab conquest of North Africa left a lasting mark on the Berber tribes that inhabited the area.

Under Ottoman Turkish rule in the nineteenth century, the Islamic religious order became a powerful force with political implications. In the twentieth century, when Italy sought to conquer Libya, Bedouins - nomadic Arabs of Arabian, Syrian or North Africa - constituted the major source of opposition to colonial rule. More advanced Italian weaponry prevailed, however, and Italy gained control of the area following World War I, setting up a new administrative system joining together the country's three main regions (Vandewalle, 1998). These regions were known as Cyrenaica in the East, Tripolitania in the West (now known as Tripoli) and Fezzan in the South. The Italians improved the infrastructure of the State, creating roads, railroads, port facilities and irrigation projects, but did little to educate and train the inhabitants in administrative, technical or agricultural skills. During World War II, the best route for gaining independence was seen by many locals (Libyans) to be to support the Allied side. Accordingly, many locals fought with the British army. This action, coupled with Italy's defeat, led to a brief period of British and French administration (1943-1951) of the former Italian-controlled country after the war. Thereafter, under United Nations auspices, King Idris of the Sanusi family proclaimed the United Kingdom of Libya (1951-1969) as an independent State in 1951. The severe economic conditions of the country at the time of independence meant that help from international organisations and foreign countries was needed. The country was seen at independence to represent little more than "a geographical expression" (Vandewalle, 1998: 42). Three United Nations technical assistance teams made study-tours of Libya in 1950-1951 (Wright, 1981). One of the teams was headed by Benjamin Higgins, who stated that

> "When Libya became an independent nation under United Nations auspices at the end of 1951, the prospects for Libyan economic and social development were discouraging to Libyans and foreigners alike." (Higgins, 1968: 819)

Higgins prepared a six-year social and economic development plan which was adopted by the government soon after independence. The plan laid great emphasis on education and training. As part of a broad assistance package, the UN agreed to sponsor a technical aid programme that emphasised the development of the country's agriculture and education systems. Foreign powers, notably Britain and the United States, provided development aid. The aid programmes were a result of allowing the UK and the US to maintain and use military bases in Libya over a period of 20 years starting in 1953. In the light of these agreements, the UK agreed to grant Libya an annual sum of £2.75 million to meet budgetary deficit and £1 million annually for economic development whereas the US agreed to grant $42 million over 20 years (Wright, 1981). Steady economic improvement occurred, but the pace of this development was slow, and Libya remained a poor and underdeveloped country heavily dependent on foreign aid. This situation changed after 1959 when research prospectors from Esso (later renamed Exxon) confirmed the location of major petroleum deposits in Libya (Wright, 1981; Vandewalle, 1998). Further discoveries followed and commercial development was quickly initiated by concession holders. Before the discovery of oil in 1959, prospects for economic development were extremely bleak. The discovery and exploitation of oil turned the vast, sparsely populated, impoverished country into a wealthy nation with potential for extensive development and thus constituted a major turning point in Libyan history.

On September 1, 1969, the political system of the country changed as military and civilian officers seized power. The movement was headed by a twelve-member directorate that designated itself the Revolutionary Command Council (RCC), which formed a new government. In its initial proclamation on September the 1st, the RCC declared the country to be a free and sovereign State called the Libyan Arab Republic. Among the RCC members was Muammar Al Gadhafi, who served both as Prime Minister and Defence Minister. Gadhafi was strongly influenced by the revolutionary ideas of the Egyptian leader Gamal Abdul Nasser. The new government proclaimed as its watchwords "Freedom, Socialism and Unity" following the Egyptian model. In line with its intended populist and socialist character, in 1977 the official name of the country was changed to "The Socialist People's Libyan Arab Jamahiriya." The term "Jamahiriya" is translated to mean "power to the masses" (Wright, 1981: 191).

Gadhafi, who is referred to as "the leader," produced in the 1970s a book of three parts known as *The Green Book*, setting forth his political, economic and social programmes. These came to assume a position for the Libyans comparable to that of the "Little red book" of Mao Zedong for the Chinese. Gadhafi's pursuit of socialism as set in The Green Book entailed the development of Libya's infrastructure in transportation and communications, utilities and basic services. His policy resulted in rejecting communism and officially espousing an Arab interpretation of socialism that integrated Islamic principles with social, economic and political reform. A single political party known as the Arab Socialist Union (ASU) was created in 1971 and modelled after Egypt's Arab Socialist Union (Wright, 1981). The next section will provide a brief background of the origins of socialism in Arab countries and the adoption of this system in Libya. Understanding the country's socialist ideology may represent one of the explanations of accountability relationships and disclosure practices that exist within the context of this study.

2.2- Arab socialism:

The economic role of the State has grown remarkably since the 1950's in most Arab states. Up to the 1940s, public ownership rarely extended beyond irrigation works and public utilities. By the mid-1960s, the public sector in Egypt, Iraq and Syria had become predominant in most sectors. In the 1970s, the public ownership increased in Libya to embrace most of the economic activities following the 1969's revolution and the nationalisation process. Oil-exporting Arab countries were enabled by the 1970s oil boom to become more government spenders through their social welfare services and industrialisation programme. Ayubi (1992) argued that rather than socialist ideology inspiring the institutional arrangements of most of the Arab states' socialism, it was political pursuits as the quest for national independence and for State-building that eventually led Arab states to a semblance of socialism. Socialism therefore did not come to power by way of a political movement intent on putting socialist ideals into practice. The norm was a military coup after which socialism is installed. The socialist components were then gradually added up in an eclectic way. Egypt, Syria and Iraq are examples of early Arab socialism.

In Egypt and Iraq, socialism was introduced gradually following military coups and the initiation of a number of industrial projects in co-operation with the former Soviet Union. Organisations similar to those which existed in the former Soviet Union and East European counterparts were established in both countries. In Syria, the first socialist measures were introduced politically during the brief union with Egypt in 1958-1961 period. A major motivation behind nationalisation and the adopting of socialism in Syria and Iraq was to make their economic system as similar as possible to that of Egypt in order to facilitate the union of the three countries. The same argument applies to Libya, which started introducing socialism after the 1969 revolution. After the revolution, the government started expanding the public sector and cutting back the private sector. Nationalisation, industrialisation and social services programmes were introduced which led to the transfer of the State's industry, banks, insurance companies, foreign trade and most of the domestic trade into the hands of the State. These changes were influenced by changes in the country's political ideologies and establishments.

Political changes have implications on the country's economic system and accountability relationships. These changes will be discussed next.

2.3- Political system:

The domestic political structure underwent changes after independence by establishing the single political party in 1971, the Arab Socialist Union. Ayubi (1992) argued that many countries, which have used socialist slogans, applied social policies and adopted to some extent the Soviet and Eastern Europe institutional arrangements (Jaruga, 1990), do not in fact believe, ideologically, in socialism. He added that economic and political structures may follow a socialist style but not the socialist ideology. Libya's socialist structure has led to the domination of a large number of State owned enterprises. Turkey, Iran, Egypt and Algeria had all, before Libya, transformed the State into an instrument designed to organise and promote industrialisation (Bearman, 1986).

The remaking of Libyan society and economy that Gadhafi, who came to power in 1969, envisioned formally began in 1973 with a so-called cultural or popular revolution. The revolution was aimed to combat bureaucratic inefficiency, the lack of public interest and participation in the sub-national governmental system, and the problems of national political co-ordination (Bearman, 1986). The instrument for doing this was the creation of "people's committees." People's committees were functionally and geographically based and became responsible for local and regional administration. In the scope of their administrative and regulatory tasks and the method of their members' selection, the people's committees embodied the concept of direct democracy that Gadhafi propounded in the first volume of The Green Book, which was published in 1976. Further changes were initiated in 1977 when the General People's Congress (GPC) was created to replace the Revolutionary Command Council. The centrepiece of the new system was the General People's Congress as a legislative body. The GPC still exists today and is headed by a Secretary. The GPC adopts resolutions creating the General Secretariat of the GPC and appointing members (i.e. Secretaries or Ministers) of the General People's Committee as an executive body. The General People's Committee acts as the country's government (cabinet). At its conception, all legislative and executive authority was vested in the GPC, which delegated most of its authority to the General Secretariat and to the General People's Committee. In turn, Municipal People's Congresses (MPC) and Basic People's Congresses (BPC) were established across the country. People debate and take decisions at the BPC level. These decisions are then passed up to the GPC for consideration and implementation as national policy.

Tribal loyalties played an important role in Libyan social relations, economics and politics. The various pressures of the colonial period, independence, the development of oil industry and the economic crisis of the 1980s and 1990s did much to alter tribal and social structure. Values have changed under the impact of economic changes. Social life in Libya centres traditionally on the individual's family and tribe loyalty, which overrides other obligations in the community. Loyalty to family, clan, and tribe and the emphasis on regionalism and sectarianism occasionally outweigh loyalty to a profession and the law (Agnaia, 1997). Libya is no different from many other developing countries in having a number of traditions and customs, which emphasise collective rights and obligations of families and tribes. Tribal and family collectivity is institutionalised in peoples' work-related practices and social relationships. The Libyan culture is characterised by the prevailing attitude of favouritism towards appointments to government jobs, which were and are frequently made on the basis of personal friendship or family connections rather than merit (Wright, 1981).

2.4- Libyan economy:

Libya depends on oil as a major source of income (Selway, 2000). Apart from hydrocarbons, Libya is relatively poor in other resources. Prior to the discovery of oil in 1959, Libya was one of the poorest countries in the world (Higgins, 1968; Wright, 1981). During the Italian and then the British ruling (1911-1951), the country's economy had improved compared with the primitive conditions the Italians found the country in when they first came to Libya in 1911. It was the American and the British money in return for the use of military bases in Libya and the aid from the UN and other organisations which helped the country to survive and overcome the economically severe years of the fifties. The population was engaged in agriculture and animal husbandry (Higgins, 1968). The few relatively large enterprises in the country were controlled by Italian expatriates (Bait El-Mal et al, 1973). In contrast to neighbouring Algeria, Tunisia or Egypt, the colonial economy in Libya did not create clear domestic financial, commercial, capitalist or agriculture firms that have close economic relationships with colonial powers (Vandewalle, 1998). Industries, which had been established prior to the discovery of oil, were mainly focused on processing the local agriculture products, which include flour, textiles, tobacco, footwear and clothing. The country's economy was suffering from deficit in the budget and was based on the limited productivity of a primitive agricultural sector and a few small industries (Agnaia, 1996). Benjamine Higgins, an economist specialising in economic development who worked as an economic adviser to Libya in early 1950s, described the country's economic conditions in the following:

> "We need not to construct abstract models of an economy where the bulk of people live on a subsistence level, where per capita income is well below $50 per year, where there are no sources of power and no mineral resources, where agricultural expansion is severely limited by climatic conditions, where capital formation is zero or less, where there is no skilled labour supply and no indigenous entrepreneurship. When Libya became an independent nation...it fulfils all these conditions. If Libya can be brought to a stage of sustained growth, there is hope for every country in the world." (Higgins, 1968: 819)

The Libyan economic situation had changed after the discovery of oil in 1959 and the inflows of foreign capital. After 1959, the need for direct foreign subsidies declined as international oil companies began to invest in Libya. The investment in the oil industry brought surplus to the country's economy in general. The oil revenues accounted for 24.4 per cent of the country's Gross Domestic Product (GDP) in 1962, 61.7 per cent in 1969 and 28.3 per cent in 1992 (See Appendix 2.1 - Gross Domestic Product in Libya by sector in the period 1962-1996). By 1968, Libya was the second largest oil producer in the Arab world. Per capita income climbed from below $40 in 1951, $1,250 in 1967 (Bait-El-Mal, et al 1973), to $10,985 (LD3,252)[1] in 1980, and then decreased to approximately $6,064 (LD2,426) in 1997 as shown in Table 2.1 (See Appendix 2.2 - Per capita income in Libya in the period 1962-1997). The contribution of the oil sector in the GDP reached its highest in 1980 (LD6,525.7 million) while non-oil sector's highest contribution in the GDP was in 1997 as it reached LD9,998 million.

Table 2.1: GDP and Per Capita income in Libya in the period 1967-1997

	1967	**1970**	**1975**	**1980**	**1985**	**1990**	**1997**
GDP (LDM):	747.8	1,288.3	3,674.3	10,553.8	7,852.1	7,749.6	**12,975.5**
Oil sector	402.5	812.6	1,961.1	**6,525.7**	3,500.4	2,740.8	2,977.5
Non-oil sector	345.3	475.7	1,713.2	4,028.1	4,351.7	5,008.8	**9,998.0**
Per Capita (LD)	430	656	1,369	**3,252**	2,140	1,600	2,426
Per Capita ($)	1,250	2,216	4,624	**10,985**	7,228	4,320	6,064

Source: Economical and Social Development Achievements in 28 years, 1998: 14, and Economic and Social Indexes (1962-1996), 1997: 46 & 52.

[1] LD denotes to the Libyan currency, Libyan Dinner.

During the period 1951-1969 (from the independence to the revolution), the Libyan economic system was mainly capitalist. Private ownership existed with minimum governmental interference. Public ownership was in sectors that required large scale investment. The government initiated a number of measures to encourage competition and the establishment of private businesses. These included the issuance of import and export laws demanding that the importation of competitive foreign goods be subject to licence, the establishment of the Industrial and Real Estate Bank of Libya (currently the Development Bank) to provide loans to Libyan businessmen to build local industries, and the establishment of the Industrial Research Centre to help implementing the country's development plans by providing technical and economic services in both the public and private sectors (Bait El-Mal et al, 1973). Since the discovery of oil, the country has changed from deficit to surplus. Since the revolution in 1969, the country has changed from capitalism to socialism. State intervention in the economy has increased and the government started expanding the public sector and cutting back the private sector. The State ownership structure of businesses started in early 1970s, gained momentum in the mid-1970s and reached its peak in 1980s where most of the businesses became owned or controlled by the State. The State became to dominate all manufacturing activities, foreign and domestic retail trade, and banking and insurance services.

However, whilst the Libyan economy was characterised by its central control and authority policies, some private companies have emerged and started to operate in Libya in the 1990s-2000s period. This was mainly due to the crises the Libyan economy had faced in the late 1980s and 1990s as economic conditions and standards of living worsened as world oil prices slumped (The Economist Intelligence Unit, 1997-1998). In response to these crises, the State introduced a series of liberalisation measures that for the first time since 1969 included a significant role for the private sector. The overall goals of these measurements were to cut public spending, to gradually withdraw subsidies that contribute to such spending, and to promote private sector initiatives in different sectors (Vandewalle, 1998). The first set of reform measures, adopted in 1987 and 1988, allowed the creation of self-management or collective ownership businesses. Other developments included the issuance of regulations governing the privatisation of selected public enterprises and the lifting of restrictions on private wholesale trade. In 1992, to enhance economic development, the government passed Act number 9 to enhance and regulate the private sector activities in the national economy and to open the door for the privatisation of a number of public-sector companies. The Act's main objective is to regulate and enhance the role of the private sector activities in the economy. The Act specifies the economic sectors that the private sector and individuals can operate in, which include production, distribution and services. These activities are in areas such as agriculture, industry, commerce, tourism, transport, finance and the private practice of professionals. The Act permits the establishment of privately funded companies and family and individual activities. Based on a recommendation of the General People's Committee, the Act allows the selling of publicly held companies to private ownership. In 1997, the State issued Act number 5 regarding Foreign Capitals Investment Encouragement. The Act aims at encouraging foreign capital investments within the overall policy of the State and the targets of economic and social developments. In particular, the Act encourages foreign investments in areas that would result in transferring modern technology, variation of income resources, and contributing to the development of the national products so as to help in its entry into the international markets.

Development plans:

Planning policies adopted in Libya in the last three decades were based on the ideology of socialism as well as the involvement of the State in the organisation and management of the economy using the philosophy of central planning. Economically, development plans in Libya were prepared, controlled and evaluated centrally by, inter alia, the Secretary of Economy and Planning. The industrialisation of the Libyan economy and the expansion of the agriculture sector were high priority items in Libya's economic development. As the development of petroleum resources progressed in the early 1960s, Libya launched its first five-year plan: the 1963-1968 plan (See Appendix 2.3 – Five-year Plan 1963-1968 and Additional Year 1969). The general aim of the 1963-1968 plan was to build up the Libyan economy and to remedy the deficit. The emphasis was put on agriculture, forestry, education, health and communication development (Abusneina, 1992). The plan called for an expenditure of LD169.1 million. The increase in oil revenues during that period led to an increase in the final amount spent on development to reach LD551 million, or 325.8 per cent of planned expenditures. By 1968, the contribution of oil products to GDP had risen to about 60 per cent. Other sectors' contribution to the GDP, except construction, decreased in relative terms between 1962 and 1968; agriculture declined from 9.6 per cent to 3 per cent of the total and manufacturing from 5.8 per cent to about 2 per cent (See Appendix 2.1 - Gross Domestic Product in Libya by sector in the period 1962-1996). Despite strong emphasis on agriculture, the plan indicated that the State's most important social priority, taking precedence over health and housing, was education. The higher education process in the country started in the mid-1950s. The university of Libya (currently Garyounis University), the first university in the country, was established in 1955.

The second five-year plan 1969-1974 was designed to allocate 2.4 times the actual expenditures of the first five-year plan. This plan was never implemented due to the 1969 government change (Elmaihub, 1981). The contrast between the oil sector and the rest of the economy had become even greater in the 1970s. In 1970, oil, construction, agriculture and manufacturing sectors accounted for 63 per cent, 6.8 per cent, 2.6 per cent and 1.7 per cent of the GDP respectively (See Appendix 2.1 - Gross Domestic Product in Libya by sector in the period 1962-1996). What these percentages reflect is not an absolute decline in the non-oil sector as a whole but rather the extraordinary relative growth of the oil sector. The increase in oil production that followed the 1969 revolution was accompanied by Libyan demands for higher oil prices, a greater share of revenues and more control over the development of the country's oil industry. In 1971, the Libyan government nationalised the holdings of British Petroleum in Libya. In 1973, it nationalised other oil companies operating in the country. This step gave Libya control over its domestic oil production.

A three-year, 1973-1975, development plan was launched in 1973 (See Appendix 2.4 - Socio-Economic Development Plan 1973-1975), which focused on the oil industry (Taim and Saleh, 1988). The plan's projected goals included a growth rate in GDP at an annual rate of 11 per cent and a diversification of the economy that would decrease the country's dependence on the oil sector. The non-oil sector was expected to expand through channelling substantial long-term investments into agriculture and manufacturing (Vandewalle, 1998). Until the late 1970s, Libya's economy was mixed, with a large role for private enterprise except in the fields of oil production and distribution, banking and insurance. However, during the 1970s, the government started tightening its grip on the private sector through nationalisation or establishing new State owned enterprises. During this period, more than one hundred factories were established and run entirely by the public sector. The 1973-1975 plan called for a spending of LD1,965 million over the three year period, 18.4 per cent of which was on the housing sector. Of the plan's total investment, 16.6 per cent was allocated to agriculture. The portion of the manufacturing, mining and quarrying sector was 12 per cent.

In 1975, the 1976-1980 Socio-Economic Development Plan was launched (See Appendix 2.5 - Socio-Economic Development Plan 1976-1980). The plan was programmed to develop a broad range of economic activities that would continue to provide income after Libya's oil reserves had been exhausted. It envisaged an annual average increase of over 10 per cent in the GDP, 25 per cent in industrial output and near self-sufficiency in food output by 1980 (Wright, 1981). Agriculture was slated to receive 17.1 per cent whereas industry, of which there was little before 1969, received a significant amount of funding – 15.2 per cent – as shown in Table 2.2. The plan's main emphasis was on promoting the non-oil sector that would be paid for by oil revenues. The aim was to make Libya self-sufficient in food and to encourage agriculture by keeping the rural population on the land through the provision of funds, loans and facilities. Of the plan's total investment, 8.8 per cent was directed towards the transportation and communication sector. The 1976-1980 plan was later revised (See Appendix 2.6 - Revised Socio-Economic Development Plan 1976-1980) with more investment going to industry rather than agriculture (Wright, 1981).

Table 2.2: The percentage of Industry & Agriculture sectors' investment of the total investment

	1976-1980	**1981-1985**
Industry:	15.2%	23.1%
Heavy		16.1%
Light		7%
Agriculture	17.1%	18.2%
Total investment (LDM)	7,170	17,000*

Source: Bearman (1986: 193) and The 1981-1985 Economic and Social Transformation Plan.
** This number does not include 1,500 million allocated to projects reserves.*

In 1981, the 1981-1985 Economic and Social Transformation Plan was launched (See Appendix 2.7 - Socio-Economic Development Plan 1981-1985). The 1981-1985 plan allocated more funds to different sectors – 23.1 per cent to industry, with agriculture coming second receiving 18.2 per cent (See Table 2.2). Encouraging the development of heavy industry became a high priority for the government in the 1980s. There was clear emphasis on the development of heavy industry to which LD2,730 million - 16.1 per cent of the total investment – were allocated, whereas LD1,200 million - 7 per cent of the total investment - were allocated to light industry. Further expansions of the current manufacturing and constructing sites as well as the creation of new ones was a principal objective of the 1981-1985 plan. The plan aimed to increase non-oil economic activities' growth by about 10.3 per cent annually. Most industrial projects targeted by this plan were designed to create downstream petrochemical industry and employment, satisfy internal demand for processed petroleum products, and take advantage of cheap energy to build export-oriented manufacturing capacity.

The increase in oil prices and accordingly in the State's revenues was accompanied by an expansion of the public sector and an increase in the development investment programmes. The Libyan economy was closely related to the petrochemical industry due to the country's great dependence on oil revenues. Oil prices have sharply risen from $2.23 per barrel in 1969 to $30.4 in 1986, after which they progressively weakened. The increase in oil price in the 1970s and 1980s was due, among other things, to firstly the Arab oil embargo and secondly to the Iran and Iraq war. However, because expenditures under the development budget were highly dependent on oil revenues, actual expenditures often failed to reach planned levels when oil prices decreased. Despite massive investment in agriculture and non-petroleum-related industry, the percentage of Libya's gross domestic product derived from oil has remained fairly constant since the early 1970s, fluctuating between 50 and 60 per cent until 1982, when declining oil revenues caused it to drop below 50 per cent – 24 per cent in 1996 (See Appendix 2.1 - Gross Domestic Product in Libya by sector in the period 1962-1996). The falling of oil prices has dramatically reduced the government revenues and caused a decline in economic activities and the abandonment of central planning (The Economist Intelligence Unit, 1997-1998). Shortages of foreign exchange to the Libyan government began to emerge as a problem in 1981 when oil sales first dropped in conditions of a market oversupply (Bearman, 1986). By 1985, Libyan oil revenues had fallen to their lowest level since the first Organisation of Petroleum Exporting Countries (OPEC) price shock in 1973. This fall in oil revenues, which constituted over 61 per cent of the total GDP in 1980 and from which, in some years, the government had derived over 80 per cent of its revenue, caused a sharp contraction in the Libyan economy (Economic and Social Indicators (1962-1996), 1997). Real GDP fell by almost 10 per cent between 1980 and 1981. The fall in oil prices accompanied by the UN sanctions (1992-1999), for the Pan Am flight accident over Lockerbie in Scotland in 1988, contributed to the difficulties the economy encountered. According to the country's estimates, the UN sanctions cost the country $18bn until 1996; $6bn in agriculture, $4bn in mining and industry, $3bn in the energy sector, and $5bn in other sectors (The Economist Intelligence Unit, 1997-1998).

Although there was no long-term plan after the 1981-1985 plan, the State launched a 'three-year-programme' covering the period 1994-1996 at the beginning of 1994, which was abandoned with a few of its goals fulfilled (See Appendix 2.8 - Three-Year Programme 1994-1996). The total amount allocated to the 1994-1996 period was LD2,400 million of which only LD1,450.556 million, or 60 per cent of the total allocation, were actually invested. The effect of, inter alia, the decline in oil prices and the UN sanctions on the actual amount invested in comparison with the original allocations is obvious. Only 31 per cent of the allocated amount to the agriculture sector was actually spent. In contrast, the amount spent on industry exceeded the original allocation - 140 per cent. The emphasis on the industrial sector led to an increase in the sector's contribution to GDP from 1.7 per cent in 1970 to 9.7 per cent in 1997 (Economical and Social Development Achievements in 28 years, 1998).

However, the 1963-1968, 1973-1975, 1976-1980, 1981-1985 and 1994-1996 plans ran into difficulties for various reasons. The severe shortage of manpower, in terms of skilled and semi-skilled labour, had been the main constraint facing the Libyan public sector. The main problem of the first three plans and particularly the 1963-1968 plan was the availability of far more money to spend than had been foreseen due to unexpected oil revenue – *the crisis of wealth.* During the period 1963-1975, the government was only able to spend 42 per cent of the total oil revenue for development purposes, which resulted in a rapid increase in Libya's foreign exchange holdings (Elmaihub, 1981). The 1981-1985 and 1994-1996 plans suffered from fund shortages mainly from the oil sector due to oil prices decline. Light industry was generally overshadowed by the attention given to several large heavy industry schemes as the government focused on building industries that could make use of the country's cheap energy and gas feedstock. Generally, the economy was dominated by the hydrocarbons sector, which contributed 90 to 99.9 per cent of Libya's export earnings and represented 24 per cent (in 1996) to 63 per cent (in 1970) of the country's GDP in the period 1970-1996 (Economic and Social Indicators (1962-1996), 1997). The manufacturing sector (Manufacturing, Mining and Quarrying Sectors) accounted for 1.8 per cent and 11.2 per cent of the GDP in 1970 and 1996 respectively (Economic and Social Indicators (1962-1996), 1997). The agricultural sector contribution to the GDP has increased from 2.6

per cent in 1970 to 6.6 per cent in 1996 (Economic and Social Indicators (1962-1996), 1997).

The budget:

The budget, which is organised by the Secretary of Treasury, discussed by the Basic People's Congresses and signed into law by the GPC, is divided into an administrative budget and a development budget. The administrative budget details the revenue and expenditure of the various secretariats and the transfers to municipalities and public enterprises. Initial proposals for the administrative budget start at the municipal level; the proposals are then forwarded to the appropriate secretariat for consolidation and subsequently submitted to the Secretary of Treasury, which reviews and forwards the proposals to the General People's Congress for final approval. The development budget sets out an annual project expenditure programme. This programme is sometimes set within a framework of a three-year plan (e.g. the 1973-1975 Development Plan) or a five-year plan (e.g. the 1981-1985 Economic and Social Transformation Plan). The development budget is prepared initially by organisations that would implement specific projects; the proposals are then sent to the Secretary of Treasury and the Secretary of Economy and Planning for revisions and submission to the GPC. In relation to companies, the Secretary supervising a company either approves or modifies the company's budget. This is down to many factors including the availability of foreign exchange. Foreign exchange in Libya is strictly controlled by the State through the Central Bank of Libya. As a result of cutbacks in foreign exchange allocations, the Secretary of Industry (SI) does not usually approve companies' budgets without adjustments, which has led many companies to "exaggerate in their initial estimates" to meet the SI and the Secretary of Treasury expected modifications (Kilani, 1998: 210).

The process of budget execution is influenced by oil price changes. Periods of high oil prices increase the government's revenue leading to an increase in investment projects while periods of low oil prices may lead to cutbacks in projects and investments. Table 2.3 illustrates the relationship between oil prices and the amount invested in the development process. The highest oil prices and actual expenditures were recorded in 1980.

Table 2.3: Oil prices, budget and actual expenditures

Year	Budget (LDM)	Actual expenditure (LDM)	Oil price ($/barrel)
1972	68.1	65.1	2.3
1973	79.7	62.5	3.07
1974	110.9	107	10.41
1975	129.9	100	10.43
1976	199.4	165.5	11.63
1977	194	160.7	12.6
1978	225.3	157.1	12.91
1979	203.4	210.2	29.19
1980	**614.9**	**583.2**	**36.01**
1981	727.1	435.3	34.17
1982	475.9	356.4	31.17
1983	494.9	230.2	30.05
1984	415.4	514.1	28.06
1985	254.2	260.6	27.52
1986	270	201.3	12.97
1987	273.5	158.7	17.73
1988	224.8	112.8	14.24
1989	140	95.9	17.31
1990	139	35.9	22.26
1991	267	9.4	18.66
1992	170	20.2	18.44
1993	63.7	11.6	16.33
1994	50.7	35.5	15.53
1995	24	26	16.86
1996	20	71.3	20.29

Libyan exports and imports:

The importance of foreign trade in the process of economic development stems from the role it plays in expanding the production capacity and marketing potentials of domestic products. It provides chances to domestic economies through opening channels of exchange and increasing the overall economic welfare through expanding the array of choices in consumption, investment and resource allocation. A country's foreign trade reflects the extent of the availability of productive resources and the country's ability to export. However, Libya is considered as a one sided economy that depends heavily on oil products which make up most of its exports. Table 2.4 shows that the main role in the export sector is played by the oil industry especially in the period 1970-1984 when the percentage of oil exports to total export ranged between 90 per cent to 99.9 per cent. Oil represented 99.9 per cent of Libyan exports in 1970 and decreased during the following years to reach its lowest level in 1994 - 72.9 per cent (See Table 2.4).

The non-oil Libyan exports accounted for only 0.1 per cent of the total exports in 1970. This percentage increased subsequently in the following years to reach its highest level in 1994 - 27.1 per cent (See Table 2.4). This increase in non-oil exports was due to many reasons which include the government policy to diversify production activities, the decline in oil prices in late 1980s and 1990s and OPEC decisions to reduce oil supply (Abusneina, 1992). However, Shamia (1991) described Libyan non-oil exports as negligible in value and quantities and characterised by both discontinuity and high costs of production.

Table 2.4: Libyan exports in the period 1970-1996 (%)

Year	Crude oil exports	Other exports*	Year	Crude oil exports	Other exports*
1970	**99.9**	**0.1**	1984	91.5	8.5
1971	99.6	0.4	1985	87.3	12.7
1972	98.2	1.8	1986	88.7	11.3
1973	97.2	2.8	1987	83.1	16.9
1974	97.7	2.3	1988	80.3	19.7
1975	95.2	4.8	1989	82.3	17.7
1976	95.9	4.1	1990	82.3	17.7
1977	94.4	5.6	1991	84.6	15.4
1978	92.8	7.2	1992	77.6	22.4
1979	92.9	7.1	1993	76.1	23.9
1980	96.9	3.1	**1994**	**72.9**	**27.1**
1981	95.1	4.9	1995	76.7	23.3
1982	95.1	4.9	1996	81.3	18.7
1983	93.2	6.8			

Source: Economic and Social Indexes (1962-1996), 1997: 64-72.
** Other exports include Gas and petrochemical products.*

The distinction between Libyan imported and exported products is uneven, with mainly crude oil, refined petroleum products and natural gas exported to Europe, and a dominance of imports of technology products into Libya. European countries, mainly Italy, Germany, Spain, France, UK, Turkey, Greece and Eastern Europe, are the main partners from which the country imports and to which it exports (Selway, 2000). Egypt, Morocco and Tunisia are the main Arabic markets.

2.5- Accounting profession:

Accounting practices were brought into the country through different channels. The Italian accounting profession and the Italian Income Tax Law of 1923, which were implemented in Libya during the Italian colonisation period, influenced the evolution of enterprise accounting in Libya (Kilani, 1988). The Italian accounting practices were short lived due to the fact that Italian firms had mainly employed Italian immigrants for administrative and accounting jobs as they were more qualified than the indigenous population. The educational and technical training of Libyans was neglected and to a large extent Libyans were excluded from administrative positions in government and private enterprises during the Italian era (Bait El-Mal et al, 1973). After the departure of Italians, Libyan labour force was not adequately trained to implement the Italian accounting practices, which opened a chance of either developing the country's accounting profession or implementing other country's accounting practices. The Italian

Income Tax Law, which was used with some modifications until 1968, provided a basis for developing the first Libyan Income Tax Law of 1968. However, many factors caused the Libyan accounting profession to follow the UK and the US accounting systems. These factors included the presence of international companies and international accounting firms in Libya (mainly from the UK and the US), the introduction of accounting education in Libya which was based on the UK and the US texts, accountants from other countries and Libyan accountants educated in other countries (Buzied, 1998).

The Libyan accounting profession was influenced by the British accounting standards and practices during the 1950-1960s period during which Libya was a member of the British sterling bloc.[2] The influence of the British on the accounting profession came through British owned or managed oil and non-oil firms operating in the country and through British advisers for Libyan firms and governmental organisations. In this context, it is worth mentioning that the director of the State Accounting Office in Libya from early 1950s until 1969, J. H. Newbegging, was British (Bait El-Mal et al, 1973). The British influence was extended to the Libyan accounting education through the use of British education programmes and textbooks in the University of Libya. However, in the 1970s the American influence on Libyan accounting profession began to replace the British influence. American oil and non-oil companies increased their investments in Libya after the discovery of oil. They imported their accounting systems, implemented the American Accepted Accounting Principles subject to Libyan laws and regulations, and employed Libyans in both accounting and administrative jobs. The Libyan accounting education system in the Faculty of Economics and Commerce at the University of Libya (currently Garyounis University) changed towards teaching American accounting-textbooks and methods. Therefore, two forces influenced the development of Libyan accounting. These were foreign companies operating in Libya and the accounting education in Libya (Bait El-Mal et al, 1973). In addition, legal requirements to which we turn next also influenced the development of Libyan accounting profession.

[2] Libya was expelled from the British sterling bloc by the British in the aftermath of the Libyan nationalisation of the British Petroleum's assets in December 1971.

2.5.1- Legal requirements:

In Libya, as in many other countries, the government has issued a number of laws to regulate accounting practice. The role of the accounting profession in regulating accounting practices is almost non existent. Therefore, and according to Gray's (1988) accounting values, the statutory control approach as opposed to professionalism (self-regulation) approach is adopted (See Chapter 4). The major impact on accounting practice thus has come mainly from the Libyan Commercial Code (LCC), Financial System Law, Income Tax Law, Petroleum Law and Accounting and Auditing Profession Law. In the next sections, a brief description of these laws will be provided.

The Libyan Commercial Code:

The Libyan Commercial Code (LCC) was issued in 1953. The code is applicable to various business corporations that exist in Libya. Those corporations, as specified by the code, include general partnership, simple limited partnership, limited partnership with shares and joint stock companies. General partnership companies, according to Articles 445 to 451 of the LCC, are to be operated by partners who are jointly liable for their business debts. Simple limited partnership companies, according to the LCC's Article 446, are those which are formed by one or more active partners who have unlimited liability for the company's debts and by one or more sleeping partners whose obligations are limited to their contribution in the capital. Limited partnership with shares companies are organised according to the LCC and the Act no 65 of 1970 for Commercial Companies (hereafter the 1970 Commercial Act). Article 478 of the LCC states that joint stock companies' liability is limited only to the full payment of their shares. The 1970 Commercial Act (Articles 4 and 17) requires that the percentage of capital of joint stock companies owned by Libyans must not be less than 51 per cent.

The LCC requires companies to keep at least the following books: a journal and an inventory and balance sheet book. The journal should include the company's day-to-day business transactions and a monthly total of its expenditures. The inventory and balance sheet book is a combination of a number books, accounts and statements that include the inventory statement, balance sheet and profit and loss account. The company's annual reports should be made available, within the company's headquarter, to its shareholders at least fifteen days before the General Assembly meeting within which these reports are to be attested (Article 580 of LCC and Article 50 of the 1970

Commercial Act). The LCC requires these books to be bound, to have numbered pages, and to be signed and stamped by a court official before being used. The aim of this process is to avoid books being tampered with to conceal or change the contents. However, only recently the use of computer technology in companies' accounting systems is introduced. The law falls behind the introduction and use of this technology in accounting since there have not been any amendments to the existing laws or the issuance of new law(s) to govern the use of this technology in accounting. The LCC, the 1970 Commercial Act and the Tax Law require companies to prepare a balance sheet and a profit and loss account at least once a year. The LCC provides guidelines for the valuation of assets and liabilities, the creation of legal provisions, changing the invested capital, and the distribution of profits. Neither the LCC nor the 1970 Commercial Act requires companies to provide their information to the public.

Libyan fully or partially State Owned Companies are required to have three bodies: an Administration Board (AB), a General Assembly (GA) and a Watchdog Committee (WC) (Articles 515-559 of the LCC and Articles 33-48 of the 1970 Commercial Act). In the following sections, a brief description of these bodies and their responsibilities will be provided.

The Administration Board:

The Administration Board, or the Board of Directors, manages a company and forms its general policy, which should be ratified by the General Assembly. The company's manager then applies these policies and uses them as a guide for his decisions. The LCC and the 1970 Commercial Act do not specify the number of the Board members, which is left to each company's General Assembly. The Board, which has to be headed by a Libyan, has to meet at least once every two months within the company and after the working hours (Articles 35 and 38 of the 1970 Commercial Act). The General Assembly appoints the Administration Board members for three renewable years (Articles 33 and 34 of the 1970 Commercial Act). Article 53 of the 1970 Commercial Act gives the Administration Board the right to authorise one of its members to manage the company. The Head of the Administration Board should send the company's financial statements to the Watchdog Committee thirty days before the General Assembly meeting (Article 50 of the 1970 Commercial Act and Article 580 of the LCC).

The General Assembly:

The General Assembly consists of a company's shareholders and is headed usually by the Head of the Administration Board. The Assembly reviews the company's production activity, ratifies the budget and annual reports, decides on depreciation policies and how provisions should be dealt with, takes decisions regarding the expansion of the company, increases the capital investment volume, and reviews the company's debt status and finance reports. The General Assembly studies the company's responses to the Public Control Office (the equivalent of the UK's Audit Office) comments on the company's annual reports. It also discusses the budget and the company's finance position (Articles 516 of the LCC and 28 of the 1970 Commercial Act). The General Assembly holds two types of meetings: ordinary and extraordinary meetings (Article 515 of the LCC). Ordinary meetings should take place at least once a year and within the first four months of the company's fiscal year to discuss the Administration Board annual report and the Watchdog Committee's report, attest the company's annual reports and decide upon dividends (Article 516 of the LCC). However, some decisions and issues have to be addressed in an extraordinary meeting of the General Assembly. These include an increase in the company's capital, the adjustment in the article of association (the establishment contract) of the company and the appointment of the liquidation committee members (Article 517 of the LCC). Furthermore, the Assembly may appoint a new head or new members to the Administration Board and the Watchdog Committee and determine their remuneration.

The Watchdog Committee:

Watchdog Committee's obligations include assuring a company's obedience with laws. Its responsibilities include observing the company's management to ensure that such management is carrying out its activities and responsibilities in accordance with the law. The Committee is also responsible for making sure that the company's accounting system is kept in accordance with accounting rules and procedures as specified by law and its balance sheet and profit and loss account figures agree with the results enclosed in the company's records. The Committee consists of either three or five working members and two non-working members (Article 547 of the LCC). The Committee members are appointed usually by the General Assembly for three renewable years. Article 45 of the 1970 Commercial Act requires at least one of the Watchdog Committee members to have an accounting background. The Committee should meet at least once every three months to make sure that the company has its assets and money kept in good conditions and with the same amount that appears in the company's records. To achieve this, either all or one of its members should make expected and/or unexpected visits to the company they are attached to and check, investigate and audit their records. Members of the Watchdog Committee must, according to Article 555 of the Libyan Commercial Code, attend the Administration Board and the General Assembly meetings.

The Financial System Law:

The Financial System Law (FSL) was first enacted in 1967. The FSL gives the Secretary of Treasury the statutory power to supervise and manage the State's revenues and expenditures and to put forward the country's proposed budget (Article 1 of the FSL). To this end, the Secretary of Treasury appoints a Finance Controller in each Secretary, Organisation and Institution. Finance Controllers send reports about the institution's fiscal policies and practices to the Secretary of Treasury to whom they are accountable. A copy of their reports may be sent to the related Secretary, Organisation and Institution. Since 1975, the Secretary of Treasury through its Finance Controllers, and according to the principle that *"the Treasury should be wherever the public money is"*, has been represented in all publicly held organisations (Kilani, 1998: 213). The FSL describes the State's budget preparation procedures. In general, the rules and procedures that govern the preparation of the administration budget and the development budget are similar. Each budget is divided into two sections: revenues and expenditures (Article 6 of the FSL). The expenditure section is divided into subsections that represent wages, general expenses and new projects. Furthermore, Article 23 of the FSL requires the Secretary of Treasury to prepare annually and to provide the Public Control Office with

- a detailed statement of the country's assets and liabilities and the State's actual revenues and expenses; and
- a detailed statement of the State's general, provision, development, debt, trust and emergency accounts.

The Income Tax Law:

The 1923 Italian Income Tax Law had been used in Libya until 1968 when the first Libyan Tax Law, which was based on the Italian tax law, was enacted. The 1968 Tax Law was abolished in 1973 when the Libyan Income Tax Law no 64 was issued. According to this law, companies are required to provide the tax authority with their balance sheet, trading account, profit and loss account, depreciation statement, and detailed statement(s) of the company's expenses that are included in the profit and loss account. These accounts are to be provided within seven months of the fiscal year end (Article 104 of the Tax Law and Article 16 of the Implementing Regulations of that law). The application of the tax law has had an influence on Libyan companies accounting practices. Many companies have often adopted tax guidelines and requirements for external financial reporting (Bait El-Mal et al, 1988). Depreciation is determined in many companies by using the straight-line method and based on the historical cost of the asset according to Articles 55 and 20 of the Income Tax Law and the Implementing Regulations of that law respectively. Specific rates for different types of assets are given. The establishment costs may be depreciated within two to five years according to the straight-line method (Articles 56 and 22 of the Tax Law and the Implementing Regulations of that law respectively). The law also permits companies with accounts that have been closed with a loss for a year to deduct this loss from its profits before tax for the maximum of five years from the year of the loss (Article 59 of the Tax Law). These and other requirements are applied by many Libyan companies not only for tax purposes but also for internal and external financial reporting. This indicates that accounting development follows mainly the macroeconomic pattern (See Chapter 3). The law also determines companies' profit tax rates, a summary of which is provided in Table 2.5.

Table 2.5: Companies' profit tax rates

Category	Tax rate (%)
The first LD 10,000	20
The following LD 20,000	25
The following LD 30,000	30
The following LD 40,000	40
The following LD 50,000	45
Mores than 50,000	60

Source: The Libyan Income Tax Law no 64 of 1973.

Petroleum Law:

The Libyan Petroleum Law (LPL) was issued in 1955. The law states that all petroleum in Libya is the property of the Libyan State (Article 1 of the LPL). Accounting rules and requirements for oil industry are prescribed under this law. Article 14 of the LPL defines oil companies' profit as the income resulting from a company's operations in Libya after deducting the following items:

- Operating expenses and overheads, the details of which are defined in the regulations. Fees, rents, royalties, and income tax, and other direct taxes may be deducted.

- Depreciation of all physical assets in Libya at the rate of 10 per cent per annum and amortisation of all other capital expenditures in Libya at the rate of 5 per cent per annum. The undepreciated balance of physical assets scrapped or sold is to be deducted in the year when such assets are scraped or sold.
- Twelve and one-half per cent of the value of crude oil exported.

The same article requires oil companies to apply accounting methods usually used in the petroleum industry to compute their profits (Bait El-Mal et al, 1973). British and American accounting practices, transferred to the country through oil companies, have influenced Libyan accounting practice in oil companies. This influence has also affected non-oil companies as employees move in and out of the oil sector.

Accounting and Auditing Profession Law:

The Accounting and Auditing Profession Law (hereafter Accounting Profession Law) no 116 was issued in 1973. Article 3 of the Accounting Profession Law lists the Libyan Certified and Public Accountants Union's (hereafter Libyan Accountants Union (LAU)) objectives to include:

- Regulate and support accounting profession and increase accountants' and auditors' professional and educational efficiency.
- Organise national and participate in international seminars and conferences and follow up international developments in accounting and auditing profession.

The LAU has so far done nothing to regulate the Libyan accounting practices in terms of issuing or adopting accounting standards. The Accounting Profession Law requires accountants and auditors to have at least a BSc in accounting or the equivalent to be allowed to practice public accounting and auditing services (Article 24). However, many professional accounting services were not widely provided by the public accounting profession in Libya. In a study of the Libyan professional accounting services, El-Sharif (1980) found that Libyan accounting firms were generally engaged in auditing and bookkeeping services and tax and liquidation services. El-Sharif (1980) concluded that the need for professional accounting services in Libya exceeded their availability to the business community.

2.5.2- Legal requirements' implications:

A review of the Libyan Commercial and Financial Laws and the Accounting Profession Law reveals a number of shortcomings related to the Libyan accounting profession. Due to the absence of Libyan accounting standards and principles, accounting standards applied by Libyan companies, according to Bait El-Mal et al (1988), varied from company to company due to differences in accountants' educational and professional backgrounds and skills. Bait El-Mal et al (1988), in a survey of accounting standards and principles applied by Libyan companies, concluded that Libyan companies applied different accounting principles, procedures and methods and employed different accounting standards which makes comparison between companies difficult. In addition, they concluded that most companies included in their survey did not prepare their financial reports in accordance to accepted accounting procedures, which may reduce the importance of the published information and limit its usefulness.

Another implication is the absence of evaluation methods for current and potential public accountants. Libyan accountants are not required to pass an exam to be allowed to practice public accounting and auditing services. The structure of auditors' reports has not been specified which has led to differences in auditors' reports structure (Bengarbia, 1989). This may lead to the influence of personal and educational backgrounds on the structure and contents of auditors' reports.

The statutory power of the Tax Office to require financial statements that are prepared in accordance to the Tax Law and the low demand on financial statements prepared upon different bases have led Libyan companies to prepare one set of financial statements for both internal and external purposes (Bait El-Mal et al, 1988). These statements are mainly tax driven. This may bias the information provided in companies' financial statements in favour of tax legal requirements.

2.6- Conclusion:

The above sections provided a framework within which the study's observations are to interpreted and understood. This chapter provided an overview of the Libyan historical, political, cultural and economic backgrounds. The influence of early colonisation on the development of the country's economic and social aspects was described. The chapter highlighted the role of foreign countries, foreign businesses, international aid and the United Nations in the country's economy. The country's pre- and post- oil discovery economic progress was described. The discussion then moved to describe the changes that the 1969 revolution implemented as it marked the beginning of a period that changed Libya from a Western-oriented capitalist country to a strongly nationalist and socialist country. This period also witnessed the government's growing intervention in the economy, which was largely financed by the booming oil revenues of the 1970s. The influences of the discovery of oil and the flotation of oil prices on the economy were discussed. The need for a more effective accounting profession and the influence of regulation on accounting practices were explored. The next chapter will discuss the nature and the development of accounting disclosure in liberal market economies.

Chapter 3

The nature of accounting disclosure and market economics' accounting

3.0- Introduction:

The aim of this study is to understand accounting information disclosure policies and practices and accountability processes in the democratic socialist context of Libya. Chapter two provided a historical, economic, social and political background of Libya. This chapter and the next chapter (Chapter 4) present the argument that accounting disclosure related studies, which have been conducted in liberal market economies with few studies on developing countries, have been based mainly on economic theories and functionalist and positivist methodologies.

The aim of this chapter is to explore the nature of accounting information disclosure practices and policies in liberal market economies. To achieve this, the meaning of information and accounting information disclosure is provided. Accounting information users and the main purposes for using the information are described. The quantity, quality and timeliness of information disclosed and the channels through which the information are provided are also discussed. Different explanations and justifications for the need for accounting information disclosure and disclosure mechanisms are provided through exploring theories that explain disclosure practices. These theories include signalling theory, capital markets theory, the public interest (market failure) theory, agency theory, positive accounting theory, the regulatory capture theory, the corporatist theory, legitimacy theory and political economy theory. A review of accounting information disclosure-related studies is then provided. Accounting development patterns are then discussed followed by an explanation of the rationale for regulating disclosure practices.

3.1- The meaning of information:

Information was defined as "data that have been put into a meaningful and useful context and communicated to a recipient who uses it to make decisions" (Burch and Grudnitski, 1989: 3). The distinction between data and information is that data are formatted, filtered and manipulated to create information. Accounting data is generated in the course of, inter alia, production activities which are related to past, present and future events. This data includes not only elements which are financial in nature but also non-financial data. Data were defined as "collections of signs or characters generally arranged in some orderly way to make up facts and figures" (Feltham, 1972: 7). These facts may or may not be useful for a particular task; whereas information is data whose form and content are appropriate for a particular use (Alter, 1992). In this context information refers to the meaning derived from data. Wallace (1987: 139) described data as "a series of observations, measurements or facts gathered by a company about itself and its environment" whereas information is "the knowledge acquired through experience or the study of raw data collected."

The communication aspect of accounting information is the main concern of this study. Various rules and regulations have been issued by accounting bodies, security exchanges or governments to promote disclosure of accounting information. Accounting as a measurement and reporting information system provides accounting information to present and potential users to assist them in making their decisions.

3.2- The meaning of accounting disclosure:

Firms, as decision-making units which are concerned with the allocation of scarce resources for the production and distribution of goods and services on a profit-making basis, provide stakeholders with information they need to make their decisions. Stakeholders include, inter alia, creditors, managers, employees, customers, suppliers, the general public and current and potential shareholders. They expect their information needs to be satisfied due to their relationships with firms. Hill and Jones (1992: 133) provided a summary of the rationale for stakeholders' interest in firms' information.

> "Stockholders provide the firm with capital. In exchange, they expect the firm to maximise the risk-adjusted return on their investment. Creditors provide the firm with finance and in exchange expect their loans to be repaid on schedule. Managers and employees provide the firm with time, skills, and human capital commitments. In exchange, they expect fair income and adequate working conditions. Customers supply the firm with revenues and expect value for money in exchange. Suppliers provide the firm with inputs and seek fair prices and dependable buyers in exchange...The general public, as tax payers, provides the firm with a national infrastructure. In exchange, they expect corporate citizens who enhance and/or do not damage the quality of life and do not violate the rules of the game established by the public through their legislative agents."

Disclosure of accounting information is an essential ingredient of a well-functioning capital market (Darrough, 1993). Disclosure of accounting information was defined as:

> "the publication by a profit-seeking enterprise of any information relating to its activities with the hope of influencing the judgement and decisions of the users of such information." (Wallace, 1987: 133)

Wallace's user-oriented definition of disclosure is more related to profit-making enterprises, where in fact non-profit making organisations are also required to disclose information about their activities. Hendriksen (1982: 504) defined disclosure as:

> "the presentation of information necessary for the optimum operation of efficient capital markets."

Hendriksen emphasised the neo-classical view where share prices are believed to reflect all available information. Gibbins et al (1992: 5) defined disclosure as:

> "the release outside the organisation of information concerning the economic performance, position or prospects of the organisation, particularly as measured in financial terms."

Gibbins et al's definition is more comprehensive as it reflects voluntary and mandatory disclosures presented in either monetary or non-monetary forms regarding past, current and/or future events. However, public disclosure of information can affect the disclosing firm either positively or negatively depending on how the market perceives and reacts to the disclosed information.

Firms disclose their information for two reasons: when firms are doing well, they make disclosures to distinguish them from those doing less well; and consistent with legal liability or reputation effect (Skinner, 1994). In doing so, firms assess the potential impact of disclosure on resource allocation, coalition stability and their own objectives. Users of accounting information demand firms to disclose information that is useful in making reasoned decisions concerning their investment plans, assessing management's expectations about the future and making informed appraisal of alternative opportunities. However, the behaviour of individuals and organisations is influenced not only by the information they receive and use, but also by the information they require to communicate. Thus, organisation decision making behaviour is influenced in two ways: as an information recipient, through information use, and as an information sender (Prakash and Rappaport, 1977). Therefore, organisations act as both *providers* of information upon which decisions are based and as *actors* within society where decisions are taken and implemented.

Accounting information is an important input to the capital market and investment process. The investment process involves the giving up of the current consumption for future uncertain consumption by investing in securities. However, stock markets perform as a mechanism, which facilitate the transfer of resources from economic agents in financial surplus to those in financial deficit through securities trade (Foley, 1991). Security prices may or may not reflect the estimated worth of security which depends, inter alia, upon the market efficiency. The relationship between security prices and information is known as market efficiency, which may be Weak, Semi-strong, or Strong (Beaver, 1981; Watts and Zimmerman, 1986). These concepts underlie the Efficient Market Hypothesis, in which the market is efficient in the weak sense if share prices move independently of previous movements. The semi-strong sense of market efficiency is obtained when share prices respond instantaneously and in an unbiased manner to new information. In other words, share prices fully reflect all publicly available information. The strong sense of market efficiency is reached when share prices fully reflect not only published information but also all relevant information including inside information (Keane, 1980). Nagarajan and Sridhar (1996: 268) defined relevant information as "any information whose disclosure or nondisclosure alters the market value of a firm." In the case of nondisclosure, information users' uncertainty about whether nondisclosure is due to the lack of information, the cost of disclosure or unfavourable information may affect their valuation of the firm. Wagenhofer (1990) argued that firms have two basic objectives by selecting their disclosure policy. First, they want to avoid proprietary cost by deterring opponents from taking adverse action. Scott (1994: 27) defined proprietary cost as "any possible reduction in future cash flows attributable to a disclosure." Second, firms are interested in higher market price.

3.3- Disclosure adequacy:

Some disclosures are more likely to affect information users than others. Disclosures of increases in earnings forecasts and profitability are likely to reveal more proprietary information than disclosures of depreciation expenses and allowances for uncollectibles (Dye, 1990). Proprietary information was defined as "information whose *disclosure* reduces the present value of cash flows of the firm endowed with the information" (Dye, 1986: 331). Disclosure of proprietary information might encourage competitors to enter the market which may result in reducing firm's profits. Furthermore, the publication of earnings forecasts and forecast accounts would involve publication about conjectures instead of publication of facts about past events which may affect firms' future cash inflows. Financial statements are considered to be adequate if all the relevant information has been reported and disclosed (Riahi-Belkaoui, 1997a).

The US Generally Accepted Accounting Principles (GAAP) require companies to give full, fair and adequate disclosure in their financial statements. Riahi-Belkaoui (2000: 178) defined full, fair and adequate disclosure as follows: 'full disclosure' refers to "complete and comprehensive presentation of information"; 'fair disclosure' "implies an ethical constraints dictating an equitable treatment of users"; and 'adequate disclosure' "connotes a minimum set of information to be disclosed." Disclosure adequacy refers to the coverage of events and transactions in financial statements (Riahi-Belkaoui, 1997a). Bedford (1973) described full disclosure as the requirement that firms do not withhold information from other interested parties. However, Riahi-Belkaoui (1997a) argued that the reliance on conventional fairness in presentation in conformity with generally accepted accounting principles has created limitations to disclosure adequacy in the US. Bedford (1973), Lev (1988), Gaa (1986) and the Jenkins Committee (1994) have made four proposals to reduce and/or eliminate this unfairness and to expand disclosure adequacy. Bedford called for the development of new tools to provide management and decision makers with useful information. He identified the scope of users, the scope of uses, the scope of accounting information types, the scope of quality of information disclosed, the measurement techniques, and disclosure devices as areas where expansion of disclosure practices is feasible. The main conclusion of Bedford's study was that companies should provide only a single, compressed, comprehensive disclosure report, supported by sub-reports directed to specific user groups. This can provide both the overall view necessary and the different disclosure needs of different users. However, this conclusion may be viewed as a compromise between the proposals of those advocating a series of unconnected accounting reports, each directed to a different user or purpose, and of those insisting that accounting reports "articulate" with each other.

Lev's (1988) proposal for adequate disclosure was based on the equity in the capital market. Disseminating financial information is aimed at alleviating information asymmetry and enhancing the equity concept, which as a result will improve overall welfare. This concept is based on the availability of information on an equal basis to market participants and non-participants. This proposal is related to the ethical constraints in information disclosure (Riahi-Belkaoui, 2000).

Gaa's (1986) disclosure adequacy proposal was based on the fulfilment of users' needs. Gaa (1986) identified two alternatives for accounting information providers to consider when they disclose their information. The first alternative is that the interests of all individuals would be counted equally. The second alternative is that the interests of one group of users would be given preferential treatment (Gaa, 1986).

The Jenkins Committee was established by the American Institute of Certified Public Accountants in 1991 to determine the type, nature and extent of information that should be available to information users and the extent to which auditors should report on the information provided by companies (The Jenkins Committee Report, 1994). The committee concluded that in order to improve users' needs for, information companies should, inter alia, improve segment disclosures, report core and non-core activities and events separately and improve quarterly reporting.

The conditions and problems of disclosure of accounting information are a product of, and a factor in, the formation of the cultural, political and economic environments of the country from which it originates. Accounting standards have been developed and issued by many different organisations in different countries, mainly developed countries. These standards, as many argued (e.g. Wallace, 1988; Perpera, 1989), are not suitable for some other societies such as developing countries. Many countries (i.e. the UK, the US, Canada, Australia, etc.) have established organisations - public or private - to deal with accounting problems and issue accounting standards. As the world's economic relationship grows, the need to communicate accounting information to different parts of the world becomes essential. The meaningfulness of information depends on the method and standards used to develop them, which might be different from country to country. To be adequate, accounting information should be capable of fulfilling decision-makers' needs. It should be relevant to the needs of users, unambiguous and communicated at the right time and place (Wallace, 1987). However, adequate disclosure could be better understood by considering the purpose, audience, quantity and quality, means and timeliness of disclosures (Buzby, 1974). These dimensions will be considered next.

The users of accounting information:

In general, suppliers, customers, tax authorities, government departments, labour unions, employees, environmental groups, current and potential shareholders and the general public are among the users of firms' financial information in liberal market economies. Firms supply information users with their information either on a voluntary or mandatory basis to, inter alia, assist them in making informed decisions. The general public demand on financial disclosures has increased in the last few decades. Environmentalists in particular have increased the pressure on companies to disclose their environment-related activities (Tilt, 1994).

The purpose of accounting disclosures:

The conflict between public and private interests may lead to using financial information differently. Serving the private interest in a capitalist economy is the main concern. The struggle between firms and information users on the scarce resources seem to be the root of a significant part of the accounting disclosure problem. Firms' and users' main end is to maximise their utility. This could be achieved by allocating their limited resources efficiently. Firms disclose their accounting information to show users that they are doing well and to avoid legal liabilities whereas accounting information users use this information to attain their objectives. Disclosure of accounting information reveals how well off a firm is over a period of time and how it is expected to perform in the future (Bedford, 1973). Benston (1976) argued that the main benefits of financial disclosure are to prevent and reduce fraud and misinterpretation, to promote fairness to non-insiders, to lower transaction and information costs and to help investors to allocate their resources more efficiently. In addition to disclosing past events, information users need information on future profits. The purpose of releasing forecasts is not merely to inform information users about a firm's expectation for earnings but to inform them that the firm has observed changes in its economic environment which signals the firm's ability to anticipate future changes (Trueman, 1986).

The quantity and quality of accounting disclosure:

Verrecchia (1990) argued that information of higher quality implies a greater probability of disclosure. In contrast, Penno (1997) revealed that the frequency of voluntary disclosures is negatively related to the quality of information. However, for information to be relevant for decision-makers, it should be reliable. Reliability was defined as "the quality of information that assures that information is reasonably free from error and bias and faithfully represents what it purports to represent" (Kirschenheiter, 1997: 50). Jaggi (1975) looked at reliability from two perspectives. First, reliability from the users' viewpoint where information is considered to be reliable if users perceive it as a true description of the event it purports to represent. Second, for information to be reliable, it should be adequate and accurate.

Accounting disclosures devices:

Accounting information could be provided, in addition to information included within financial statements, through footnotes, parentheses, supplementary statements and schedules, auditors certificate, manager's letter, as well as throughout the year announcements (Hendriksen, 1982). The form disclosures take may influence its audience. Even though numerical reports such as balance sheets, income statements, etc. are predominant, there is a growing tendency in using graphs, charts and pictorials for disclosure. However, different reporting systems exist in different countries to serve users' needs in a particular environment.

Timing of accounting disclosure:

The time of disclosing a piece of information plays an essential role especially in capitalist economies where firms compete on scarce resources and investors compete with each other to gain as much as they can before other investors use the information to their advantage. The time dimension of disclosure has two components, date and frequency. The date dimension is related to the choice of when a firm discloses its information. The timing of disclosure may influence the way recipients receive and perceive the information and may affect their decisions differently. Frequency is related to how often a firm discloses its information. Alford et al (1993) compared the information content and timeliness of accounting earnings in different countries using the US as a benchmark. They concluded that annual reporting from Australia, France, Netherlands and the UK are more informative or more timely than the US accounting earnings.

However, firms may voluntarily disclose both favourable and unfavourable information (Skinner, 1994). Firms with favourable information wish to communicate the information to the capital market to increase or protect their market value, but do not want to make this information known to potential competitors. On the other hand, firms with unfavourable information are reluctant to disclose this information to the capital market, but may want to communicate this to potential competitors to deter them from entering the market (Darrough and Stoughton, 1990). Milgrom (1981) found that firms who seek to maximise their market value would be induced to disclose both favourable and unfavourable information to avoid speculation in the case of non-disclosure.

In contrast, some firms do not disclose financial information because of the cost of disclosure, the credibility of disclosure, and/or to hide the information if others are not sure whether the firm has the relevant information or not (Darrough, 1995). Therefore, some firms benefit by hiding and others by disseminating information. Scott (1994), in an empirical study on Canadian firms, found that incentives to disclose information are a decreasing function of the potential proprietary cost attached to disclosure and an increasing function of the favourableness of the news of disclosure. Dye (1985) provided an explanation for the nondisclosure of nonproprietary information, the release of which would affect the price of the firm but not the distribution of the firm's future earnings, as being due to the fact that investors are often uncertain about the kind of information held by the firm. He considered three reasons for management's failure to disclose their nonproprietary information.

> "The first one is based on the condition that investors' knowledge of management's information is incomplete, in which case managers may successfully suppress bad information. The second reason follows from the observation that managers possess a vast array of private information, some of which may be proprietary. Nonproprietary information may not be disclosed if it is part of such an array. The third reason stems from the existence of a principal-agent problem between shareholders and managers, the best resolution of which requires management's reticence." pp 141-42

However, the nature of competition is important in determining disclosure. Firms in highly competitive industries may regard public disclosure as potentially costly in the assistance it renders competitors whereas firms in less competitive industries may see no or trivial costs associated with public disclosures (Verrecchia, 1983). Theoretically, Grossman (1981) and Milgrom (1981) predicted that information will be fully disclosed when disclosures are credible and receivers know the holder has private information. Watts (1977) argued that voluntary disclosure would occur because of the market pressure and the threat of regulatory intervention. Empirically, full disclosure is not always observed (Penman, 1980). Different theories have been suggested to explain disclosure practices to which we now turn.

3.4- Disclosure Theories:

There are a number of theories that explain why firms disclose their information. A theory in social science is "a way of seeing and thinking about the world rather than an abstract representation of it" (Alvesson and Deetz, 2000: 37). A review of empirical studies in accounting literature provided evidence that companies are reluctant to increase the extent of financial disclosure without accounting profession or government pressure (Hendriksen, 1982; Cooke and Wallace, 1990; Frankel et al, 1995; Holland, 1998). However, companies disclose their financial information either voluntarily or to meet legal requirements. Mandatory disclosure requirements may lead companies who wish to hide information to conceal, or disclose misleading, information. Other companies may disclose more financial information than what is required. However, corporate financial disclosure polices and practices are driven in part by differences in cultural, economic and political environments. There are a number of theories that are used to explain why companies disclose more or less information in liberal market economies. These theories include signalling theory, financial markets theory, the public interest (market failure) theory, agency theory, positive accounting theory, the regulatory capture theory, the corporatist theory legitimacy theory and political economy theory (Watts, 1977; Watts and Zimmerman, 1986; Hill and Jones, 1992; Buhr, 1998). A brief explanation of the capital market theory, the agency theory and the political process theory is provided next.

Capital Market Theory:

The capital market theory suggests that companies voluntarily disclose information not only to enable them to raise capital at lower possible costs and determine the worth of company's securities, but also to reduce information asymmetry between users which in turn can reduce a company's cost of capital. The term "worth" of securities is used to denote the best estimate value in relation to available information (Keane, 1980). For a capital market to be efficient, it should generate prices for securities that reflect their worth. Securities markets are said to be efficient if security prices "fully reflect" the information available (Beaver, 1981). The perceived relationship between security prices and financial information available to investors is a major source of the diversity among investors with respect to portfolio strategy chosen.

Agency Theory:

Companies listed on stock exchanges are owned by shareholders but they are managed by individuals (managers) who may or may not own some of the companies' shares. The relationship between shareholders and managers is called agency relationship. This relationship was defined as "a contract under which one or more persons (the principal(s)) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent" (Jensen and Meckling, 1976: 308). Agency theory attempts to provide an explanation of the agency relationship between parties who are involved with the firm. One of the consequences of information asymmetry between agents and principals is that the agent may use the position of superior information available to him to maximise the agent's self-interest at the expense of the principal.

Political Process Theory:

Watts (1977) argued that the political process affects the choice of accounting procedures. He made an assumption that individuals in a political process maximise their own self-interests. Therefore, the political process is a competition among individuals for wealth transfer. Politicians try to impose regulations on firms to disclose more information to achieve their self-interests. Watts (1977) argued that political crises may lead governments to issue disclosure-related regulations to shift the emphasis from crises to solutions. Politicians may use these crises as a craft to implement a new legislation otherwise opposed. For instance, the South Sea Bubble crisis is argued to have led to the UK Parliament Act in 1720 which prohibited the formation of joint-stock companies. Similarly, the US stock market crash in 1929 is argued to have led to the Securities Acts of 1933 and 1934. However, the state plays a direct role in demanding and regulating financial disclosure due to the power the state has over companies. Nevertheless, Watts (1977) argued that the state acts in response to the pressure of lobbyists who are economically rational and who make efforts to pursue their self-interests.

The above theories explained why firms disclose financial information each from a different standpoint. These theories were built on different assumptions. The capital market theory was built on the assumption that disclosures should fully reflect all available information and this information therefore is reflected in the firm's market value. This normative view of disclosure may be jeopardised if financial information users fail to capture all available information or when firms do not disclose all information available to them. The information asymmetry between information users and information providers may lead to market failure.

The principal-agent relationship may affect the firm negatively if the agent uses his superior knowledge to his advantage. The differences between the agent and the principal interests may create distortion in financial reports. These differences are not fully resolved by accounting standards and auditing (Healy and Palepu, 1993). The agency theory seems to lead to the conclusion that accounting information regulations may be unnecessary because information users have appropriate methods to require firms to disclose information without governmental or professional regulation through legislation or accounting standards (Wallace, 1987).

The political process theory assumes that the political process itself is a competition for wealth transfers (Watts, 1977). Firms who experience political pressures, as a result of crisis, are more likely to adopt accounting procedures that reduce their expected earnings than those who do not. However, these and other theories were used to study and explain disclosure policies and practices. The following section introduces some of these studies.

3.5- A survey of disclosure studies:

The stewardship function of management and the concept of economic income were dominant in early views for the purpose of financial statements. Under this view, the main objective of financial statements was to provide a report to capital suppliers (i.e. shareholders and creditors) to facilitate their evaluation of management's stewardship (Beaver, 1981). During the 1970s, the positive theory approach to financial accounting research broadened. However, the information approach, which was introduced in the late 1960's, shifted the emphasis of financial statements purposes from the stewardship function to decision-making role. The provision of useful information to investors, creditors and other users to assist them in making their decisions became essential (Beaver, 1981). The argument for greater financial disclosure centres on the diverse needs of financial information users. Significant research has been directed toward understanding the information needs of users and explaining disclosure practices in various but mainly developed countries. A number of studies, theoretical and empirical, have explored the issue of financial information disclosure. Table 3.1 summarises some of these studies' objectives, findings, methodologies and methods. The Table shows that most of these studies are theoretical and functionalist. A brief evaluation of some of these studies is provided next.

Table 3.1: Summary of some disclosure studies.

Author(s)	Objectives and conclusion	Epistemology/ methodology	Research method
Ahmed & Courtis 1999	A meta-analysis of 29 studies confirmed significant and positive relationship between disclosure levels and corporate size, listing status and leverage. No significant association was found between profits or size of audit firm with disclosure.	Functionalist.	Analysis of 29 empirical studies.
Alford et al 1993	The study compared information content and timeliness of accounting earnings in several countries. The study concluded that annual earnings from Australia, France, the Netherlands, and the UK, are more informative or timely than the US. Annual earnings from Denmark, Germany, Italy, Singapore and Sweden reflect less timely or value-relevant information than the US.	Functionalist.	Empirical data from 17 countries.
Anderson 1992	The study explored accounting earnings disclosure. A negative relationship was found between a firm's period of listing and the information content of its annual earnings announcements.	Functionalist.	Empirical data of 1,617 firms from the NYSE.
Bird & Locke 1981	The study applied an economic approach to analyse regulatory disclosure requirements. It concluded that disclosure related regulations are not needed in a freely operating market.	Functionalist.	Theoretical based on economic approach.
Botosan 1997	The study explored disclosure level and the cost of equity capital. The evidence suggested that greater disclosure is associated with a lower cost of equity capital.	Functionalist.	Empirical data from the annual reports of 122 firms.
Buzby 1975	The study investigated the relationship between companies' size, listed versus unlisted stocks, and the extent of financial disclosure. It concluded that the extent of disclosure is positively associated with a company's size and not affected by listing status.	Functionalist.	Empirical data using questionnaires. Of 500 questionnaires distributed, 144 were collected.

Author(s)	Objectives and conclusion	Epistemology/ methodology	Research method
Chow et al 1996	The study examined experimentally the relationship between disclosure costs and disclosure decisions. It concluded that firms do not disclose all news when disclosure is costless. It also found that market incentives are insufficient to induce full disclosure.	Functionalist.	Experimental.
Cooke 1991 & 1992	The impact of size, stock market listing and industry type on disclosure in the annual reports of Japanese listed corporations was studied. It was found that size and listing status are important factors in disclosure. Manufacturing firms were found to disclose more than other Japanese corporations. Firms listed in more than one market disclose more.	Functionalist.	Empirical data from 35 Japanese corporations' annual reports.
Cooke 1989	Disclosure practices by Swedish companies were studied. Disclosure was found to be related and influenced by companies' size and listing status. Disclosure by unlisted companies is lower than companies listed on Stockholm Stock Exchange.	Functionalist.	Empirical data from 250 Swedish companies' annual reports.
Cooper & Keim 1983	The study explored the economic rationale for the nature and the extent of corporate financial disclosure regulation. It concluded that the economic rationale for regulating disclosure is weak and a broader analysis incorporating social and political influences is needed.	Functionalist.	Theoretical based on economic rationality.
Darraough & Stoughton 1990	The study analysed incentives for voluntary disclosure. It concluded that competition in the product market encourages voluntary disclosure.	Functionalist.	Theoretical based on economic rationality.
Demski & Feltham 1994	The study used economically based model to analyse share price changes around disclosures. It concluded that informative reports influences share prices.	Functionalist.	Theoretical based on analysing a two-date rational expectation model.
Dye 1990	The study compared firms' voluntary and mandatory disclosures. Differences between voluntary and mandatory disclosures were shown.	Functionalist.	Theoretical based on economic theory.

Author(s)	Objectives and conclusion	Epistemology/ methodology	Research method
Dye 1985	The study explained the reasons for withholding nonproprietary information. It concluded that these reasons include incomplete knowledge, private information and the principal-agent problem.	Functionalist.	Theoretical based on economic theory.
Dye and Sridhar 1995	The study proposed a theory to explain firms' disclosure behaviour. It concluded that the probability of a firm disclosing its information increases with the number of firms that potentially receive information.	Functionalist.	Theoretical based on economic theory.
Frankel et al 1995	The study investigated the relationship between discretionary disclosure and external financing. The study found a positive association between firms' tendencies to access capital markets and to disclose earnings forecasts.	Functionalist.	Empirical data from public sources.
Frost & Pownall 1994	The study explored accounting disclosure practices of foreign and domestic firms in the United States and the United Kingdom. The study concluded that frequency was greater in the US than the UK.	Functionalist.	Empirical data from 214 firms.
Gibbins et al 1990	The study presented empirically derived structure to explain financial disclosure. It concluded that industry norms, corporate networks, capital market and regulations affect disclosure decisions.	Interpretive and grounded theory.	Empirical data based on 20 interviews in 20 organisations.
Gigler 1994	The study questioned why firms do not disclose all value-relevant information. It concluded that proprietary costs provide the imputes for disclosure.	Functionalist.	Theoretical following Newman & Sansing (1993) "cheap-talk" model.
Holland 1998	The study explored private corporate communication to their institutional owners. It concluded that private disclosure is a significant part of a larger corporate disclosure.	Interpretive and grounded theory.	Case studies based on interviews in 33 UK companies.
King & Wallin 1991	The study tested Dye's (1985) and Jung and Kown's (1988) disclosure models that firms do not disclose all information when receivers of information do not know that firms posses private information. The study supported these models.	Functionalist.	Experiment.

Author(s)	Objectives and conclusion	Epistemology/ methodology	Research method
Lev & Penman 1990	The study explored the relation between voluntary forecast disclosure, nondisclosure, and stock prices. It found on average firms with news voluntarily disclose forecasts.	Functionalist.	Empirical data from the Wall Street Journal.
McNally et al 1982	The study examined the quality of discretionary disclosures and their association with corporate characteristics in New Zealand. It concluded that size is a dominant factor in disclosure.	Functionalist.	Empirical based on distributing 187 questionnaires, 83 were collected.
Nagarajan & Sridhar 1996	The study examined the impact of mandatory disclosure requirements on firms' segment disclosures. It concluded that imposing additional disclosure requirements can result in reducing information disclosures.	Functionalist.	Theoretical. Provided a model for disclosure.
Penman 1980	The study assessed the ability of markets to convey information about firms to investors. It concluded that market mechanism provides information to investors.	Functionalist.	Empirical based on historical data.
Penno 1997	The study explored the association between information quality and voluntary disclosure. It contradicted the notion that disclosure is associated with higher information quality.	Functionalist.	Theoretical. Extended Dye's (1985) and Farrell's (1986) models.
Scott 1994	The study investigated disclosure incentives and disincentives in Canadian firms. It concluded that the incentive to disclose information is a decreasing function of the potential proprietary costs attached to a disclosure and an increasing function of the favourableness of the news.	Functionalist.	Empirical based on publicly available data.
Skinner 1994	The study questioned why firms voluntarily disclose bad news. The study concluded that firms disclose earnings forecasts when their firms are doing relatively well to distinguish them form those less well and consistent with legal ability and reputation effects.	Functionalist.	Empirical data from 93 NASDAQ US firms.

Author(s)	Objectives and conclusion	Epistemology/ methodology	Research method
Tornqvist 1999	The study examined delegation of responsibility, disclosure of information and accountability in Swedish companies. It concluded that choice of organisation structure influences disclosure.	Interpretive.	Empirical study of 6 Swedish companies.
Verrecchia 1990	The study examined the effect of information quality on disclosure decisions. It concluded that information of higher quality implies a greater probability of disclosure.	Functionalist.	Theoretical. Extended Verrecchia's (1983) model.
Wagenhofer 1990	The study analysed disclosure strategies of a firm endowed with private information. It concluded that there is always a full or partial disclosure equilibrium but not a nondisclosure equilibrium.	Functionalist.	Theoretical based on a game-theoretic setting with a firm, an opponent and a financial market.

3.5.1- Theoretical studies:

Watts (1977) assumed that all individuals, including shareholders and managers, maximise their own expected utilities. Conflict between managers and shareholders occurs when managers' actions contradict actions which ought to be taken to maximise shareholders' expected utilities. The disclosure of financial information may help in reducing the information gap, and therefore the conflict, between managers and shareholders. Voluntary disclosure is argued to occur because of the market pressure and the threat of regulatory intervention (Watts, 1977). The extent to which firms willingly disclose their private information depends, among other things, on the cost of disclosures, type of information, market expectations, industry type and firm size (Verrecchia, 1990; Dye and Sridhar, 1995; Owusu-Ansah, 1998). Managers may exercise discretion by choosing a point - a threshold - above which they disclose their observations, and below which they withhold their observations (Verrecchia, 1990). Pope and Peel (1981) believed that the only constraint on the provision of information should be the processing costs. In contrast, Frantz and Walker (1997) argued that Pope and Peel's proposition is not generally correct due to the assumption that disclosures always beget a certain amount of cost.

There are two kinds of costs associated with disclosure, direct and indirect costs (Benston, 1976). Direct costs include the cost of the collating of numbers, typing, printing and distribution. These costs are, to some extent, controllable. Indirect costs include: firstly, costs due to the possible advantages afforded to competitors as a result of providing information to the market, and secondly, legal liability may impose additional costs for external reporting (Bird and Locke, 1981). Verrecchia (1983) showed analytically that less than full disclosure would be obtained where disclosures engender costs associated with preparing and disseminating information. However, information users may interpret the absence of disclosures as the information representing 'bad news' or 'good news' but not sufficiently good to warrant incurring its disclosure cost (Verrecchia, 1983). The trade off between increasing a firm's value by disseminating favourable news and deterring a potential competitor from entry by disclosing either unfavourable or less favourable news depends on managers' beliefs, costs and benefits of disclosure, the financial market rationality and competitors' interpretations.

However, economic theory suggests that, in the absence of mandatory disclosure, firms will disclose information to the extent that the marginal benefits from disclosures would be equal to the marginal costs of disclosure (Salamon and Dhaliwal, 1980). On the one hand, Grossman (1981) assumed that disclosures are costless while Verrecchia (1983) suggested that firms withhold private information to avoid proprietary costs. Verrecchia (1983) referred to all disclosure-related costs as a proprietary cost. He suggested that since proprietary costs vary directly with the level of competition, firms in highly competitive industries will disclose less than other firms with less competition. This is not the case for Darrough and Stoughton (1990) who argued that more disclosure is expected in a highly competitive setting characterised by low entry costs. On the other hand, Gigler (1994) argued that proprietary costs can actually increase voluntary disclosure by generating credibility for such disclosures.

The provision of information may affect the disclosing firm's market value and cost of capital. Firms are expected to release favourable information which will increase the firms' share price and so result in a decrease in the cost of capital (Bird and Locke, 1981). The favourableness of the news may affect the disclosing firm negatively by inducing competitors to enter the market or take a discrete action that imposes proprietary costs on the firm. Dye and Sridhar (1995) believed that firms tend to disclose good news earlier than bad news. Ruland et al (1990) hypothesised that widely-held firms have more incentives to release earnings forecast information to the market than specifically-held firms. They argued that widely-held firms face greater demand to supply forecasts from outsiders. Therefore, the more widely held the firm, the greater the extent of disclosure is.

Darrough and Stoughton (1990) identified three disclosure equilibria. First, disclosure equilibrium in which private information is disclosed to the extent that may encourage competitors to enter the market. Second, partial disclosure equilibrium where favourable information is never or rarely disclosed but unfavourable information is sometimes disclosed. Third, nondisclosure equilibrium where private information is never disclosed and competitors are unlikely to enter the market due to the lack of information. Wagenhofer (1990) argued that only two disclosure equilibriums are possible; full and partial. Partial disclosure of information occurs in the presence of exogenous disclosure costs (Verrecchia, 1983), a strategic opponent and potential competitor (Wagenhofer, 1990; Darrough and Stoughton, 1990), and the threat of litigation. Full disclosure is the complete and comprehensive presentation of information. Darrough and Stoughton (1990) argued that full disclosure occurs if a potential entrant has optimistic prior beliefs about the benefits of entry regardless of disclosures or if there is a low entry cost. Firms may not disclose their private information when receivers of information do not know whether firms possess private information (King and Wallin, 1991). Darrough and Stoughton (1990) showed that full disclosure is attainable. Wagenhofer's (1990) model of three players, a firm, financial market and an opponent, suggested that full and partial disclosure equilibria can exist but nondisclosure never obtains. Verrecchia (1983) supplied a rationale for the partial disclosure of proprietary information which Dye (1985) extended to encompass nonproprietary information. The existence of disclosure-related costs is argued to offer an explanation of why firms exercise discretion in disclosing information.

One of the reasons for firms' unwillingness to disclose their private information is the threat of entry. Competitors may enter the market in the existence of positive signals and thereby reducing the firms' profit or share in the market. Darrough and Stoughton (1990) argued that the cost of disclosure affects competitors' probability of entry. Market participants may interpret the nondisclosure situations as being due to the cost of disclosures and/or to the unfavourableness of the news (Verrecchia's model) or to the lack of information and/or the existence of bad news (Dye's model). Disclosing bad news depends to some extent on the market pressure and the firm's awareness of the possible consequences of nondisclosure. The release of bad news may be followed by the announcement of 'not-so-bad' news by the firm to reduce the negative effects of previous bad news disclosures (Jung and Kwon, 1988).

3.5.2- Empirical studies:

A number of disclosure-related empirical studies have been conducted mainly in liberal market economies to establish a link between theoretical studies' assumptions and conclusions on the one hand and firms' practices on the other. Coy et al (1997, 2001), reporting on recipients of the Australian public sector annual reports and the role of public accountability in disclosure practices, found that information were provided mainly to employees. Lev and Penman (1990) reported that managers adopt less than full disclosure strategies but they have a tendency toward full disclosure over a long time horizon. Scott (1994), in his study of incentives and disincentives for financial disclosure by Canadian firms, found that the incentives to disclose information is a decreasing function of the potential proprietary cost attached to a disclosure and an increasing function of the favourableness of the news in a disclosure.

The association between the level of disclosure and firms attributes, such as size, profitability and ownership structure, has been reported (e.g. Buzby, 1975; Firth, 1979; Salamon and Dhaliwal, 1980; Cooke, 1992; Wallace et al, 1994). Firm size has been found to be significantly and positively associated with disclosure levels (Ahmed and Courtis, 1999). McKinnon and Dalimunthe (1993) found that larger firms are more likely to disclose voluntarily segmented information. Brown and Kim (1993) showed that small firms disclosures are a better test of voluntary disclosures since small firms are exposed to less pressure from outsiders than large firms. Small firms receive relatively less attention than large firms from financial analysts and the press. Singhvi and Desai (1971) concluded, in their study of 150 American companies, that companies which disclose inadequate information are likely to be small in size as measured by total assets or number of shareholders, free from listing requirements, audited by small auditing firm and/or less profitable. Wallace et al (1994) found a significant positive relationship between profitability and disclosure level whereas Raffournier (1995) found no such relationship. Conflicting results have also been reported between audit firm size and disclosure level. Some studies have found that firms audited by large audit firms show significant association with higher disclosure levels (e.g. Ahmed and Nicholls, 1994; Hossain et al, 1994) while no relationship was found in other studies (e.g. Wallace et al, 1994). A significant association between industry type and disclosure levels has been reported in some countries (e.g. Cooke, 1992, in Japan; Cooke, 1989, in Sweden) but not in others (e.g. McNally et al, 1982, in New Zealand; Wallace et al, 1994, in Spain).

Buzby (1975) developed a disclosure measure based on the information desire of financial analysts. He developed 39 information items which might appear in the annual reports of 88 US companies. Half of theses companies traded their stocks either on the New York Exchange or the American Stock Exchange while the other half traded their stocks over the counter. The study's results indicated that the extent of disclosure in the annual reports is positively associated with the size of a company's assets (size) and not affected by listing status. In contrast, Firth (1979) concluded in a study of 180 UK companies that both size and listing status are related to voluntary disclosure. Furthermore, Cooke (1989) showed that Swedish companies' listing status and size are significantly associated with disclosure level.

Lev and Penman (1990) found that, on average, firms with good news do voluntarily disclose forecasts in order to distinguish themselves from firms with unfavourable news. The main aims of firms' forecast disclosures are to attract attention to the firm, which may result in increasing its market value, to develop a reputation for reliable disclosure, to avoid legal liability due to the failure in providing investors with undesirable forecasts, or, for some firms, to disclose favourable news. The tendency to issue management forecasts and finance externally was found to be positively associated (Frankel et al, 1995). Bamber and Cheon (1998) found that managers are more likely to issue forecasts in special press releases when they face lower proprietary information costs and when they are more exposed to disclosure-related legal liability. They also found that the greater the exposure to legal liability, the less likely managers are to issue specific earnings forecast, since more specific forecasts encompass a narrower range of outcomes and so are more likely to prove inaccurate.

The costs associated with the provision of information are an important determinate of disclosure level. Scott's (1994) findings, based on data from 288 Canadian firms, supported Verrecchia's proprietary cost model which states that the incentive to disclose information is a decreasing function of the potential proprietary costs attached to disclosure and an increasing function of the favourableness of the news in disclosure. Botosan (1997) concluded that greater disclosure is associated with lower cost of equity capital.

Disclosure of environmental issues has become an important dimension of disclosure. Rockness et al (1986) found that of 21 chemical companies reporting on-site waste in a US congressional survey, none disclosed contingent liabilities in financial statement notes. Only three of these companies mentioned financial commitment elsewhere in the annual report. Surma and Vondra (1992) reported that only 12 per cent of 125 major US companies they surveyed would disclose estimates of cleanup liabilities *discovered* by regulatory authorities. Li et al (1997) found, in their empirical study of a sample of Canadian companies, that companies are more likely to disclose environmental related information when pollution propensity increases, outsiders' knowledge of the company's environmental liabilities increase and the risk of incurring proprietary costs decreases. Khanna et al (1998) examined the impact of environmental disclosure on stock market returns. They concluded that in the case of firms known to be polluters, a one-time provision of environmental information may not generate significant reaction among investors. However, repeated provision of environmental information, they showed, lead to statistically significant negative abnormal returns.

The use of economic theories dominated the above noted studies, which were mainly functionalist/positivist in their methodology. Quantitative methods were the main methods used to collect data for these studies.

3.6- Accounting development patterns:

Many countries have made important contributions to the development of accounting. For instance, the Italian method of bookkeeping by double entry is now used world-wide. The most important shift in the accounting literature in the 1920s and 1930s was the change in the objective of accounting from presenting information to management and creditors to that of providing information to investors, shareholders and the general public (Hendriksen, 1982). The change in the objective of financial statements has led to the emphasis on consistency in financial statements, the shift of emphasis from the balance sheet to the income statement and the need for full, fair and adequate disclosure (Hendriksen, 1982). However, in the nineteenth century, Britain and the United States made significant contributions to the development of accounting profession. The UK and the US's accounting standards, concepts and methods have been transferred to and used in many countries. Multinational enterprises have played a major role in the transfer of accounting technology from these countries to other countries. Other factors have also contributed to the transfer process including colonisation, education and international aid organisations. Mueller (1967) identified four approaches to accounting development: the macroeconomic pattern, the microeconomic pattern, the independent discipline approach, and the uniform accounting approach.

The macroeconomic pattern:

Accounting within a macroeconomic framework has developed as an adjunct of national economic policies. The co-ordination between firm goals and national goals requires a degree of administrative direction from central governments. Within this pattern, business accounting interrelates closely with national economic policies. National economic goals are seldom stated in terms of specific actions but rather in broad policy guidelines whereas firm goals are usually more specific. Choi and Mueller (1992) argued that firm goals normally follow rather than lead national economic policies. However, a firm can accomplish its goals through close co-ordination of its activities with national economic policies (Mueller, 1967). The emphasis under this classification is on value-added statements, tax accounting and social responsibility. The differences between tax accounting and financial accounting are trivial. Hence, tax accounting rules become valid for financial accounting and vice versa. Accounting concepts and practices in Sweden are based to a large extent on macroeconomic considerations (Mueller, 1967).

The microeconomic pattern:

The microeconomic approach for accounting development is applied to countries with private businesses at the core of its economic affairs. Therefore, individual firms are considered to be the focal point of businesses. Accounting, in this category, is viewed as a branch of business economics. The role of accounting within this pattern is to reflect economic reality in its measurements and valuations. The development and use of accounting methods and techniques such as the replacement cost are the main characteristic of such systems. The microeconomic approach to accounting calls for fairly complete separation of tax and financial accounting. The former has macro purposes whereas the latter has micro objectives (Mueller, 1967). Accounting in the Netherlands represents the most comprehensive application of business economies to accounting practices and concepts.

Accounting as an independent discipline:

Accounting as an independent discipline has developed independently of governments or economic theories. The argument for accounting as an independent discipline is based on the postulate that accounting can construct a meaningful framework derived from the business process it serves (Mueller, 1967). Accounting methods and concepts are developed from the existing business practices. The UK and the US accounting systems are said to be an example of this pattern of accounting development.

The uniform accounting pattern:

Accounting development based on a pattern of uniformity in accounting has developed as a result of the quest to make accounting a more scientific discipline. The argument is that more uniform accounting means more scientific accounting (Mueller, 1967). The uniform accounting system has been developed and used as a tool for the administrative and control of businesses. Accounting within this category involves standardisation of definitions, measurements and presentation. Mueller (1967) argued that a uniform plan of accounting is prerequisite to effective central planning. Germany and France provide an example of uniform accounting pattern.

The above accounting development patterns indicate that accounting information is needed for both macro and micro purposes. The ways by which this information is provided and disclosed may differ subsequently. The differences in financial reporting practices between countries lead to great complications for those preparing, auditing and using published financial reports. Zarzeski (1996) has examined a number of annual reports from Germany, Hong Kong, Japan, Norway, the UK and the US and found that enterprises operating internationally appear to disclose higher levels of information than those operating only domestically. Efforts have been made to regulate accounting standards and practices. The following section will highlight accounting and disclosure-related regulations.

3.7- Regulations:

Capital market pressure and/or regulations that exist in many countries require firms to disclose information. It has been argued that information about firm's conditions will be, in general, under-provided without regulation (Beaver, 1981; Chow et al, 1996). In contrast, opponents of regulation counter by arguing that managers have incentives to disclose information voluntarily to distinguish them from other firms (e.g. Demski, 1974; Benston, 1976; Bird and Locke, 1981; Watts and Zimmerman, 1986). Proponents of regulation argue that the capital market cannot be relied upon to take prompt disciplinary action where necessary (e.g. Cooper and Keim, 1983; Lev, 1988; Dye, 1990). Regulation is likely to be valuable in reducing information asymmetries created by noise. Cooke and Wallace (1990) believed that the effectiveness of financial disclosure regulation in a country depends upon regulatory requirements and enforcement mechanisms. The argument for accounting regulations is based on the assumptions that market forces alone cannot induce adequate quantities and qualities of financial information; the ability of financial statements to present true and fair view and the need for comparability between financial statements when different standards are used; and the user's limited ability to interpret and use accounting information. In addition, regulations can help investors to allocate their resources among companies more efficiently by reducing information asymmetry between information users and reduce information costs to investors (Al-Modahki, 1995). Regulations, which are based on organising rather than intervening in the capital market's mechanism, are required and most justified in terms of protecting less sophisticated investors from potential exploitation. The public interest and market failure theories suggest that state intervention is only justified when there is a failure of the normal market processes whereas the regulatory capture theories postulate that the state acts only in response to lobbying pressure as lobbyists extend their efforts where the benefits outweigh the costs (Gibbins et al, 1992).

However, there are two major approaches to financial regulation. Firstly, a framework which places the responsibility for implementing, monitoring and enforcing standards on a legally constituted public body. This is the case in the USA where the Securities Acts of 1933 and 1934 gave the Securities Exchange Commission (SEC) statutory power to ensure full and fair disclosure. Secondly, voluntary approach which relies on self-regulation. Chow et al (1996) showed that market incentives are insufficient to induce full disclosure. In addition, the promulgation of disclosure rules might inflict more damage on investors. Thus, more adequate and effective company and security laws are required on grounds of fairness and commercial morality (Bird and Locke, 1981). However, Bird and Locke (1981) suggested that a freely operating market for accounting information, unencumbered with disclosure requirements, can work efficiently. While several writers have applied an economic approach to the analysis of regulatory disclosure requirements for financial accounting (e.g. Bird and Lock, 1981; Cooper and Keim, 1983), this approach was rejected by others (e.g. Merino and Neimark, 1982). Penman (1980: 132) stated that:

> "Although no complete and accepted theory justifying regulation of firms' information dissemination activities is available, there is an implicit assumption that voluntary (market) mechanisms "fail" in producing desirable quantities (or qualities) of information about firms."

Cooke and Wallace (1990) concluded that the level of corporate financial disclosure regulation in many developed countries is more likely to be determined by *internal* factors (i.e. stage of development, legal rules, political systems, economic systems, level of education, financial press and cultural variables) whereas that of many developing countries by *external* factors (i.e. colonial history, impact of transnational corporations, regional economic communities, international trade, international accounting standards, international movements of accounting firms and professionals). Companies' financial reporting can be regulated in different ways. Regulation can be imposed through the market, the state and the community (Parker, 1995). Stock markets, regulatory bodies and the accounting profession exert pressure for regulating accounting practices in general and disclosure rules in particular (Ahmed and Nicholls, 1994). The use of market forces alone in regulating financial reporting practices has been criticised on the grounds that market forces alone cannot be relied upon as a mechanism for protecting investors and reducing fraud. Britain's nineteenth-century is an example of market regulation (Parker, 1995). Cooper and Keim (1983) argued that market imperfection necessitates government regulation (intervention) to ensure equitable and efficient production and dissemination of corporate financial information. The US's 1933 and 1934 Securities Acts are an example of state regulation. However, the main objectives of regulation are to protect the ordinary investor and to reduce fraud. Benston (1976) gave six reasons for regulating financial disclosure practices. He argued that regulations are important to promote the concept of fairness; to provide a contract enforcement mechanism; to protect non-shareholders who are affected by companies; to improve efficiency of resource allocation; to ensure the public's right to know; and for political considerations.

3.8- Conclusion:

Although different theories have emerged and have been used to explain disclosure practices using different arguments and assumptions, these theories share the importance of accounting information in the decision making process. The main conclusion of this chapter is that disclosure studies have been conducted mainly in liberal market economies and based on economic theories. The chapter supported the argument that most of the empirical accounting disclosure literature in liberal market economies has been based on surveys and statistical analysis. The next chapter extends this argument to developing countries. Accounting and disclosure developments in developing countries and the influence of culture attributes on these developments in these countries will be discussed in the next chapter.

Chapter 4

Developing countries' accounting disclosure policies and practices and the influence of culture

4.0- Introduction:

The aim of this study is to understand accounting information disclosure policies and practices and accountability processes in the democratic socialist context of Libya. Chapter three argued that accounting disclosure studies have been based mainly on economic theories and conducted in liberal market economies with few studies on developing countries. This chapter extends this argument to developing countries. To explore this argument, a review of accounting disclosure studies in developing countries will be provided. The chapter describes accounting development in developing countries and the influence of developed countries' accounting practices on developing countries' accounting systems. The chapter begins with defining developing countries, exploring their characteristics and discussing accounting development in these countries. The role of accounting information and disclosure in the development process of developing countries is the focus of another section of the chapter. The influence of culture on accounting development is discussed using Hofstede's (1984b) culture dimensions: Individualism, Power Distance, Uncertainty Avoidance, and Masculinity. Gray's (1988) accounting values; Professionalism versus Statutory Control, Uniformity versus Flexibility, Conservatism versus Optimism, and Secrecy versus Transparency, are then explored. This is followed by a discussion of the relationship between culture dimensions and accounting subculture dimensions. Classification of accounting practices is then discussed.

4.1- Developing countries characteristics:

Developing countries are characterised by the shortage in economic resources and/or the lack of well-advanced technology to meet its needs. The term developing countries refers to a heterogeneous group of countries found mostly in Africa, Latin America, the Middle East and Oceanic. Most of these countries gained independence during the late 1950s when decolonization became a global phenomenon. A common characteristic of this group is the presence of poverty. However, there are wide disparities in the levels of development which each country has experienced and is experiencing (Wallace, 1990). Even though the main characteristic of these countries is the presence of poverty, some developing countries are considered to be rich states (i.e. Saudi Arabia).

Although developing countries vary greatly in geographical size, access to natural resources, and the degree of economic, social and political developments, these countries share common characteristics. Developing countries are characterised by a high rate of population growth and dependency burdens, high and rising levels of unemployment and underemployment, inequality in wealth distribution, foreign debt, public expenditures, dependency on foreign investment and aid and significant dependence on agricultural production and primary product exports (Belkaoui, 1985; Samuels, 1990). They are characterised by low levels of living standards, productivity, growth and production diversity and to some extent depending on limited number of resources (Belkaoui, 1985; Samuels, 1990). Scarcity of capital and extreme dependence on exporting a few products are other aspects that characterise these countries (Ghartey, 1990). Samuels (1990) indicated that most developing countries are characterised by large and inefficient public sector and badly organised capital money market. These characteristics have influenced accounting development in these countries. The following section will discuss accounting development process in developing countries.

4.2- Accounting development in developing countries:

Accounting in developing countries is characterised in general by its poor function and use as a management tool in organisations. In these countries, relatively little use is made of accounting information as an aid to managerial decision-making and control (Jones and Sefiane, 1992). Ouibrahim and Scapens (1989) found that little use was made of accounting in the Algerian construction industry. Some of the problems facing the accounting profession in developing countries include the lack of appropriate accounting systems, ineffective systems of internal control, poor accounting records and shortage of accountants (Ghartey, 1990). However, many developing countries have adopted developed countries' accounting systems. Different accounting principles and standards, brought into developing countries mainly by foreign companies from developed countries, co-exist in developing countries. Using these principles and standards, many developing countries (such as Mexico, India, Brazil and Nigeria) have developed their own accounting principles and standards (Wallace, 1988). The next section discusses the ways through which developed countries' accounting systems were transferred to developing countries.

4.2.1- The transfer of developed countries' accounting systems to developing countries:

Accounting reporting and disclosure standards and practices were brought into and/or imposed upon developing countries through different channels. Colonisation was the most effective way by which developed countries' accounting systems were imposed on developing countries. Accounting standards and practices were transferred to serve the interests of international business of colonies and imposed without any consideration of developing countries' social, economic and political needs (Perera, 1989). In addition, multinational corporations and foreign audit firms represented and/or still represent other channels through which accounting principles of developed countries were/are exported to developing countries (Hove, 1986).

International aid organisations (e.g. the World Bank, the International Monetary Fund, etc.), which are funded mainly by developed countries, were another source of the transfer of developed countries' accounting systems to developing countries. One of the international aid organisations' requirements is that aid recipient countries are to provide accounts and disclosures in a way that is adopted by developed countries. Hove (1986) pointed out that managers of firms that receive international aid from international organisations have to provide an account for their use of funds to aid organisation owners. This means that financial statements and other financial reports are to be prepared in a manner that is useful to their users (mainly investors in developed countries). Therefore, accountability and stewardship have an important role in implementing developed countries' accounting systems in developing countries in order to provide aid providers with enough information to evaluate the use of granted resources. This process forced developing countries to provide the required information in the required developed countries' form.

Many researchers believe that accounting is the product of its environment (e.g. Perera, 1989; AlHashim and Arpan, 1992; Ngangan, 1997). Ngangan (1997) argued that different accounting and reporting systems exist in different countries to serve the needs of users in particular environments. Perera (1989) believed that the environment influences accounting and noted that accounting practices evolve to suit the circumstances of a particular society at a particular time. The acceptance of the influence of environment on accounting may question the appropriateness of the transfer of accounting technology from developed to developing countries (Ngangan, 1997). However, the lack of well-developed accounting systems in developing countries have led many of these countries to use developed countries' accounting systems. Nevertheless, it has been argued that developed countries' accounting systems used in developing countries do not generate relevant information for decision making in the light of peculiar problems in developing countries (Ngangan, 1997). However, it appears that there was no consensus on the type of accounting system that would best suit the environment of each developing country. Furthermore, no or little attempt has been made to ascertain accounting information requirements of the developing countries' decision-makers. Hove (1986) argued that developing countries accounting problems are twofold; first, accounting systems were imposed upon these countries without considering their needs. Second, the objectives of accounting systems in developing countries did not reflect these countries' needs. To overcome these problems, Hove (1986) recommended that the accounting objectives of *each* developing country should be determined before designing a suitable accounting system.

4.2.2- Accounting development problems in developing countries:

Holzer and Chandler (1981) summarised developing countries' accounting problems into four major components related to profession, enterprise, government and accounting education. They argued that the accounting profession in many developing countries is not well established so that accounting standards and guidelines are either not available or imported from other countries. Therefore, accounting principles and standards brought into developing countries have not been challenged due to the weakness or absence of well-established professional bodies. State-owned and private enterprises are not well developed since they work in the same environment and under the same conditions that include staff shortages and limited resources. Poor accounting control systems in developing countries have led to increasing levels of fraud and abuse of government funds. The education dimension is the most important attribute, in my view, where the future of the accounting profession in developing countries lies. However, education systems in many developing countries are biased toward using developed countries' texts (Perera, 1975; Briston, 1978; Holzer and Chandler, 1981; Hove, 1986).

Accounting practices in many developing countries seem to be stewardship oriented and geared towards tax purposes (Enthoven, 1991). Financial accounting is often limited and maintained solely for the purpose of satisfying the formalities required by laws and tax authorities. Many developing countries have not adopted - in some cases they have not even made efforts to adopt - a body of accounting standards (Enthoven, 1991). Accounting practices in developing countries tend to be influenced by foreign countries (companies) and/or other legal and tax requirements and geared toward traditional custodianship (Enthoven, 1980). This narrow view of accounting may result in a scant, unreliable and untimely amount of information generated by the enterprise accounting system (Enthoven, 1991). Furthermore, auditing and management accounting represent another deficit dimension of accounting in developing countries. The lack of auditing standards and trained personnel delays the process of auditing poorly held accounts and records. Cost accounting as a tool of pricing policy, performance measurement, product budgeting and cost control is still inadequately implemented and understood (Ouibrahim and Scapens, 1989; Enthoven, 1991; Jones and Sefiane, 1992). The legal aspect of accounting in developing countries is based to a great extent on foreign guidelines brought from developed countries without domestic relevance. This is connected to the weakness of the domestic accounting profession.

Many developing countries' public and private enterprises have not developed managerial and/or financial accounting systems that reflect their needs. The current accounting systems adopted in these countries do not adequately provide the required information for planning or other purposes. Well-established accounting systems are needed in the public sector to insure greater accountability; greater efficiency in management, planning and policy; and greater validity in domestic and international comparisons, analyses, evaluations and measurements (Enthoven, 1977). Accounting data generated within developing countries, on which budgets are based, are considered to be deficient. The need for accounting information in the decision making process at micro and macro levels brings into light the issue of accounting information disclosure in developing countries. A review of accounting disclosure studies in developing countries will be discussed in the next section.

4.3- Accounting and disclosure studies in developing countries:

Relatively few empirical disclosure-related studies have been conducted on developing countries. Table 4.1 summarises some of these studies' objectives, findings, methodologies and methods. Abu-Nassar and Rutherford (1996), in a survey of Jordanian users of financial reports, concluded that users complained about the lack of comparability, reliability and consistency. Wallace (1988) concluded that there is, in Nigeria, a lack of consensus on the relative importance of particular disclosure items between accountants as a user-group on the one hand and other user groups on the other hand. Ibrahim and Kim (1994), in a study related to four user groups in Egypt (namely accountants, managers, financial analysts and shareholders), found a medium level of consensus between accountants and managers (67 per cent) and between accountants and financial analysts (64 per cent). The average level of consensus was 57 per cent for the four groups. Ngangan (1997) found that, in general, no differences in perception exist regarding the relative importance of particular disclosure items among users from developing countries. Firms' attributes are reported to be associated with disclosure level in developing countries as well. Owusu-Ansah (1998) found that Zimbabwean firms' size, ownership structure, age and profitability have positive and significant influences on the extent of mandatory disclosure and reporting practices by these firms. Owusus-Anash's study focused only on Zimbabwean firms' compliance with mandatory disclosure requirements. Corporate size in both developed and developing countries have been found to be positively associated with disclosure levels in several studies (e.g. Inchausti, 1997; Ahmed and Nicholls, 1994). Ahmed and Nicholls (1994) found that the degree of Bangladeshi firms' disclosure compliance is significantly associated with subsidiaries of multinational companies and firms whose accounts were audited by large audit firms. Al-Modahki (1995) reported that the extent of disclosure in Saudi's firms annual reports have increased since the issuance of the Saudi Accounting and Auditing Standards in 1985. However, he found, in general, no association between industry type and disclosure level. Hagigi and Williams (1993), in a study of ten Moroccan firms, concluded that disclosure is minimal and the reliability of the information disclosed is low. Wallace (1988) concluded that many Nigerian firms publish annual reports that do not adequately comply with the country's minimum disclosure requirements. However, there are several reasons for companies not to comply with accounting standards and disclosure regulations in developing countries, including inadequate regulatory framework and enforcement mechanisms and the absence of both an effective capital market and accounting profession (Ahmed and Nicholls, 1994).

Table 4.1: Summary of some empirical disclosure studies in developing countries.

Author(s)	Objectives and conclusion	Epistemology/ methodology	Research method
Abu-Nassar & Rutherford 1996	The study reported on how users of financial reports view those reports in Jordan. It concluded that users complained about the lack of comparability, reliability and consistency.	Functionalist.	Survey based on distributing 463 questionnaires, 224 were collected.
Ahmed & Nicholls 1994	The study assessed the impact of non-financial company characteristics on disclosure in Bangladesh. It concluded that the degree of Bangladeshi firms' disclosure compliance is significantly associated with subsidiaries of multinational companies and firms whose accounts were audited by large audit firms.	Functionalist.	Empirical based on annual reports of 63 companies.
Hagigi & Williams 1993	The study reported on disclosure practises in Morocco. It concluded that disclosure is minimal and the reliability of the information disclosed is low.	Functionalist.	Case study (10 firms).
Ibrahim & Kim 1994	The study examined the degree of four user-groups' consensus on the importance of some financial items. It concluded that the average level of consensus was 57 per cent for the four groups	Functionalist.	Empirical data collected using questionnaires. Of 676 distributed questionnaires, 311 were collected.
Owusu-Ansah 1998	The study reported on the degree of influence of eight corporate attributes on disclosure of 49 companies in Zimbabwe. It found that firms' size, ownership structure, age and profitability have positive and significant influences on disclosure.	Functionalist.	Empirical data collected based on companies' 1994 annual reports.
Ngangan 1997	The study reported on consensus among users of corporate annual reports in developing countries. The study found no significant difference in perceptions between financial information users in Guinea and other developing countries.	Functionalist.	Empirical data from Papua New Guinea & other developing countries using a questionnaire.
Wallace 1988	The study reported on the similarities of information needs of different users of financial reports in Nigeria. It concluded that there is a lack of consensus on the relative importance of particular disclosure items between accountants and other user groups.	Functionalist.	Empirical data using questionnaires. Of 1,200 distributed questionnaires, 470 were collected.

In the Arab World, accounting standards are in no better shape than those in developing countries since all Arab countries are considered to be developing countries. A classification of Arab countries in relation to their accounting standards source was provided by Ala-Elden (1993). First, countries that adopt the International Accounting Standards include the United Arab Emirates, Bahrain, Kuwait, Oman, Jordan, Sudan and Lebanon. Second, countries that adopt either the US or the UK accounting standards include Saudi Arabia and Egypt. Third, countries that have not adopted or developed any accounting standards include Morocco, Libya, Algeria, Tunisia, Syria and Yemen.

The availability of accounting information plays an important role in the economic development process of a country (Mirghani, 1982; Samuels and Piper, 1985). Accounting information represents a part of a complex information system that is needed for macro and micro purposes. Therefore, accounting information is a key factor in the effectiveness of plans. The following section will highlight the role of accounting information in the development process in developing countries in particular.

4.4- The role of accounting information in the development process:

Accounting plays a significant role in the development process through its role in providing information about macro and micro economic activities to decision makers at different levels. At the micro level, although accounting function in developing countries is to some extent limited to a stewardship and reporting role, this could be expanded to include other aspects such as budgeting and forecasting (Samuels and Piper, 1985). At the macro level, the increasing role played by governments of developing countries at local and national levels creates more demand for adequate information not only for planning purposes, but also for administering and controlling the economy and demanding accountability (Samuels and Piper, 1985). A strong relationship exists between macro and micro economy on one side and macro and micro accounting on the other. Micro data are used for macro accounting, while the latter is used by both macro and micro entities for evaluation and decision making purposes. The macro accounting framework is a combination of both economic and accounting frameworks. Microeconomic plans, which consist of a series of projects, must be appraised since they are the building blocks for macro plans. Therefore, both micro and macro accounting and economic frameworks should be integrated to reduce the differences in their objectives and to improve the quality of information they generate (Mirghani, 1982). Kilani (1988) found, in the Libyan context, that this integration is very weak. He stated that

> "While macro accounting in Libya has, as its main objective to provide information needed in development planning, the micro accounting system has a completely different objective. The enterprise accounting system is designed to provide information needed to prepare and audit external financial statements, while the government accounting system is designed to provide information related to public accountability." p 436

Successful development plans depend, inter alia, upon the availability of reliable information on macro and micro activities and plans that support the multitude of decisions that comprise them (Mirghani, 1982). Reliable accounting information could facilitate the planning process at the macro level and the decision making process at micro level, leading to a more efficient utilisation of resources (Samuels and Piper, 1985). In this respect, "macroaccounting and development planning can be envisaged as two interrelated systems where the information outputs of the former become part of the information inputs to the latter" (Mirghani, 1982: 63). Microaccounting is concerned with measuring and reporting the results of the economic activities of the micro units in an economy and therefore it constitutes an important part of the macroaccounting database. Hove (1986) argued that accounting, as presently practised in developing countries, is incapable of disclosing information that may help investors to allocate resources more efficiently and enable governments in these countries to detect fraud. However, it is essential to understand the influence of culture on accounting development. Understanding culture differences may help a country to implement more suitable accounting systems to its needs. The influence of culture on accounting is the focus of the next section.

4.5- The influence of culture on accounting:

Hofstede (1980: 25) defined culture as "the collective programming of the mind which distinguishes the members of one group or society from those of another." Culture consists of values, beliefs, attitudes and behaviour that people acquire through the processes of learning and experience in a group (Awasthi et al, 1998). Culture affects the behaviour of a human group in the same way as personality affects the identity of an individual (Hofstede, 1984b). Harrison and McKinnon (1986) described culture as an essential element in the framework for understanding how social systems change.

Culture influences the norms and values of such systems and the behaviour of groups in their interactions within and across systems. People tend to adapt to their cultural environments so that their behaviour would not differ significantly from that of others in their group, organisation or society. This view is in line with institutional theory, according to which people and organisations tend to continuously adapt their behaviour to the institutionalised values and norms of their environment (Powell and DiMaggio, 1991). Through the process of institutionalisation, peoples' and organisations' actions receive approval and become legitimated. The key question here is to understand how a national culture influences the functional culture of accounting disclosure and accountability. Towards this understanding, Hofstede's cultural dimensions will be discussed next followed by a discussion of Gray's (1988) accounting value dimensions.

4.5.1- Cultural dimensions:

Hofstede (1984b), in his study of the differences in national culture among forty nations, identified four culture dimensions, namely Individualism; Power Distance; Uncertainty Avoidance; and Masculinity[3]. A description of these dimensions based on Hofstede's work is provided next.

Individualism:

The Individualism-Collectivism dimension of culture is concerned with the way people treat others within their families, societies, institutions and organisations. The main issue addressed by this dimension is the degree of interdependence a society maintains among individuals.

> "Individualism stands for a preference for a loosely knit social framework in society wherein individuals are supposed to take care of themselves and their immediate families only. Its opposite, Collectivism, stands for a preference for a tightly knit social framework in which individuals can expect their relatives, clan, or other in-group to look after them in exchange for unquestioning loyalty." (Hofstede, 1984b: 83)

Thus, individualism pertains to societies in which ties between individuals are loose whereas collectivism pertains to societies in which people are integrated into groups that protect them in exchange for unquestioning loyalty (Hofstede, 1991). It is a

[3] Hofstede (1991), based upon a study of Chinese cultural values, added Confucian Dynamism to the four culture dimensions. Confucian Dynamism is a measure of the degree to which cultures focus on long-term or short-term outcomes.

measure of the degree to which people in different cultures prefer autonomy or group affiliation.

Power Distance:

The concept of Power Distance is based on people's perception about how power is being distributed. The main issue addressed by this dimension is how a society handles inequalities among people when they occur. Power distance was defined as *"the extent to which the less powerful members of institutions and organisations within a country expect and accept that power is distributed unequally"* (Hofstede, 1991: 28, emphasis in original). The unequal distribution of power within institutions and organisations may affect the behaviour of not only the less powerful but also the more powerful members of a society (Hofstede, 1991).

> "People in Large Power Distance societies accept a hierarchical order in which everybody has a place which needs no further justification. People in Small Power Distance societies strive for power equalisation and demand justification for power inequalities." (Hofstede, 1984b: 83)

In small power distance societies, hierarchical systems are considered by subordinates as a way of implementing inequality between subordinates and superiors and therefore are not accepted. They are established mainly to co-ordinate organisations' efforts to achieve their goals. In large power distance societies, members of institutions and organisations either accept, or are reluctant to seek explanations for, the inequality distribution of power. Subordinates in high-power distance cultures are more likely to be obedient than those in low power distance cultures because they believe in the functionality of inequality (Brewer, 1998).

Uncertainty Avoidance:

Hofstede (1991: 113) defined uncertainty avoidance as *"the extent to which the members of a culture feel threatened by uncertain or unknown situations"* (emphasis in original). Hofstede (1984a) distinguished between strong and weak uncertainty avoidance societies.

> "Strong Uncertainty Avoidance societies maintain rigid codes of belief and behaviour and are intolerant towards deviant persons and ideas. Weak Uncertainty Avoidance societies maintain a more relaxed atmosphere in which practice counts more than principles and deviance is more easily tolerated." (Hofstede, 1984b: 83)

Uncertainty Avoidance is reflected in the extent to which ambiguous situations are tolerated within groups, organisations and societies and the extent to which institutions insist on conformity (Baydoun and Willett, 1995).

Masculinity:

Masculinity "pertains to societies in which social gender roles are clearly distinct" (Hofstede, 1991: 82). The fundamental issue addressed by this dimension is the way in which a society allocates social (as opposed to biological) roles to the sexes. A distinction between masculinity and femininity was made by Hofstede where masculinity

> "stands for a preference in society for achievement, heroism, assertiveness, and material success. Its opposite, Femininity, stands for a preference for relationship, modesty, caring for the weak, and the quality of life." (Hofstede, 1984b: 84)

The relationship between Hofstede's four-culture dimensions is not always the same within or between societies. In general, Hofstede (1991) found negative correlation between the power distance index and the individualism index. Large-power distance societies tend to be collectivist societies. In addition, weak correlation between power distance index and uncertainty avoidance and between uncertainty avoidance and individualism were found (Hofstede, 1991). However, it has been suggested that Hofstede's societal values (Individualism, Power Distance, Uncertainty Avoidance and Masculinity) may be linked to accounting values (Gray, 1988; Perera, 1989; Brewer, 1998). Gray (1988), from a review of accounting literature and practice, identified four accounting values (accounting subculture dimensions) namely: Professionalism, Uniformity, Conservatism and Secrecy. These values will be discussed next.

4.5.2- Accounting values:

Gray's (1988) study of the influence of culture on accounting development represented a significant attempt to develop a model to understand how societal values are related to the accounting sub-culture, which directly influences accounting practices. Gray's accounting values, Professionalism versus Statutory Control, Uniformity versus Flexibility, Conservatism versus Optimism, and Secrecy versus Transparency, are described in the following sections.

Professional versus statutory control:

The professional-statutory control accounting value dimension stands for the "preference for the existence of individual professional judgement and the maintenance of professional self-regulation as opposed to compliance with prescriptive legal requirements and statutory control" (Gray, 1988: 8). Accounting standards that are issued by professional bodies are examples of the professional self-regulation practice whereas laws and accounting standards that are issued by a state represents the statutory influence of the state.

Uniformity versus flexibility:

The uniform-flexibility dimension is about the "preference for the enforcement of uniform accounting practices between companies and for the consistent use of such practices over time as opposed to flexibility in accordance with the perceived circumstances of individual companies" (Gray, 1988: 8). The French Uniform Accounting System is an example of uniformity in accounting practices and the state's statutory power in regulating accounting practices.

Conservatism versus optimism:

Conservatism or prudence, as an accounting value dimension, in asset measurement and reporting of profits is perceived as a fundamental principle in accounting practices. It is related to the "preference for a caution approach to measurement so as to cope with the uncertainty of future events as opposed to a more optimistic, laissez-faire, risk-taking approach" (Gray, 1988: 8). Conservatism varies internationally as it ranges from a strongly conservative approach in Germany and France for instance to much less conservative in the UK and the US (Gray, 1988).

Secrecy versus transparency:

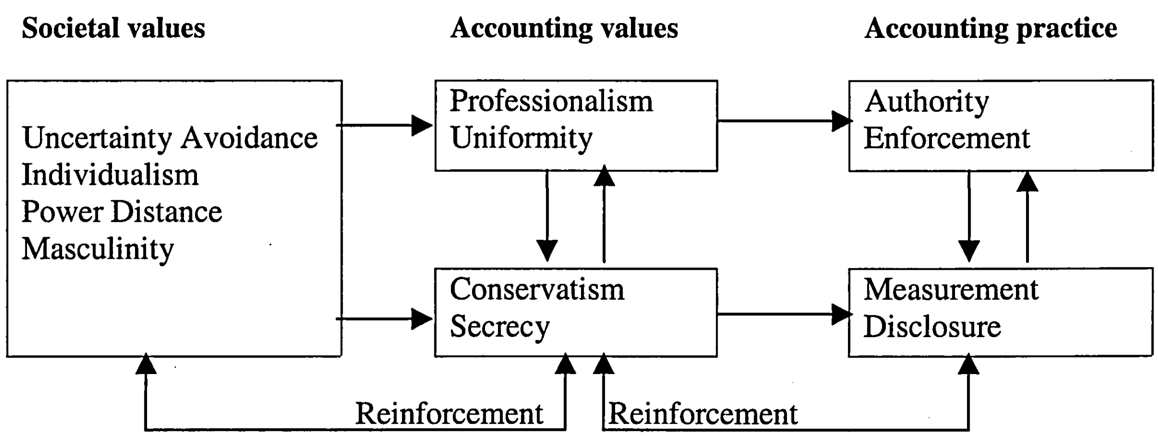
The main issue addressed by the secrecy dimension is about the "preference for confidentiality and the restriction of disclosure of information about the business only to those who are closely involved with its management and financing as opposed to a more transparent, open and publicly accountable approach" (Gray, 1988: 8).

Gray (1988) proposed a theoretical framework that links Hofstede's culture value dimensions with accounting systems and practices. In the following section, an outline of this framework will be provided.

4.5.3- Gray's theoretical framework:

Gray's (1988) theoretical framework, in which he suggested the mechanism by which societal values become related to the accounting subculture and may influence the development of accounting systems and practices on a national level, is illustrated in Figure 4.1. The framework focuses on the influence accounting subculture values have on the accounting practices of measurement, authority, application and disclosure. Societal values, which are influenced by external and ecological factors, influence accounting values which in turn have an impact on accounting practices and systems. Gray (1988) contended that professionalism and uniformity, as accounting subculture values, appear to be the most relevant to authority and enforcement as accounting practice. He added that the accounting subculture values most relevant to measurement and disclosure appear to be the dimensions of conservatism and secrecy. Different accounting practices that exist within and between countries are influenced to some extent by societal factors.

Figure 4.1: The relationship between societal values, accounting values and accounting practice – Gray's theoretical framework



Source: Baydoun and Willett (1995: 71).

Gray (1988) argued that professionalism, as an accounting value, is more likely to exist within societies where individualism and weak levels of uncertainty avoidance exist. The link between adopting a uniform accounting system and societal value dimensions has been argued to be mostly with uncertainty avoidance and collectivism (Gray, 1988). Strong uncertainty avoidance may lead to the need for law and order, rigid codes of behaviour, written rules and regulations. Uniformity is also consistent with a preference for collectivism with its tightly knit social framework, a belief in organisation and order, and respect for group norms (Gray, 1988). Conservatism or prudence, as a principle of accounting valuation, is argued to be associated with societal value dimensions but most closely with the uncertainty avoidance dimension. The fourth accounting value dimension - secrecy versus transparency - is argued to be linked to uncertainty avoidance, power distance and individualism dimensions.

According to Gray's analysis, companies within more individualistic countries are expected to provide more information to stakeholders and adopt the wide view of disclosure since the accountability nexus is more complicated. In contrast, companies functioning within collectivistic societies are expected to be less open in terms of providing and disclosing information to outsiders.

4.5.4- Culture values and accounting values:

A number of studies (e.g. Gray, 1988; Perera, 1989; Fechner and Kilgore, 1994; Baydoun and Willett, 1995; Brewer, 1998) have studied the link between cultural value dimensions at the societal level and accounting values at subculture level. The use of the term subculture refers to organisation culture or culture at the level of profession (Morgan, 1986). Gray (1988) linked Hofstede's (1984b) societal dimensions with accounting value dimensions. Perera (1989) proposed a framework to analyse the impact of culture on accounting and applied Hofstede-Gray's approach to developing countries. Fechner and Kilgore (1994) modified Hofstede-Gray's framework by suggesting that, in addition to the cultural factor, the economic factor has a moderating influence on the association between accounting subculture values and accounting practices. Baydoun and Willett (1995) applied Hofstede-Gray's approach to the case of Lebanon. They concluded that Lebanon's culture is characterised by less uniformity, conservatism and secrecy in financial reporting practices. In addition, Bloom and Naciri (1989) provided evidence for the proposition that cultural determinism exists in accounting practice in their analyses of the standard setting process in the United States, Canada, England, West Germany, Australia, New Zealand, Sweden, Japan and Switzerland. They confirmed their hypothesis that approaches used to establish accounting standards are a function of the cultural factors inherent in each country.

Gray (1988), Perera (1989) and Perera and Mathews (1990) suggested that of the four Hofstede's culture dimensions, uncertainty avoidance and individualism seem to be the most influential dimensions in relation to accounting subculture dimensions. The relationships between accounting subculture dimensions and individualism and uncertainty avoidance are depicted in Table 4.2. High levels of individualism, such as is the case in Anglo-American countries, are expected to affect positively the degree of professionalism and negatively the degrees of uniformity, conservatism and secrecy in the accounting subculture (Perera, 1989). In contrast, low levels of professionalism and high levels of uniformity, conservatism and secrecy are expected in societies with strong uncertainty avoidance.

Table 4.2: The relationship between accounting values and Individualism and Uncertainty Avoidance

		Accounting subculture dimensions			
		Professionalism	**Uniformity**	**Conservatism**	**Secrecy**
Societal value dimensions	**Individualism**	High	Low	Low	Low
	Uncertainty Avoidance	Low	High	High	High

Source: Fechner and Kilgore (1994: 269)

Therefore, if we accept Hofstede's classification of Arab countries as collectivist societies with high uncertainty avoidance and apply it to Libya, we would expect to find, as a result of being a collectivist country, low levels of professionalism and high levels of uniformity, conservatism and secrecy. This may indicate that the accounting profession is not well organised and that government intervention is frequent.

4.5.5- Culture influences on accounting disclosure:

Jaggi and Low (2000), in an empirical study of 401 firms in six countries, concluded that individualism has an influence on financial disclosures in code law countries whereas the impact of culture on financial disclosures in common law countries is insignificant. Differences in disclosure requirements throughout the world may arise as a result of economic, social, legal and political differences between countries. Switzerland, Scandinavia and the United States provide examples of different patterns of disclosure practices. Swiss firms are characterised by their lack of disclosure (AlHashim and Arpan, 1992). Most of the data disclosed is descriptive and studded with pictures in addition to a few lines of financial data. Secrecy is an important value dimension in Switzerland. Therefore, Swiss firms are expected to disclose less quantitative information. Public disclosure of financial information is neither needed nor extensively practised due to, inter alia, the access the Swiss government and banks have to Swiss firms' financial data and to the fact that many Swiss firms are family-owned private businesses. American firms, in contrast, disclose more financial data and explanatory notes than Swiss firms due to legal and professional disclosure requirements in the US and to a relatively high numbers of individual shareholders who require financial information. Therefore, US firms disclose more information in general to avoid legal liabilities and to increase their market value. In Scandinavia, where many firms are either wholly or partially owned by the government which has access to firms' financial data, the government requires firms to provide the society with their financial information. The above three examples illustrate how different firms within different environments follow different disclosure practices due to various reasons. These practices range from a lack of disclosure in Switzerland, high levels of disclosure to obey rules and laws in the US, to high levels of disclosure to inform the public in Scandinavia. However, other disclosure practices may exist and may differ from these three examples.

This study considered the secrecy-transparency accounting value dimension within the context of Libya. Although cultural differences may lead to some differences in the requirements of information users for accounting information and accountability relationships, it is likely that users in developed and developing countries have many information requirements in common (Baydoun and Willett, 1995). Perera (1989) argued that transferring accounting skills from Western countries to developing countries is unlikely to be successful due to cultural differences. He further argued that developing countries in general are collectivist societies with a relatively low degree of professionalism in the accounting subculture. Therefore, governments rather than professional bodies in many developing countries formulate and regulate accounting principles to seek higher reliability of the published financial information. This may happen by issuing laws that govern accounting practices or by establishing public entities to be responsible for regulating accounting practices. In addition, to the extent that developing countries are collectivist, large power distance and strong uncertainty avoidance societies (Hofstede, 1984a), there is a tendency to demonstrate a strong preference for uniform systems to guide accounting practice and avoid deviations (Perera, 1989).

The group of Arab countries included in Hofstede's (1991) study were Egypt, Iraq, Kuwait, Lebanon, Libya, Saudi Arabia and the United Arab Emirates. These countries are heterogeneous in, inter alia, geographical, economic, political and historical attributes and are excepted to have different accounting systems and disclosure requirements. Although Arab countries have many characteristics in common, they differ from each other in many respects. Hofstede (1991) showed that, for instance, the Saudis are more collectivist than some other Arabs such as the Lebanese or Egyptians. Baydoun and Willett (1995) showed that the Lebanese value for power distance is probably much closer to the French value, with a ranking of fifteenth out of fifty nations and a score of sixty eight, than the average Arab countries score of eighty in the seventh position. Table 4.3 shows a comparison of culture value scores between Arab countries, Great Britain and the US. Arab countries scored high levels of power distance with a score of 80 comparing with low levels of power distance in Great Britain and the US, 35 and 40 respectively. Superiors and subordinates in large power distance societies consider each other unequal. Hierarchical systems exist and subordinates are expected to be told what, when and how to carry out their tasks. Centralisation is expected to characterise high power distance societies.

Table 4.3: Values of the indices for Arab countries, Great Britain and the US (with rank numbers)

Country	Power Distance		Uncertainty Avoidance		Individualism		Masculinity	
	Score*	Rank	Score*	Rank	Score*	Rank	Score*	Rank
Arab countries	80	7	68	27	38	26/27	53	23
Great Britain	35	42/44	35	47/48	89	3	66	9/10
USA	40	38	46	43	91	1	62	15

* Scores range from zero for small power distance, weak uncertainty avoidance, collectivist, or feminist to 100 for large power distance, strong uncertainty avoidance, individualist, or masculinity.
Source: Hofstede (1991).

Arab countries scored 68 for uncertainty avoidance. This score is relatively high compared to 35 and 46 in Great Britain and the US respectively. Hofstede (1991) argued that strong uncertainty avoidance societies, which include Arab countries, tend to be collectivists. Arab countries scored 38 on individualism which is considered low compared to Great Britain and the US with a score of 89 and 91 respectively. This indicates that Arab countries are more collectivist societies than many other countries. Islam may be one of the reasons for the collectivist nature of these societies. In this context, the Prophet Mohammed says that "believers [Muslims] in their mutual love, sympathy and co-operation, are like the [interacting] parts of the human body: when one part complains, the other parts call each other to hasten to its rescue, each sharing its pain and sleeplessness."[4] Although, collectivism predominates in many Arab countries, Baydoun and Willett (1995) argued that Lebanon is a predominantly individualistic country.

The champion of masculinity includes Arab-speaking countries (Hofstede, 1991). Masculinity in Arab countries scores 53 while Great Britain and the US score 66 and 62 respectively. Arab countries are placed in the middle range of masculinity. The role of the sexes is more differentiated in these countries than it is in Western societies.

The variety and the influence of cultural dimensions, economic, political and historical variables on the development of accounting systems have led to different accounting practices in different countries. Classifications may help a country to predict and solve accounting development problems that might be faced by looking at the accounting systems of other countries in its group that may have the same problems.

4.6- Classification of accounting practices:

There are many factors that may cause differences in international accounting systems and financial reporting practices. These include a country's legal and tax systems, stock market, finance and ownership, and accounting profession development (Nobes, 1992). Accounting classification may be used as a way of describing and comparing accounting systems, enhancing the accounting development process and predicting problems that a country may face and finding solutions by looking at other countries similar to it within the classification (Choi and Mueller, 1992; Nobes, 1992). International classifications of accounting systems have been approached from two prospects: deductive and inductive.

4.6.1- The deductive approach:

Following the deductive approach, countries with similar environmental factors are argued to have similar accounting practices. Mueller (1967, 1968) and Gray (1988), among others, classified countries into groups according to their economic, legal, political and environment factors. Mueller and Gray's approaches will be considered next.

[4] This translation is quoted from Ali (1996: 13).

Mueller 1967 and 1968:

In his attempt to classify accounting systems upon environmental factors, Mueller (1967) identified four approaches to accounting development: the macroeconomic pattern, the microeconomic pattern, the independent discipline approach, and the uniform accounting approach (See Chapter 3, pp 55-7). Although Mueller's classification has its benefits, Nobes (1983) argued that there are some problems connected with it. First, the fact that there were only four exclusive groups and no hierarchy reduces the usefulness of the classification. Second, the classification did not consider the possibilities of two countries within different groups having similar classification features. Finally, the classification ignored accounting practices in Communist countries.

Mueller (1968) elaborated his previous classification by classifying the world into ten groupings to include: the United States/Canada/the Netherlands, the British Commonwealth (excluding Canada), Germany/Japan, Continental Europe (excluding Germany, Netherlands and Scandinavia), Scandinavia, Israel/Mexico, South America, the developing nations and Near and Far East, Africa (excluding South Africa), and the Communist nations.

Gray 1988:

Gray (1988), following Hofstede's (1980) study of cultural differences, proposed a classification based on cultural factors. He applied cultural differences to predict international differences in the nature of accounting practices. He identified nine culturally based groupings: Anglo, Nordic, Germanic, More Developed Latin, African, Less developed Asian, Japan, Near Eastern (including Arab countries), and Less Developed Latin.

4.6.2- The inductive approach:

The inductive approach to identifying accounting patterns is based on identifying accounting practices and development patterns and explaining these practices and patterns with reference to economic, social, political and cultural factors. Seidler's (1967), Frank's (1979), Nair and Frank's (1980) and Nobes' (1983) classifications will be discussed next.

Seidler 1967:

Seidler (1967) argued that certain countries' accounting practices influence other countries' accounting practices. He developed a scheme of 'spheres of influence' where accounting practices in certain 'mother' countries are transferred to others through their colonial, traditional or political associations. Three zones of accounting practices were identified, namely the British model, the American model and the French (Continental) model. The British model influences accounting practices in Australia and India. The American model, which was originally British, affects South America, Israel and Japan. The French model spreads to most of southern Europe and the Mediterranean area.

Frank 1979:

Based on disclosure and measurement patterns, Frank (1979) identified four groups of accounting patterns as shown in Table 4.4 where language (i.e. English and French) was used as a proxy of culture. One of the limitations of this classification is having the US with Germany and Japan and not with the UK. The UK and the US are considered to be individualistic countries with relatively high levels of disclosure compared with Japan and Germany and therefore are more likely to be in the same group.

Table 4.4: Frank's four-group classification

Group I	Group II	Group III	Group IV
Australia	Argentina	Belgium	Canada
Bahamas	Bolivia	Colombia	Germany
Eire	Brazil	France	Japan
Ethiopia	Chile	Italy	Mexico
Fiji	India	Spain	Netherlands
Jamaica	Pakistan	Sweden	Panama
Kenya	Paraguay	Switzerland	Philippines
New Zealand	Peru	Venezuela	United States
Rhodesia	Uruguay		
Singapore			
South Africa			
Trinidad and Tobago			
United Kingdom			

Source: Frank (1979: 596)

Nair and Frank 1980:

Nair and Frank (1980) produced a classification based on accounting practices using the 1973 Price Waterhouse data. Countries were classified either to be in the measurement groupings or disclosure groupings. Nair and Frank (1980) divided financial reporting characteristics into those relating to measurement and those relating to disclosure. They recognised that disclosure practices and measurement practices interfere with each other in previous classifications and need to be separated (Nobes, 1992). Based on the measurement groupings, the classification resulted in four groupings, contained thirty-eight countries as shown in Table 4.5, and can be labelled as the British Commonwealth model (Group I), the Latin American model (Group II), the Continental European model (Group III), and the United States model (Group IV). Nair and Frank (1980) expected that including disclosure practices in the classification would result in more groups. They showed that the number of country groupings increased to seven when disclosure practices were considered as shown in Table 4.6.

Table 4.5: Nair and Frank's four-group measurement classification

Group I	Group II	Group III	Group IV
Australia	Argentina	Belgium	Canada
Bahamas	Bolivia	France	Japan
Fiji	Brazil	Germany	Mexico
Jamaica	Chile	Italy	Panama
Kenya	Colombia	Spain	Philippines
Netherlands	Ethiopia	Sweden	United States
New Zealand	India	Switzerland	
Pakistan	Paraguay	Venezuela	
Republic of Ireland	Peru		
Rhodesia	Uruguay		
Singapore			
South Africa			
Trinidad and Tobago			
United Kingdom			

Source: Nair and Frank (1980: 429).

Table 4.6: Nair and Frank's five-group disclosure classification

Group I	Group II	Group III	Group IV	Group V	Group VI	Group VII
Australia	Bolivia	Belgium	Canada	Argentina	Sweden	Switzerland
Bahamas	Germany	Brazil	Mexico	Chile		
Fiji	India	Colombia	Netherlands	Ethiopia		
Jamaica	Japan	France	Panama	Uruguay		
Kenya	Pakistan	Italy	Philippines			
Netherlands	Peru	Paraguay	United States			
Republic of Ireland		Spain				
Rhodesia		Venezuela				
Singapore						
South Africa						
Trinidad and Tobago						
United Kingdom						

Source: Nair and Frank (1980: 431).

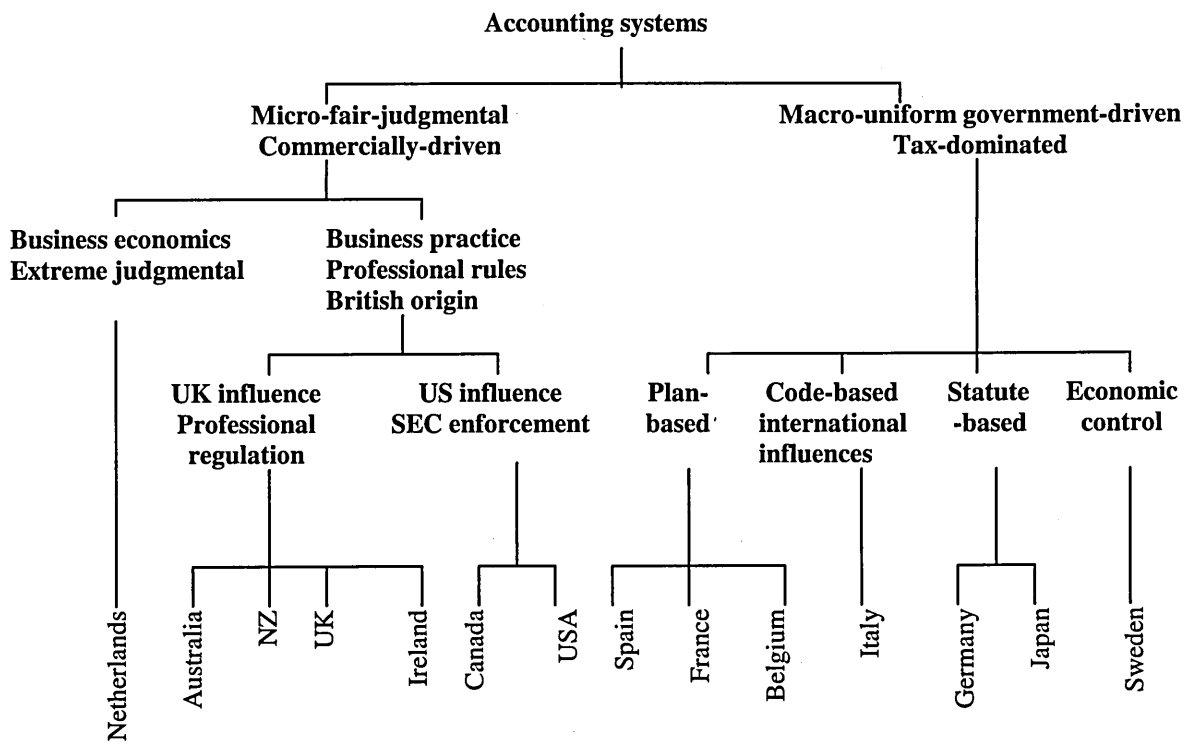
Using the 1975 Price Waterhouse data, which included eight new countries, Nair and Frank produced a five-group classification based on measurement practices and seven-group classification based on disclosure practices. A comparison between the measurement and disclosure groupings using the 1973 and 1975 data indicates that the overall composition and character of the group remained stable over time.

Nobes 1983:

Nobes (1983) criticised the data and methodology used in the above classifications as inadequate on the grounds that the data used contained errors and was not originally collected for classification purposes. He used accounting measurement practices rather than disclosure practices or business environment to classify accounting practices. Nobes' classification is illustrated in Figure 4.2. The classification, which takes into account only developed Western countries, contains a hierarchy feature that indicates the links between accounting systems in different countries. The classification helps to express the degree to which a country's accounting practices may belong to one group but show affiliations with another (Nobes, 1992). Although Nobes limited his classification to only fourteen countries, he suggested that other countries might be included. For instance, Singapore and Hong Kong might be considered under the UK influence.

The implication of this analysis on the Libyan companies' accounting system is to understand which countries affect the Libyan accounting system most and how relevant the current accounting system is in terms of providing the information needed at micro and macro levels. Libyan companies' accounting systems are likely to be government-driven and tax-dominated systems. Libya, being within Hofstede's Arab country classification, has high levels of power distance and uncertainty avoidance and is therefore expected to adopt a government-driven and/or tax-dominated accounting system. Although the Libyan accounting profession is not well developed (Bengharbia, 1989; El-Sharif, 1980; Selway, 2000), there is a belief that it has been influenced most by the UK and the US accounting systems (Kilani, 1988; Buzied, 1998). The UK and the US are individualistic societies with low levels of uncertainty avoidance whereas Libya is a collectivist society where levels of uncertainty avoidance are expected to be high. Therefore, it is expected that Libyan companies' accounting systems may not provide the information needed for macro purposes. Within Nobes classification, Libya is likely to be considered as influenced by two zones of influence: the British influence, which is to some extent commercially driven, and the macro based system, which is a government-driven and tax-dominated system.

Figure 4.2: Nobes classification of accounting systems in some developed countries.



Source: Nobes (1995: 71).

4.7- Conclusion:

The main conclusion of this chapter is that accounting disclosure literature based mainly on economic theories originated in liberal market economies. The application of these theories to understand accounting disclosure practices in other economic settings was questioned. Few empirical accounting disclosure-related studies have been conducted in developing countries. The transfer of developed countries' accounting systems and practices to developing countries was explored. The literature indicated that many developing countries used accounting systems and standards that originated and were developed in Western countries. These countries had different needs from those of developed countries and therefore needed different information to achieve these needs. The influence of culture on accounting development and accounting disclosure practices was explored. The link between culture dimensions and accounting subculture values was explained. Secrecy, as one of the accounting values, characterised accounting in developing countries. A number of studies have explored the international differences in accounting practices. The inductive and deductive approaches to accounting practices classification were discussed.

The next chapter will explain and describe the accountability process. The chapter explores the argument that accountability literature is mainly theoretical, Western, and based on economic theories and social theories with few empirical studies. The chapter discusses the role of information in the accountability process and the relationship between accountability and disclosure practices.

Chapter 5
The accountability process

5.0- Introduction:

The aim of this study is to understand accounting information disclosure policies and practices and accountability processes in the democratic socialist context of Libya. Chapters three and four reviewed accounting disclosure literature in both liberal market economies and developing countries. The two chapters concluded that accounting disclosure empirical studies have been conducted mainly in liberal market economies with few studies on developing countries and have been based mainly on economic theories.

The aim of this chapter is to define and describe the accountability process. The chapter argues that economic and social theories have been used to understand and explain accountability processes mainly in liberal market economies. A review of the available literature is provided to establish this understanding. The chapter also argues that the available accountability literature has explored the accountability process theoretically with few empirical studies. This chapter starts with a review of accountability definitions and reasons. The rationales for demanding and providing accounts are discussed. The chapter then introduces agency theory as a framework for exploring and explaining disclosure practices and accountability relationships. Different forms of accountability have been identified in the literature, some of which will be explained in this chapter. Sinclair's (1995) accountability forms - *political, public, managerial, professional* and *personal* – will be explored. The role of information in the accountability process and the relationship between accountability construction and disclosure practices will be described. Understanding the accountability process requires an understanding of the context within which accountability is constructed and discharged. Accountability contexts will be discussed. Then the chapter will discuss accountability forms that may exist within the Libyan context.

5.1- Accountability definitions and reasons:

Different definitions of accountability have been provided. To Garfinkel (1967: 1), the word accountable means "observable-and-reportable, *i.e.* available to members as situated practices of looking-and-telling." Gray et al (1987: 2) defined accountability as "the onus, requirement, or responsibility to provide an account (by no means necessarily a *financial* account) or reckoning of the actions for which one is held responsible." This definition links accountability with responsibility, where the former is established to ensure the latter. Jackson (1982: 220) provided another definition of accountability as it "involves explaining or justifying through the giving of information what has been done, what is currently being done and what is planned." Therefore, providing accounts may involve justifying ex post, current and ex ante events taken or to be taken by the accountable person or entity. These justifications may be based on, inter alia, economic, political, social, personal and legal reasons. Gibbins and Newton (1994: 166) defined accountability as "a relationship, driven by social, contractual, hierarchical, or other factors, between the source (i.e. the principal) and the accountable person (i.e. the agent) in which the latter has incentives to behave as the former wishes." In this definition, Gibbins and Newton presupposed the existence of a relationship between two or more parties for accountability to be constructed. Roberts and Scapens (1985: 447) defined accountability as "the giving and demanding of reasons for conduct." This definition involves the more powerful party demanding reasons and explanations for conduct from the less powerful party(ies). The above definitions of accountability have centred around providing explanations and justifications for the execution of responsibility entrusted to agents by principals.

The accountability literature has explained different reasons for accountability (e.g. Benston, 1982; Gray, 1992; Laughlin, 1990, 1996; Stanton, 1997). Benston (1982) argued that accountability is economically and publicly reasoned. He argued that corporations receive their permission to operate from a society in which they operate and therefore they are accountable to the society for their activities. The society at large has a right to information about the extent to which corporations have complied with regulations (Gray, 1992; Stanton, 1997). The economic reason for accountability, according to Benston, is based on the equity or fairness concept. Disclosure is seen as a mechanism that enhances equity and fairness concepts through providing information to the public (Gaa, 1986). The economic reason for accountability is also based on the notion of transfer of resources (Laughlin, 1990, 1996). Other reasons for accountability include, inter alia, cultural, social, political, legal and professional reasons (Berry et al, 2000). Within cultural and social aspects of accountability, reasons may be provided as a result of the accountable person's values and beliefs. These values and beliefs may differ within and between cultures and therefore accounts may differ consequently. Political and legal reasons for accountability are to some extent the result of power relations and self-interests. Accountability may depend on the notion of organisation identity constructed on political and ideological grounds (Panozzo, 1996). Professional reasons for accountability may be related to ethics and standards to which profession members are expected to adhere. These ethics and standards are either developed from within the profession or imported from other professions, institutions or even countries.

A distinction has been made between accountability and responsibility where accountability has been seen to encompass responsibility. Accountability is wider in its operation and scope than responsibility (Mulgan, 2000). In addition to accounting for how resources were being used, as an element in the responsibility process, accountability has the additional requirement of evaluating and demanding accounts for the level of performance (Parker and Gould, 1999). In this context, accountability rather than responsibility will be used to mean holding others to provide an account.

However, the question is to whom should organisations as legal constituents be held accountable? Benston (1982) delineated three possible groups to which organisations may be held accountable: shareholders; stakeholders (employees, customers, creditors and others with direct contractual or transactional relations with the organisations); and the general public. Therefore, organisations provide their information to these groups upon, inter alia, their accountability relationships. Stanton (1997) argued that most stakeholders do not in fact have a legal right to organisations' financial information but have the liberty of public access to that information. Macintosh (1999) summarised the 1930s' Berle-Dodd debate on organisations' accountability. Berle argued that firms are accountable solely to their shareholders whereas Dodd argued that firms are accountable to both their shareholders and the public. Furthermore, accountability relationships may exist within or outside organisations. Within an organisation, officers and employees are accountable for their actions to their respective supervisors. This accountability relationship is based on the organisational hierarchy of authorities and responsibilities (Ijiri, 1983). Organisations are also accountable to actors outside the organisation. The relationships between organisations and outside actors are governed by, inter alia, economic, legal and cultural aspects. Jackson (1982: 220) described the accountability setting as involving at least two parties where

> "one party is accountable to another in the sense that one of the parties has the right to call upon the other to give an account of his activities. Accountability involves, therefore, the giving of information."

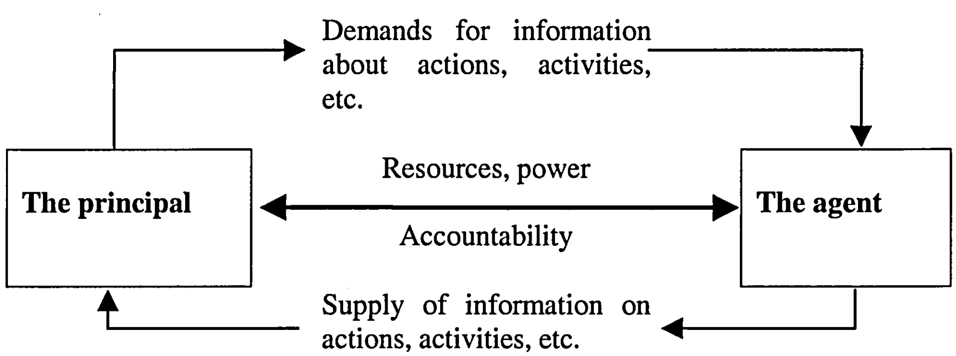
Gray (1992) suggested that accountability is concerned with the right to receive and the duty to supply information. The accountability relationship assumes that some individuals, groups or organisations have certain "rights," the legitimacy of which is questioned (Laughlin, 1996), to make demands and seek reasons over the conduct of other individuals, groups or organisations. Although these rights may be as diverse as natural rights, moral rights and social rights, economic and legal rights have dominated the accountability literature (Laughlin, 1990, 1996; Willmott, 1996; Stanton, 1997). The traditional Principal–Agent model, as this arrangement and agreement is known in economic analysis, is perhaps the most commonly recognised theory of accountability in formal business organisations. The theory's underlying assumptions and implications will be provided below.

5.2- Agency theory framework:

Agency theory has emerged in the last few decades in the financial economic literature (Jensen and Meckling, 1976; Baiman, 1982). Reviewing the origins and the developments of agency theory will provide an understanding of the theory's underpinnings and shortcomings. In the 1970s, researchers modified the neo-classical economic model on which management accounting conventional wisdom was built to introduce uncertainty and information costs into management accounting models. Furthermore, agency theory researchers added behavioural constraints to the economic model (Scapens, 1984). In management accounting literature, agency theory is usually concerned with the relationship between owners - as principals - and managers - as agents. Both the principal, who transfers resources (economic or non-economic) to the agent, and the agent, to whom resources are entrusted, are assumed to be rational decision-makers motivated by self-interest (Scapens, 1984). The separation between control and ownership is an underlying assumption of the agency model. The contractual (explicit or implicit) relationship that may exist between owners and managers is based on decision-making delegation where the former (the principal) delegates decision making authority to the latter (the agent). Therefore, if agents are to be accountable for their actions and if they are to carry out their control responsibilities, they require ready access to current information concerning what, when, and how things have transpired in their spheres of influence (Karake, 1992). The main contribution of the principal-agent model to managerial accounting research is that it provided a framework within which managerial accounting procedures may be viewed (Baiman, 1990). The use of the agency model in the areas of budgeting and variance investigation is an example of the use of this model in accounting research (Scapens, 1984). Further, the agency model has been used to explore the role of information, and accounting information in particular, in employment contracts (Scapens, 1991) and to explain theoretically voluntary disclosure and voluntary appointments of auditors (Morris, 1987). Hill and Jones (1992) explored the use of agency theory to explain the nature of the implicit and explicit contractual relationships that may exist between firms' stakeholders. Agency theory illuminates the contractual relationships between different actors within an organisation and between organisations and outside actors.

In the principal-agent model, the assumption is that the principal is the owner of the capital over which the agent has control and manages on behalf of the principal upon explicit or implicit contractual arrangements (Mayston, 1993). The principal demands certain actions from the agent and requires information that explains and justifies those actions. Therefore, there is a supply and demand relationship between the agent and the principal. Accounting information, inter alia, then becomes an important element through which explanations are given to the principal. Figure 5.1 shows the demand and supply of resources and information between the principal and the agent. However, the demand and supply of information could be reversed. The agent may require some information from the principal. Therefore, a reciprocal relationship may exist between the principal and the agent.

Figure 5.1: The supply and demand relationship in the agency model



Source: Laughlin (1996: 227).

Although the agency theory model assumes that all individuals (principals and agents) are motivated by self-interest, this does not preclude the existence of a common interest among agents and principals (Baiman, 1982). The theory assumes that agents are utility maximisers and, without control systems, are inclined to divert resources and efforts toward their goals rather than to serve the owners' interests (Jones and Dugdale, 1995). Broadbent et al (1996) argued that the solution to the principal-agent problem involves the development of an optimal incentive package that encourages agents to achieve the principal's objectives and constrains the actions of the agent. This involves the agent providing the principal with information that justifies and explains his past, current and future-oriented decisions. These justifications and explanations are the main elements in the accountability process. The next section will explore the role of information in agency relationships.

5.2.1- The role of information in the agency model:

Agency theory is concerned with the role of information in contracts to improve the efficiency and reduce the conflict between agents and principals. Scapens (1984) provided two purposes for agency theory framework in management accounting information. The first is to improve the principal's and/or the agent's ex ante (i.e. the expected state of the world) assessment of the environment in which decisions have to be taken. This is called the *belief revision* use of managerial accounting information. The second use, *performance evaluation*, is to evaluate the outcomes of decisions already taken, ex post.

Accountability involves incurring costs by the principal in developing ways by which agents' actions can be observed and verified. Jensen and Meckling (1976) defined the costs of the agency relationship (agency costs) as the sum of three components: monitoring costs, bonding costs and residual loss. Monitoring costs are expenditures by the principal to observe the agent's behaviour and to limit his/her opportunistic action. Bonding costs are expenditures that are paid by the agent to guarantee that he/she will not take actions that are harmful to the principal or to ensure that the principal will be compensated if such actions are taken. The residual loss is the divergence between the agent's actions and the principal's interests that may remain in spite of the principal's monitoring costs and the agent's bonding costs (Hill and Jones, 1992). The principal can limit divergences from his interest by establishing appropriate incentives for the agent and by incurring monitoring costs designed to limit the aberrant activities of the agent (Jensen and Meckling, 1976; Broadbent et al, 1996). The divergence between the principal's and the agent's interests and information needs may lead to information asymmetry to which we turn next.

5.2.2- Information asymmetry:

Asymmetrical information refers to important information to which an agent is privy. The existence of asymmetric information may provide incentives for agents to use their superior information to their personal advantage, which may result in making the principal worse off. The information available to managers (agents) and owners (principals) may differ. The difference in information sets between agents and principals may lead to the moral hazard problem and/or diverse selection.

The moral hazard problem:

Agency theory explores the problems that arise when information is unequally distributed and/or it is difficult to directly observe the agents' actions (Scapens, 1991). The moral hazard, or hidden action, problem occurs when the principal's information system cannot directly observe the agent's effort or perfectly infer it from an output measure (Scapens, 1991). The principal may not be able to observe the agent's inputs and efforts and therefore may not be able to reward him upon his/her effort. Basing contracts on imperfect motivational basis, due to the principal-agent conflict and motivational problems, may lead to the moral hazard problem (Baiman, 1982). The result is a loss of welfare for both agents and principals. The principal may suffer as a result of agent's shirking on inputs and effort. On the other hand, the agent may feel disadvantaged by sharing some of the risk for the output (Macintosh, 1994). The reduction in the agent's and the principal's welfare may be due to the conflict in the self-interested and co-operative behaviour. An agency problem arises if the co-operative behaviour, which is intended to maximise the group's welfare, is not consistent with the individual's self-interest (Baiman, 1990). The agent's self-interest behaviour may be different from the principal's self-interest. To maintain the agency relationship, both the agent and the principal are required to compromise their interests to the extent that they reach equilibrium. Dye (1985) argued that the moral hazard problem in the principal-agent situation is likely to occur where a firm's manager has, but does not release, information not held by other investors who know that the manager possesses private information, which if disclosed would alter the value of the firm. This leads to the second point in information asymmetry, the adverse selection problem.

The adverse selection problem:

The adverse selection, or hidden information, problem arises when the principal can observe the agent's action but does not know the information on which the agent's decision was based (Scapens, 1984). In this case, the divergence between the co-operative and self-interested behaviour may arise even if the principal can verify the effort spent by the agent. The principal may not be able to verify the agent's information which the agent uses to take his decisions. Therefore, "the principal cannot determine whether the observed input was the appropriate choice given the action rule that the principal wants the agent to use and given the agent's actual private information" (Baiman, 1982: 163). The principle of the adverse selection problem is illustrated in Akerlof's (1970) market for lemons scenario where low quality cars may be sold for the same price as good quality cars. In such markets, sellers may have incentives to market poor quality cars since buyers use some market statistics, which are based on information about both good and bad quality cars, to judge the quality of prospective purchases. The purchaser's main concern is to identify the quality of cars. In this context, the adverse selection problem may lead sellers of above average quality products to incur an opportunity loss because their products could sell at a higher price if buyers knew about the superior quality of their products (Morris, 1987). On the other hand, the adverse selection problem may benefit sellers of below average products who may make opportunity gains due to selling low quality products at higher prices (Morris, 1987).

5.2.3- Agency theory limitations:

Although agency theory is a helpful tool in explaining the principal-agent relationship, there are some limitations to it. Tiessen and Waterhouse (1983) highlighted four of these limitations: firstly, the model focuses on a single period behaviour. Secondly, there is a concern about the validity of utility maximisation behaviour. Thirdly, the model is generally limited to two-person analysis. Finally, hierarchical organisations may not be susceptible to analysis from a formal contracting point of view. Laughlin (1996) added two more limitations to the agency model. He argued that the principal's, and not the agent's, values are privileged and the model does not illustrate the accountability relationship of rebelling agents.

The focus on issues within a single-period agency model may suppress many other important and interesting problems. The results from a single-period analysis may not held in a multiple analysis. However, a number of studies (e.g. Baiman, 1982; Scapens, 1991) showed that the analyses of multi-period models are not quantitatively different from the results obtained from the single-period model. The utility maximisation assumption is also called into question since indications from behavioural research studies show that many individuals violate the assumption of rational decision making in their personal behaviour. The expansion of the agency model to incorporate more than two people is possible even though the results from a two-person analysis may not be necessarily extended to multiple principals and agents setting. Scapens (1984) believed that there is no conceptual reason why the two-person agency model should not be extended to incorporate more people. Rowlinson (1997) argued that there are likely to be multiple principals and agents in many agency relationships, each with heterogeneous interests. He went further by suggesting that it is likely that both parties will be both principal and agent with regard with different interests and activities. Laughlin (1990) concluded that there were a number of agents and principals in the Church of England. Establishing who is accountable for what and to whom in such situations is a difficult task. However, agency theory was used in this study from its social perspective as a point of departure to understand and explain disclosure practices and accountability processes within the study's context (Armstrong, 1991).

5.3- The dilemma of accountability:

Stewart (1984) suggested that accountability can be secured when two conditions are met: first, the agent is obliged to give an account of performance to the principal; and second, the principal is able to hold the agent to account. Therefore, accountability may require the capacity for the exercise of power to hold others to account through the provision of explanations and justifications. Roberts and Scapens (1985) argued that the accountability relationship is a dynamic interactive linguistic relationship. They believed that as the vocabulary of public accountability evolves, perceptions of what is possible and desirable in an accountability model is likely to change. However, accountability was described as being a continually socially constructed relation that has both moral and strategic dimensions (Roberts, 1991; Sinclair, 1995). The relationship between the accountor (who provides an account) and the accountee (who demands an account and to whom accounts are given) is governed and maintained through establishing a set of codes. A code of accountability was defined as "*a system of signals, meanings and customs which binds the principal and steward in the establishment, execution and adjudication of their relationship*" (Gray and Jenkins, 1993: 55, emphasis in original). Different codes may have different effects on the accountability process. Gray and Jenkins (1985) identified three codes of accountability: financial, professional and administrative. The problem of accountability is in identifying who is accountable for what and to whom.

The clarity in identifying the principal's objectives and the agent's responsibilities promotes the accountability relationship. Stewart (1984: 18) described this relationship as the *'bond of accountability'* which he defined as "a relationship of power between the point of account and the point ... to which the account is given." The bond of accountability can be defined by reference not only to the persons or institutions who are accountable and those to whom they are accountable to, but also to the activities that those persons and/or institutions are held accountable for (Stewart, 1984). However, agents may have a wider obligation to provide an account for their actions to a variety of parties.

The obligation to provide 'answers' or 'responses' is different from being held 'accountable' for actions. The former entails responsiveness action whereas the latter involves responsibility for actions taken. In its simplest form, the concept of accountability has been seen narrowly in terms of "answerability." The answerability concept of accountability is based on the idea that individuals and organisations may provide explanations and justifications for their actions but are not necessarily held responsible for these actions. Romzek and Dubnick (1987) believed that the answerability concept is too narrow to capture the *full reality* of accountability relationships. They argued that

> "accountability plays a greater role in the process of public administration than indicated by the idea of answerability...More broadly conceived, *public administration accountability involves the means by which public agencies and their workers manage the diverse expectations generated within and outside the organisation.*" p 228 (emphasis in the original)

The confusion in bonds of accountability may lead to the diffusion of accountability (Stewart, 1984; Mulgan, 2000). Stewart (1984: 25) stressed this point by arguing that

> "[m]ultiple links of account should not be allowed to create multiple bonds of accountability because that will defuse responsibility."

Established structures of power relations may delineate the source, audience and bonds of accountability and reduce the likelihood of accountability diffusion. The next section will highlight the main accountability forms identified in the accountability literature.

5.4- Accountability forms:

Accountability literature has been mainly Western/Euro centric and based on economic and social theories. Table 5.1 summarises the objectives, findings, methodologies and methods of some accountability studies. Accountability forms that were identified in the literature ranged from hierarchical to lateral (Willmott, 1996), communal to contractual (Laughlin, 1996), formal to informal (Roberts and Scapens, 1985) and individualised to socialised accountability forms (Roberts, 1991, 1996). Accountability forms were also described as political, public, managerial, personal and professional (Sinclair, 1995). Particularistic and universalistic accountability relationships were described (Jonsson, 1996). A brief explanation of these and other forms of accountability will be provided next.

Table 5.1: Summary of some accountability studies.

Author(s)	Objectives and conclusion	Epistemology /methodology	Research method
Ahrens 1996	The study was based on observations made in British and German organisations. The study concluded that British managers focused more on financial accountability whereas their German counterparts focused on operational accountability.	Interpretive.	Case studies based on interviews in two countries.
Benston 1982	The study examined analytically the rationale for and techniques of social responsibility accounting. It concluded that shareholders, employees, customers and creditors are served by the accounting procedures voluntarily adopted by corporate managers.	Subjective.	Theoretical.
Broadbent et al 1999	The study compared accountability in schools in the UK and New Zealand. The study concluded that performance evaluation in the UK is individualised whereas in New Zealand an organisational focus is retained.	Interpretive.	Comparative case studies.

Author(s)	Objectives and conclusion	Epistemology /methodology	Research method
Broadbent et al 1996	The study raised questions about accountability relationships in the UK public sector. It concluded that the introduction of economic contracts in the caring professions would lead to value clashes.	Subjective.	Theoretical and draws on critical analysis of the application of Principal-Agent model in the UK's public sector.
Carnaghan et al 1996	Carnaghan et al explored the interplay between accountability pressures and disclosures. They showed that disclosures are influenced by accountability relationships.	Socio-psychological perspective.	Theoretical.
Gibbins & Newton 1994	The study explored the behaviour of accountants in public accounting settings under the force of accountability. It concluded that the accountable person experienced pressure to comply with the position of various sources and at the same time had a personal position on the issue.	Functionalist.	Questionnaires distributed to 37 public accounting firms.
Glynn & Perkins 1997	The study questioned the relationship of strategic management to local accountability. It found that purchaser accountability was introduced and managerial accountability has replaced disciplinary accountability.	Interpretive.	Theoretical with analysis of the NHS.
Laughlin 1996	Laughlin explored accountability rights, their legitimacy and the possibility of alternative rights in the caring professions. He concluded that the demands of 'higher principals' predominated the demands of economic 'principals'.	Interpretive.	Draws on empirical work of two previous studies.
Laughlin 1990	The study sought to understand accountability practices in the Church of England. It concluded that context and structure play an important part in accountability.	Interpretive.	Case study of the Church of England based on analysing its financial arrangements.
Mayston 1993	The study argued that current reforms in the UK public sector towards the private sector would result in residual loss due to the problems of securing both accountability and efficiency. It concluded that economic and political reasons were behind the recent reforms in the public sector.	Subjective.	Theoretical based on the use of Principal-Agent model.
McSweeney 1996	The study argued for a richer explanation of the introduction of the Financial Management Initiative. It concluded that the "analysis of management-policy changes must consider the locally situated and historically constituted narrative environments." (P 218)	Interpretive.	Theoretical.

Author(s)	Objectives and conclusion	Epistemology /methodology	Research method
Mulgan 2000	The study analysed extensions in the meanings of accountability beyond the external focus of being called to account. It concluded that the extension of accountability beyond its traditional focus has little support outside the academic community.	Subjective.	Theoretical.
O'Loughlin 1990	The study addressed issues related to accountability in bureaucratic context and accountability relationships between agencies and outside actors. It proposed three categories for accountability: weak, sporadic and strong.	Normative.	Theoretical followed by a case study.
Parker & Gould 1999	The study examined the traditional and emerging notions of accountability within the public sector. It concluded that accountability "has been subject to the domination of the accounting discipline." (P 130)	Interpretive.	Theoretical based on institutional and structuration theory perspectives.
Roberts 1996	The study argued for bringing the instrumental and moral dimensions of accountability back into relation with each other. It showed a moral and strategic split in contemporary forms of organisational accountability.	Interpretive.	Theoretical. Social construction.
Roberts 1991	The purpose of the study was to extend the critique of accounting through exploring the concept of accountability. It proposed two forms of accountability; individualised and socialised forms.	Interpretive.	Theoretical. Social construction.
Roberts & Scapens 1985	The study presented a framework for analysing accountability. It distinguished between accountability relationships characterised by regular face to face contacts with forms of accountability characterised by physical distance.	Subjective.	Theoretical. Giddens structuration theory.
Romzek & Dubnick 1987	The purpose of the study was to explain institutional factors that might have contributed to the Challenger disaster. The study concluded that the pursuit of political and bureaucratic accountability distract from professional standards and mechanisms of accountability.	Interpretive.	Case study based on analysing historical and publicly available data.
Sinclair 1995	The study explored accountability in the Australian public sector. It proposed five forms of accountability: public, political, personal, professional and managerial.	Interpretive.	Case study based on interviews with CEO of Australian government agencies.

Author(s)	Objectives and conclusion	Epistemology /methodology	Research method
Stewart 1984	The study explored the role of information in public accountability. It proposed accountability bases in terms of a ladder; probity and legality, process, performance, programme and policy basis.	Subjective.	Theoretical.
Willmott 1996	The study reflects on accountability as a universal and historical property of social relations. It asserted that formal accountability systems are embedded in established frameworks of accountability.	Ethnomethod ology.	Theoretical. Social theory.

A distinction was made between hierarchical and lateral forms of accountability (Roberts, 1991, 1996; Willmott, 1996). Hierarchical forms of accountability involve subordinates to provide explanations and justifications for their actions to their superiors whereas lateral forms of accountability may involve a reciprocal accountability relationship between the accountor and the accountee. Roberts (1991, 1996) argued that hierarchical forms of accountability serve to produce and reproduce an individualised sense of self, a sense of the self as essentially solitary and singular, nervously preoccupied with how one is seen. These effects are contrasted with what Roberts described as socialising forms of accountability which flourish in the informal spaces of organisations, and which confirm self in a way that emphasises the interdependence of self and others. Therefore, there are alternative forms of accountability within the routines of organisational life "which confirm self but in a way which acknowledges the interdependence of self and other" (Roberts, 1991: 356). The involvement in making and giving accounts to others, and ourselves, about who we are, what we are doing, etc., which was described as the universal aspect of accountability, is a condition of our participation in any social world (Willmott, 1996). "The universal aspect of accountability enables our experience in the world to be rendered intelligible to others and to ourselves" (Ibid.: 23). However, universal processes of accountability do not float free of historically and culturally distinctive frameworks of accountability. The process of providing accounts is often constructed "within historically specific, and often discordant, frameworks of accountability" (Willmott, 1996: 23). These frameworks may involve providing accounts to particular groups or institutions. Particularistic accountability relationships relate to institutionalised obligations to kinship and friendship while universalistic accountability relationships orient to institutionalised obligations to society (Jonsson, 1996). The influence of the context within which accounts are demanded and provided on accountability forms is identified (Roberts and Scapens, 1985). In the face-to-face accountability relationship context, explanations given and interpretations made, on the basis of accounting or other information, can be questioned or challenged. Accountability construction and providing accounts is different in the case of more distanced forms of accountability which may involve either infrequent formal face-to-face contact, or a complete absence of direct personal contact (Roberts and Scapens, 1985).

Bovens (1998) distinguished between organisation's accountability and individuals' accountability. At the organisation level, Bovens introduced four forms of accountability: corporate, hierarchical, collective and individual. Corporate accountability stems from treating organisations as natural individuals and addressing them accordingly. Therefore, organisations are held accountable on their actions regardless of who has contributed to or initiated an action. Hierarchical accountability is holding individuals at the top levels of an organisation liable for its conduct. Collective accountability refers to holding every member of an organisation responsible for its conduct. Individual accountability refers to holding individual members within an organisation to account for their actions. The last three forms of accountability were considered by Bovens as forms of personal accountability. Bovens (1998) provided five conceptions of accountability at the individual level: hierarchical, personal, social, professional and civic. The emphasis in the hierarchical conception is on strict loyalty to superiors and orders. In the personal conception, personal ethics and loyalty to one's own conscience are the fore. The social conception of accountability emphasises loyalty to peers and social norms. Loyalty to one's profession and professional ethics are the core for the professional conception. The civic conception, similar to Sinclair's (1995) public accountability (which will be discussed below), emphasises loyalty to citizens and civic values.

Ritchie and Richardson (2000), in their study of a small private organisation in the UK, distinguished vertical/hierarchical "rule"-based accountabilities from horizontal "relational"-based accountabilities. They proposed four types of accountability: mandatory/codified, contingent/bounded, compliant/assumed and collateral/reciprocal.

Romzek and Dubnick (1987) identified four systems of accountability, in their analyses of NASA's Challenger tragedy in 1986: bureaucratic, legal, professional and political.

> "Under the bureaucratic system, expectations are managed through a hierarchical arrangement based on supervisory relationships; the legal accountability system manages agency expectations through a contractual relationship; the professional system relies on deference to expertise; while the political accountability system promotes responsiveness to constituents as the central means of managing the multiple expectations." (Romzek and Dubnick, 1987: 230)

Sinclair (1995) used the narratives of Chief Executives in the Australian public sector to illustrate different forms of accountability: political, public, managerial, professional and personal. These forms of accountability emerged from the analyses of semi-structured interviews with fifteen Chief Executives of Australian public organisations. Content analyses and discourse analyses approaches were used to analyse the interviews. The following is an outline of accountability forms that were proposed by Sinclair in the Australian public sector.

Political accountability:

"The concept of political accountability stems from Athenian democratic and Westminster traditions of vesting responsibility in the public servant" (Sinclair, 1995: 225). Political accountability is seen as a "direct line or chain of accountability links the public servant with the Permanent Head, in turn accountable to the minister, to the executive or cabinet, to parliament and hence to the electors" (Ibid.: 225). Political accountability is to judge the performance of those in political office and to apply sanctions where necessary (Jackson, 1982). It also refers to the accountability relationship between those in political power and those who are not. Within political accountability, direct accountability relationships link employees to their managers who are in turn accountable to their corresponding Secretaries (Ministries) and to the public. The concept of political accountability, in this sense, is based on the division between political and administrative affairs. The clarity in defining the scope of politicians' and administrators' zones of activity is what Stewart (1984) described as the bond of accountability. Given an account is to some extent a political act as "it either confirms or unsettles whatever happens to be taken for granted as the world of normal appearances" (Willmott, 1996: 28). O'Loughlin (1990) saw political accountability systems, in terms of emphasising the traditional understanding of accountability, as involving the responsiveness relationship between the agency and the outside actors, including political officials, interest groups, etc.

Public accountability:

This form of accountability is understood as a more informal but direct accountability to the general public, interested community groups and individuals (Thynne and Goldring, 1987). Public accountability derives from the approval given to corporations by the community in which they operate. It is based upon the view that individuals and corporations receive their permission to operate from the society and therefore are ultimately accountable to the society for what they do and why they do it (Benston, 1982; Stanton, 1997). "Public accountability involves answering, through various mechanisms from newspaper reports to hearings, public concerns about administrative activity" (Sinclair, 1995: 226).

Managerial accountability:

The managerial, bureaucratic, system of accountability is "the Weberian legitimate authority model which operates to insure the stability of the hierarchical relationship between managerial superiors and subordinates" (O'Loughlin, 1990: 279). Subordinates are expected to follow orders from their superiors. Managerial accountability arises "by virtue of a person's location within a hierarchy in which a superior calls to account a subordinate for the performance of delegated duties" (Sinclair, 1995: 227). It relies on methods available to the accountor and the accountee. These may include close supervision, rules and regulation (Romzek and Dubnick, 1987).

Professional accountability:

"Professional accountability invokes the sense of duty that one has as a member of a professional or expert group, which in turn occupies a privileged and knowledgeable position in society" (Sinclair, 1995: 229). Professional accountability values expertise and professional integrity (Sinclair, 1995). Professional accountability systems emphasise internal control of agency action and particularly deference to the discretionary decision making power of the experts in the agency. It emphasises power and control in the hands of the expert employees, with both the supervisory managers and outside actors trusting those experts and giving them autonomy to make independent and important decisions (Romzek and Dubnick, 1987).

Personal accountability:

Personal accountability is fidelity to personal conscience in basic values as respect for human dignity and activity in a manner that accepts responsibility for affecting the lives of others (Harmon and Mayer, 1986). It rests on the belief that accountability is ultimately driven by adherence to internalised moral and ethical values and beliefs. It is enforced through psychological, rather than external, controls. It can also be reinforced and/or undermined by an organisational culture (Sinclair, 1995).

In the managerial, political, public and professional accountability forms, the source of control originates from either the setting itself or outside sources. For personal forms of accountability, the source of control comes from within the self but is managed, affected or influenced by culture, religion, values and beliefs which are either internal or external sources. Internal sources of control rest on the formal hierarchical structures and the informal social relationships within the setting. External sources involve the formal structures established by laws and the informal exercise of power by interests located outside the setting (Romzek and Dubnick, 1987). Mulgan (2000) argued that Sinclair's personal and professional accountability forms were introduced by the researcher rather than being volunteered by respondents. Further, he argued that "personal and professional values are hard to separate, as is clearly evident from the way in which codes of professional ethics typically refer to general values such as honesty, fairness and justice, as well as to standards specific to the profession in question" (Ibid: 560). However, the above forms of accountability are not mutually exclusive but they are practically interwoven and may complement each other.

O'Loughlin (1990) offered three dimensions to be examined to understand accountability relationships between bureaucratic agencies and other organisations. Firstly, there is the quality of communication systems through which explanations and justifications of actions and decisions to outside actors occur, secondly, the influence of outside actors over bureaucratic decision making, and finally discretionary and non-discretionary spheres of decision-making. The use of Habermas' notion of dialogue in his theory of communicative action may help in illuminating accountability construction and relationships. Habermas' communicative rationality involves, similar to the notion of accountability, providing reasons for one's beliefs or actions (Wright, 1994). These reasons are provided through a system of communication. The quality, quantity and timeliness of information communicated are important factors to evaluate communication systems. The channels through which explanations and justifications are provided may affect the interpretations of the information provided (Carnaghan et al, 1996). Outsiders' influence on organisations' decision making processes is an important factor in understanding accountability relationships. The greater the influence the more likely that organisations will make decisions that may not represent the best alternative available to it at the time. This will affect accountability relationship since organisations may not feel accountable for actions and decisions that are outside of their control. O'Loughlin (1990) argued that accountability exists only when outside actors have the power to influence decisions. The pressure exerted on the accountable person or entity is discussed next.

5.5- Accountability pressure, base and mode:

Carnaghan et al (1996) described four types of accountability pressures corporations may face: legal responsibility to owners and employees; economic influence from capital and product markets; social influence of politicians and environmentalist; and, the influence of peers in the relevant profession. Legal influence originates from agents' responsibilities toward owners and other stakeholders to provide an account for their conduct. Economic influence is generated from capital and product markets where information exchange and resource allocation take place. Politicians, environmentalists and peer groups are other sources of influence that affect agents and may force them to provide an account for their conduct to their principals or other parties. These influences could affect managers' disclosure decisions either to meet legal requirements, to secure a place in a market and/or to satisfy social, environmental and professional needs.

The responses to accountability pressures depend on the management's capability to meet stakeholders' pressures and on the management's confidence about what is required to meet those pressures. The demand on agents to provide an account for their actions may result in different kinds of actions or responses. Responses to accountability pressure that are expected from corporations may include defensiveness, justification, effort to determine stakeholders' expectations and act upon them, persuasion of accountability sources to change their expectations, and avoidance of action (Carnaghan et al, 1996). Gibbins and Newton (1994), in their analysis of accountability relationships in public accounting setting, predicted a number of responses by agents to accountability situations. These range from direct actions to delays. Action responses include routine action, uninformed compliance, grudging compliance, adjusted compliance, defensive non-compliance, and non-defensive non-compliance. Delay responses include persuasion/compromise, self-discovery, external discovery, and self-support. The source of accountability may seek explanations and justifications within different bases of accountability.

Stewart (1984) described five bases of accountability and believed that these alternative bases can be set out as a *ladder of accountability*. These bases of accountability are probity and legality, process, performance, programme and policy.

> "Accountability for probity is concerned with the avoidance of malfeasance. It ensures that funds are used properly and in the manner authorised. Accountability for legality is concerned with ensuring that the powers given by the law are not exceeded ... performance accountability concerned with whether a performance achieved meets required standards...programme accountability ... is designed to establish whether a particular agency is meeting its objectives." (Stewart, 1984: 16-17)

Process accountability is concerned with "ensuring adequate procedures and efficiency" whereas policy accountability is concerned with the objectives and goals an entity tries to achieve (Goddard and Powell, 1992: 4). The focus of each of these accountability bases is different but these bases are interdependent. However, Stewart (1984), in this framework to analyse public accountability, argued that accounts should be provided on all levels of the ladder. At higher levels of the accountability ladder and towards policy accountability, the concern will be more on qualitative rather than quantitative and on strategic rather than operational information (Goddard and Powell, 1992). Stewart (1984) explained how the ladder of accountability works in a public audit setting. At lower levels of the ladder (i.e. accountability for probity and legality), an auditor can apply rules and standards (e.g. accounting standards) that already exist about the probity and legality of actions taken by the audited entity. Therefore, the principal can apply methods and criteria to evaluate the agent's action and to determine the agent's level of accountability. As one ascends the ladder towards policy accountability, the roles of public audit become more restricted due to the ambiguity in which policies are often formulated.

Three modes of accountability bases are possible: hierarchical accountability; reciprocal accountability; and mutual accountability. Agents are accountable for their actions to the principal in the hierarchical form, which has been referred to sometimes as an *upward* form of accountability (Sinclair, 1995). In the reciprocal form of accountability, not only are agents accountable to the principal for their conduct but the principal is also accountable to the agent for some of his/her actions. The third form of accountability – mutual accountability – is where agents and principals share the responsibility for their actions. Establishing mutual accountability relationships between principals and agents involves producing and reproducing socially constructed accounts. The joint accountability of the principal and the agent may either improve or diffuse the bond of accountability. It improves accountability relationships in situations where the duties and obligations of principals and agents are clearly defined. The diffusion of accountability occurs where these duties and obligations are not clearly defined and/or highly interrelated.

Depending on the mode and basis of accountability and accountability pressure, companies may adopt different degrees of openness that range from full to limited disclosures. Full (comprehensive) disclosure is attained when companies disclose all available information to the public (Belkaoui, 1981) whereas limited disclosure occurs when companies choose only to disclose part of the available information to some stakeholders either to meet legal requirements or to satisfy their needs and/or their stakeholders' needs. The degree of disclosure may affect managers' decisions about disclosure channels through which information is transferred to stakeholders. Companies may choose to provide their information to individuals, groups or the general public. Managers' attitudes, regulation and rules may affect these decisions. Managers' cognition, which is based on their values and beliefs and affected by culture, may determine the way they view and deal with disclosure and accountability. This influences the extent to which managers provide information about their planning, policy, performance and financial decisions and results.

5.6- The role of information in accountability process:

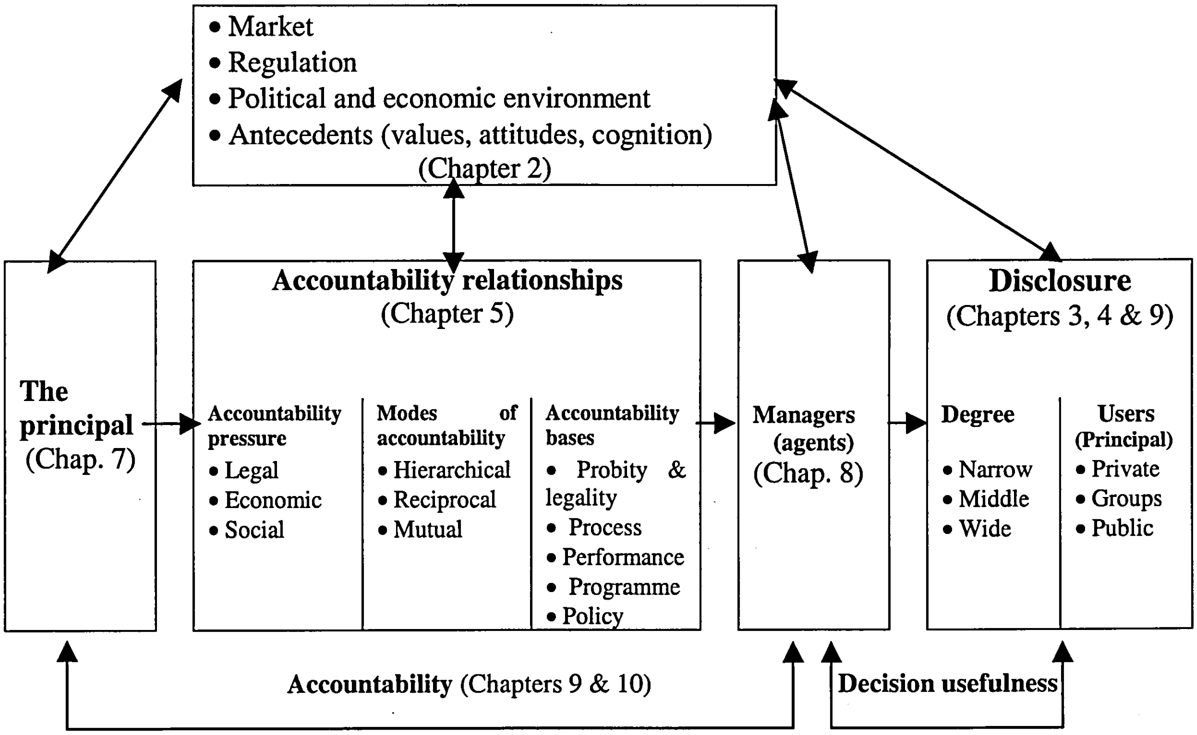
Although financial information is important in an accountability relationship, it is only one component of a wider information set that is needed to establish an effective accountability relationship. Stewart (1984) pointed out that the role of information in accountability lies in forming the raw material for the account. He went further by describing information as a source of power. This power is used by the principal to make judgements about the agent's efforts. However, the power of financial information becomes less influential as the ladder of accountability is mounted. In addition, the language of account varies across the ladder of accountability.

> "In accounting for financial probity the language of the accountant is sufficient, but for other bases of accountability, other languages are required. For performance accountability output data must be added to financial data; for programme

> accountability the language of objectives becomes critical; and for policy accountability, a range of languages becomes important...The requirements of policy accounts are less recognised, precisely because those requirements are not normally stated in language seen as meaningful by accountants." (Stewart, 1984: 31)

Accountability provides a basis for disclosing information needed for assessing current and expected performance as well as for reporting on the past (Rosenfield, 1974). Some firms, for instance, may choose to disclose as little information as possible to specific groups about its performance just to meet legal requirements. Other firms may make their policy and performance known to the public not only to meet legal requirements and market pressure but also to fulfil their social responsibilities. Figure 5.2 illustrates how managers being affected by their environments may react to different accountability pressures, modes and bases by providing information into different forms to different groups. The Figure also summarises the structure of the thesis. The wide (full) type of disclosure may include, inter alia, disclosing a company's annual report, social responsibilities, environment responsibilities, employees report, planning and health and safety reports. The narrow (limited) view of disclosure is adopted by companies to provide information solely to meet legal requirements and companies' self-interests. This limited disclosure policy may lead to information asymmetry (Scapens, 1984). Providing accounts serves to reduce information asymmetry between the accountor and the accountee thereby preventing or eliminating the accountor's cheating practices by the better informed accountee (Parker and Gould, 1999). The process of demanding and providing accounts is influenced by the context within which these accounts are demanded and provided.

Figure 5.2: Accountability and disclosure



5.7- Accountability context:

The accountability context within which accounts are required and provided may influence the structure and focus of these accounts. Accountability context may contain both formal and informal relationships within a communal or contractual framework. A brief discussion of communal and contractual accountability is provided next.

5.7.1- Communal and contractual accountability:

The construction of accountability depends to some extent on the context within which it is constructed and discharged. The context of the accountability relationship is described as 'communal' and 'contractual.'

> "The 'communal' context encompasses a less formal set of accountability relationships where expectations over conduct, and information demand and supply, are less structured and defined ... The 'contractual' context, on the other hand, encompasses a much more formal set of accountability relationships where action expectations and information demand and supply are tightly defined and clearly specified." (Laughlin, 1996: 229)

In a contractual form of accountability, the principal expectations are more formalised and therefore agents are accountable in meeting those specific pre-determined expectations. Whilst in a communal context, the absence of rigid definition of the principal objectives may lead to a conflict in interpreting those objectives by the principal and the agent. This may lead to the diffusion of accountability and/or the status of trust. In situations where low trust exists, the principal may exert greater pressure and control over the behaviour of the agent. Whenever the agent deviates, consciously or inadvertently, from the requirements of the principal, the lack of trust makes it more likely that the agent will conceal or dissemble this deviance or communicate variances in a highly elective and partial way (Willmott, 1996). Laughlin (1996) concluded that communal accountability – wide mutuality - is the norm in the Church of England practice where high levels of trust exist which may lessen the need for contractual accountability relationships. In contrast, he showed that contractual accountability relationships exist in the UK's caring professions whereby process, performance, programme and policy become defined through the expectations of the principal. Laughlin et al (1992), in the UK's General Practice context, concluded that agents (i.e. the GPs) were obliged to perform certain functions in return for definable rewards whereas the principal, the Family Health Service Authorities in this case, required accountability information on actions and activities undertaken by the agent. They argued, within this context, that the UK Government is trying to institute a 'hierarchical' form of accountability. Levels of trust between the accountor and the accountee may determine whether communal accountability, contractual accountability or a combination of the two serve the accountor's and the accountee's interests. The influence of trust on accountability relationships will be discussed next.

5.7.2- Trust and accountability:

The notion of trust and its influence on accountability relationships is an important issue where the focus on one or more of accountability forms may depend on the level of trust between the accountor and the accountee. Laughlin (1996) argued that the level of trust between the principal and the agent determines the accountability context. When high levels of trust exist, which lead the agent to fulfil the expectations of the principal, sophisticated and formal controls are seen to be unnecessary. The communal context of accountability is most likely to exist in this case. On the other hand, low levels of trust may involve the principal to exert greater control over the agent. Therefore, the contractual context of accountability is deemed to be necessary to satisfy the principal supply and demand needs over the agent's actions. The potential conflict between the agent and the principal is another factor that determines accountability relationships (Laughlin, 1996). The agent and the principal may have different objectives, needs and values. The conflict between the agent's and the principal's objectives, needs and values may lead to the implementation of a contractual relationship between the involved parties.

> "value conflict will be more apparent in conditions when low levels of trust exist between 'principals' and 'agents' and when more sophisticated control systems are in place...where high levels of trust, and when looser control systems are in operation, then the potential for value conflict becoming explicit is less." (Laughlin, 1996: 230)

The result of value conflict and low levels of trust between the accountor and the accountee may lead to the initiation of formal rules, compliance procedures and standard operating practices that structure the relationship between the two parties within the context in which they operate. The source of accountability may determine how and when accounts are to be provided. Regulating information disclosure practices is an example of the establishment of formal rules, procedures and standards which may differ between cultures.

To understand disclosure and accountability practices in the Libyan context, Sinclair's (1995) forms of accountability were considered. The next section will provide an outlook of accountability forms that may exist in the Libyan context.

5.8- Sinclair's accountability forms in the Libyan context:

To explore accountability relationships in the Libyan public sector, O'Loughlin's communication systems and the outsider's influence accountability dimensions and Sinclair's (1995) forms of accountability were taken as points of reference. O'Loughlin (1990), Romzek and Dubnick (1987), Sinclair (1995), among others, developed theoretically and illustrated empirically accountability forms in the public sector within liberal market economics. This study attempted to identify accountability forms that exist in the Libyan public sector and to what extent that Sinclair's forms of accountability exist. Explanations will be provided for the reason(s) for the differences and similarities between accountability forms in liberal market economics (i.e. Australia) and the Arab socialism economics (i.e. Libya). Similar to Broadbent et al (1996) who applied the agency model to the UK's public sector to understand accountability relationships, this study adopted the Principal-Agent framework to understand disclosure practices and accountability processes within the Libyan public sector context. Agency theory was used in the current study from the social science perspective as a point of reference to guide the research rather than from the economic perspective of the theory (Armstrong, 1991). The theory was used here as a point of departure in explaining and understanding disclosure practices and accountability relationships. The reason for considering agency theory is that the relationship between the study's main participants - the Secretary of Industry and the National Trailers Company (See Chapter 6) - may be envisaged to some extent as a principal-agent relationship. This relationship involves demanding (accountability) and providing information and accounts (disclosure), the study's main issues, which could be explained through the use of agency concept (Armstrong, 1991; Tornqvist, 1999).

Decision usefulness theory was considered as a framework for this study but disregarded latter on due to its limitations. One of the decision usefulness approach limitations is that it presumes that users of accounting information make rational decisions (Page, 1991). Simon (1976) argued that decision-makers can only attain limited rationality since perfect rationality is not attainable due to limited and imperfect knowledge. Another limitation to the decision usefulness approach is related to its potential conflict with the accountability and stewardship functions of corporate reporting (Abu-Baker, 1995). Ijiri (1983) distinguished between decision-based and accountability-based conceptual frameworks. He stated that

> "In a decision-based framework, the objective of accounting is to provide information useful for economic decisions...In an accountability framework, the objective of accounting is to provide a fair system of information flow between the accountor and accountee." p 75

For the above reasons, decision usefulness theory was not adopted as a framework for this study.

With regard to the Libyan context, accountability relationships within and between public sector organisations may determine the quantity, the timeliness and the quality of information provided. Understanding accountability relationships is important in understanding disclosure practices in such a context. Four components of this relationship were to be considered: the accountee, the accountor, the interaction between them and the response to being held accountable (Gibbins and Newton, 1994). The focus was to be on evaluating the quality of the communication systems through exploring the information quality, quantity and timeliness. Moreover, the outsider's influence was to be investigated through examining firstly the interaction patterns between public sector organisations, and secondly, the extent to which and the frequency of the use of sanctions and/or incentives to influence decisions. However, the prior expectation of this study was that information disclosure practices in the socialist context of Libya are different from disclosure practices identified in the literature within liberal market economies. It was expected that a company within such context would disclose financial information more often upon request.

5.9- Conclusion:

The chapter provided a review of accountability literature which has been mainly Western and theoretical with few empirical studies. The chapter argued that social and cultural reasons of accountability ought to be considered in order to understand the accountability process. Accountability and disclosure practices can be seen, to some extent, as related and complement each other. Providing an account in terms of disclosing information within or outside a firm depended, among other things, on the type of accountability – internal or external – and the source of account. Agency theory was proposed as a framework to guide this study to achieve its objectives as to the understanding of accountability relationships and disclosure practices within the Libyan socialist context. These relationships were influenced by social, economic and political environments. Different forms of accountability and the role of information in the accountability process were described. The chapter discussed Sinclair's forms of accountability and the extent to which these or other forms may exist within the Libyan context.

Understanding disclosure practices and accountability processes in the Libyan context involves obtaining empirical data from and about Libyan public sector organisations. Collecting and analysing data requires adopting a research strategy. The next chapter will explain research methodologies and methods available in the literature to conduct such a study and the research methodology and method(s) adopted for this study.

Chapter 6

Research purpose, methodology and methods

6.0- Introduction:

Chapters three, four and five supported the argument that most accounting disclosure and accountability studies have been theoretical and based on economic theories with few empirical studies. The empirical studies have been conducted mostly in liberal market economies with few studies on developing countries. These studies were mainly functionalist studies based on surveys and statistical analysis.

The aim of this chapter is to provide an outline of the research purpose, methodology and methods. This chapter argues for emphasising the subjective nature of the social world through interpretation. The chapter starts by highlighting the purpose of the study and the rationales for choosing Libya as a research setting. Research ontology, epistemology, human nature and methodological assumptions and their implications on research methodological and methodical choices are discussed. The chapter then defines and distinguishes between positivism, phenomenology, qualitative and quantitative research methodologies. Then, Burrell and Morgan's (1979) framework for social research is explored followed by a discussion of Laughlin's (1995) middle-range methodology. The study's adopted methodology and methods and the rationale for these choices are presented. The data collection process and the fieldwork plan are outlined.

6.1- The purpose of the study:

The aim of this study is to understand accounting information disclosure policies and practices and accountability processes in a democratic socialist context of Libya. The relationship between accountability and disclosure processes will be explored. Disclosure is seen as one of the managerial devices for satisfying accountability pressure (Carnaghan et al, 1996). Thus, understanding accountability relationships may facilitate understanding disclosure policies and practices in such context. To achieve this understanding, empirical data was collected from, among others, a Libyan company – the National Trailers Company – and the Secretary of Industry. The reasons and justifications for choosing these two cases are provided later in the chapter. However, most of the previous disclosure and accountability related studies, theoretical and empirical, have been devoted to liberal market settings (e.g. Buzby, 1975; Penman, 1980; Inchausti, 1997; Dye, 1990; Sinclair, 1995; Ahrens, 1996; Botosan, 1997; Emmanuel et al, 1999; Parker and Gould, 1999) with few studies on developing countries (e.g. Jones and Sefiane, 1992; Kantor et al, 1995; Abu-Nassar and Rutherford, 1996) (See Table 3.1, pp 46-50; Table 4.1, p 67; Table 5.1, pp 96-9). Economically driven theories have been used to explain and understand disclosure and accountability processes in most of this literature (Watts and Zimmerman, 1986; Hill and Jones, 1992; Buhr, 1998; Watts, 1977; Jensen and Meckling, 1976; Baiman, 1982; Mayston, 1993; Laughlin, 1996; Arya et al, 1997). The focus of these theories is on economic variables in explaining disclosure and accountability processes rather than social and cultural variables and their influence on disclosure and accountability processes (See Chapters 3 and 5). This may provide only partial explanation to and understanding of these processes. Social theories provide an alternative to explain disclosure and accountability processes that take into consideration the role and the influence of values, beliefs and other cultural and social variables in these processes. Social theories include new institution theory, social construction theory and Giddens' structuration theory (Berger and Luckmann, 1967; Scott, 1995; Giddens, 1979).

The similarities and differences in disclosure and accountability relations within different economic and cultural settings may help in providing a basis for understanding disclosure practices and accountability relationships. There is a gap in the literature in relation to disclosure as one of the managerial devices for satisfying accountability pressures in socialist economies in general and in the Arab socialist context in particular. Theoretically and empirically, the literature is relatively poor regarding studies that explain why, when and how firms in a socialist economy disclose their private information, and what these firms disclose. The purpose and users of accounting information under such systems are not understood. This study aims to contribute to this literature through providing empirically-based accounts and proposing a theory of disclosure practices and accountability processes in a Libyan context. The study's prior expectation is that financial information disclosure practices and accountability processes in the socialist context of Libya are different from those practices and processes identified in the literature within liberal market economies. This expectation is due to differences not only in economic systems employed by developed and developing countries but also to the diversity in accounting systems, culture, political systems and social and demographic attributes. Hofstede (1984a) argued that most developing countries are collectivistic in nature and therefore firms within these countries are expected not to disclose their information fully to the public but to groups within their collectives whereas developed countries are in general individualistic countries where firms are expected to have high level of disclosures (See Chapter 4).

Selecting a number of socialist countries to study and explain disclosure and accountability patterns may help in reducing the current gap in the literature in relation to socialist countries' disclosure and accountability practices and provide an understanding of the underlying assumptions of disclosure practices and accountability processes in such conditions. Nevertheless, the nature of work involved, access, time and cost constraints prevented the researcher from conducting a research on this scale. Therefore, a choice was made to select a predominantly socialist country as a context of the study since only a few disclosure- and accountability-related studies have been done on developing countries in general and on socialist countries in particular. Libya was chosen for this research to explore and explain disclosure practices and accountability relationships between information providers (firms) and market participants. This choice is justified in terms of access, the feasibility to conduct the study and the researcher's understanding of Libyan culture.

Approaching the real world to understand how and why events occur involves adopting, consciously or unconsciously, certain assumptions about the nature of social science and the nature of society (Burrell and Morgan, 1979). These assumptions are related to ontology, epistemology, human nature and methodology (Burrell and Morgan, 1979).

6.2- Ontological, epistemological, human nature and methodological assumptions:

Different assumptions regarding research ontology, epistemology and human nature have been proposed (Burrell and Morgan, 1979). These assumptions have direct implications on the research methodology adopted, the way in which investigations are conducted and how knowledge about the social world is obtained. A description of these assumptions is provided below.

Ontology:

Ontology was defined as "the study of being" (Crotty, 1998: 10). The ontological debate is related to the structure of reality and questions whether reality exists in hard, tangible and relatively immutable structures (realism) or whether it is the product of individual consciousness (nominalism) (Crotty, 1998; Burrell and Morgan, 1979). Ontology is concerned with the nature of reality (Hopper and Powell, 1985). Realists see reality as concrete structure whereas nominalists perceive reality as a projection of human imagination (Morgan and Smircich, 1980). However, accepting the notion that reality exists independently of any consciousness "does not imply that meanings exist independently of consciousness" (Crotty, 1998: 10). The point of attaching meanings to reality, whether from realist or nominalist perspective, brings the issue of epistemology into light.

Epistemology:

The choice of research methodology and methods depends to some extent on the epistemological stance adopted (Otley and Berry, 1994; Crotty, 1998). Epistemology refers to "the theory of knowledge embedded in the theoretical perspective and thereby in the methodology" (Crotty, 1998: 3). Therefore, epistemology is concerned with assumptions about the nature and grounds of knowledge (Burrell and Morgan, 1979) and is related to the meanings attached to reality (Crotty, 1998). Different epistemological stances were identified in the social science literature which include positivism and anti-positivism (Burrell and Morgan, 1979), positivism, functionalism and insight (Otley and Berry, 1994), and objectivism, subjectivism and constructionism (Crotty, 1998). Objectivist epistemology is based on the notion that knowledge exists independently of any consciousness. Subjectivism, in contrast, is based on the notion that knowledge is imposed on the object by the subject (Crotty, 1998). Constructionist epistemology rejects the view that knowledge objectively exists or is subjectively imposed and argues that knowledge is constructed (Crotty, 1998). Embedded in these and other epistemological stances are different approaches for conducting research and acquiring knowledge.

Human nature:

The human nature assumption is concerned with the relationship between human beings and their environment (Burrell and Morgan, 1979). Determinism and voluntarism are identified as the main two dimensions of this assumption. The determinist view is based on seeing human beings and their experience as the products of their environment. The voluntarism view, on the other hand, is based on the notion that human beings are autonomous and free-willed. This view sees man as the creator and the controller of his environment. In addition to the human nature assumptions, ontological and epistemological assumptions have direct implications on the methodological assumptions.

Methodology and method:

The words methodology and method have been used sometimes interchangeably to mean the same thing. However, a distinction was made between the meaning of methodology and method (Silverman, 1993; Hussey and Hussey, 1997; Crotty, 1998). Methodology refers to "the overall approach to the research process, from the theoretical underpinning to the collection and analysis of the data" whereas method refers to "the various means by which data can be collected and/or analysed" (Hussey and Hussey, 1997: 54). Crotty (1998: 3) described methodology as "the strategy, plan of action, process or design lying behind the choice and use of particular methods and linking the choice and use of methods to the desired outcomes." Methodology, therefore, is a research design that guides researchers in choosing the techniques or procedures to gather and analyse data related to their research (Crotty, 1998). Berry (1983: 47) argued that "methodology is not just about data collection and the rules for evidence; in its larger conception it is about the nature of explanation and the means by which explanations are produced." Ethnography, ethnomethodology, experimental research and action research are but examples of research methodology alternatives (Crotty, 1998). Upon the methodology adopted, data can be collected through the use of protocols and procedures that derive from the natural science (nomothetic approach) or through emphasising the penetration of meaning systems (ideographic approach) (Burrell and Morgan, 1979; Hopper and Powell, 1985). There are different methods by which data can be collected and/or analysed. Questionnaires, observations, textual analysis, interviews and case studies are the main data collection methods. Adopting one or more of these techniques depends on, among other things, the research ontological, epistemological and methodological assumptions. These assumptions have led to the emergence of different schools of social science in the last few decades (e.g. positivism, functionalism, phenomenology, interpretivism, etc.). The next sections explore the underlying assumptions of some of these schools and highlight the main routes to knowledge.

6.3- Positivism:

Positivism sees the world as material that exists distinct from the observer. Positivists seek the facts or causes of social phenomena and emphasise the objective reality and the use of quantitative methods with little regard to the subjective state of an individual. Positivism seeks the facts or causes of social phenomena and to test correlation between variables (Silverman, 1993; Hussey and Hussey, 1997). Positivism is founded on the belief that the study of human behaviour should be conducted in the same way as studies of natural science. It is an attempt to place social research in the same realm as scientific research. August Comte is considered to be one of the founding fathers of positivism (Laughlin, 1995; Johnson and Duberley, 2000). For Comte, the need "was not an abandonment to subjectivism but a balanced amalgamation of rationalism and empiricism into a new method ... called "positivism"" (Laughlin, 1995: 73). The key concept at the centre of positivism is the proposition of the existence of 'social facts.' These are argued to be consistent and provable events that can be repeatedly measured and empirically tested to find the causal 'truth' of social behaviour. The belief in empirical testability has been expressed into two main ways. First, there are positivists who believe that observations can be used to confirm or verify the truth of a theory. Second, Popperians (Popper advocates), who believe that observation statements are theory-dependent and fallible, argue that theories cannot be proved but may be falsified (Chua, 1986; Johnson and Duberley, 2000).

Conducting purely positivist research has been criticised for many reasons. It has been argued that establishing a correlation between variables depends upon how these variables are defined. Moreover, positivists neglect the common-sense reasoning used by participants and researchers. Hessler (1992) argued that even when a researcher is using a scientific/factual/empirical based methodology, the research process is still influenced, mostly subconsciously, by the researcher's worldview.

> "The positivists argue that science is strictly objective; Popper and Hume countered that science is partly subjective. The researcher cannot be confident that science

> has an objective foundation, and yet theory must be verified or falsified by testing it empirically. The researcher brings a particular set of personal experiences that is completely subjective to the scientific enterprise." (Hessler, 1992: 14)

Although positivism has been of importance in the development of philosophy of science and social science, other approaches to social research exist.

6.4- Phenomenology:

Phenomenological paradigm is concerned with observation and description and, at best, generating hypothesis or theories (Silverman, 1993). Phenomenological paradigm focuses on understanding human behaviour from the participant's own frame of reference. Phenomenology accepts that differences in people's perceptions, experiences and social constructs have a great relevance in understanding 'social reality.' Kant, in contrast to Comte, emphasises the subjectivity of knowledge. To Kant, knowledge is mediated through human beings and influenced by their perceptions which makes the insights generated always conditional and subjective (Laughlin, 1995; Johnson and Duberley, 2000). The Kantian School was divided into two schools of thought one headed by Johann Fichte and the other by Georg Hegel. Fichte and Hegel interpreted Kant's thought about the material existence of reality and the subjective interpretations differently. The former emphasised the subjective side of Kantian thought whereas the later gave emphases to a material world. Positivism is in contrast with the Kantain School and the Kantain/Fichtean alternative in particular. The Kantain/Fichtean alternative emphasises the subjectivity nature of knowledge and denies the existence of a material world distinct from the observer (Laughlin, 1995).

6.5- Quantitative and qualitative methodologies:

Qualitative research is "an approach to the study of the social world which seeks to describe and analyse the culture and behaviour of humans and their groups from the point of view of those being studied" (Bryman, 1993: 46). Quantitative researchers have tended to view qualitative research as an exploratory way of conducting social investigations. They see it as a useful tool at the preparatory stage of a research project (Bryman, 1993). Stake (1995) divided the differences between qualitative and quantitative methodologies into three areas. The first is related to the distinction between explanation and understanding as the purpose of the inquiry. Qualitative research is concerned mainly with understanding the complex interrelationships between different variables while quantitative researchers are interested in explanation and control. The second area of divergence is related to the distinction between knowledge discovered and knowledge constructed. Qualitative researchers believe that knowledge is constructed rather than discovered (Stake, 1995). Proponents of qualitative research see this methodology as a useful tool to expose actors' meanings and interpretations. The distinction between the personal and impersonal role for the researcher is the third major difference between qualitative and quantitative methodologies. The role of the researcher is different in both quantitative and qualitative research. The influence of researchers on the research setting is limited in quantitative research while it is more recognised in qualitative research.

> "All research depends on interpretation, but with standard quantitative designs there is an effort to limit the role of personal interpretation for that period between the time the research design is set and the time the data are collected and analysed statistically - sometimes thought of as a "value free" period. Standard qualitative designs call for the persons most responsible for interpretations to be in the field, making observations, exercising subjective judgement, analysing and synthesising, all the while realising their own consciousness." (Stake, 1995: 41)

Bryman (1993) provided a summary of the important dimensions on which qualitative and quantitative research diverge. Table 6.1 summarises these differences.

Table 6.1: Some differences between quantitative and qualitative research

Dimension	Quantitative	Qualitative
Relationship between researcher and subject	Distant	Close
Researcher's stance in relation to subject	Outsider	Insider
Relationship between theory/concepts and research	Confirmation	Emergent
Research strategy	Structured	Unstructured
Scope of findings	Nomothetic	Ideographic
Image of social reality	Static and external to actor	Processual and socially constructed by actor

Source: Bryman (1993: 94)

The Table shows that the relationship between the qualitative researcher and the subject is close and the researcher is seen as an insider. Bryman (1993) suggested that qualitative researchers can better view the world by getting close to their subjects and becoming an insider within the research setting. In contrast, this relationship is usually brief or non-existent between the quantitative researcher and the subject where the researcher is seen as an outsider (Bryman, 1993). The role of theory and concepts within the two approaches is different. Theories are the starting point for investigations within the quantitative approach whereas developing a theory is the concern of qualitative research (Bryman, 1993). Research methods adopted in quantitative research tend to be more structured than those adopted in qualitative research. Quantitative research is structured in the sense that sampling determination and data collection instruments for instance are designed prior to the data collection process (Bryman, 1993). In relation to research findings, a distinction is made between quantitative and qualitative methodologies in terms of nomothetic and ideographic modes of reasoning.

> "A nomothetic approach seeks to establish general law-like findings which can be deemed to hold irrespective of time and place; an ideographic approach locates its findings in specific time-periods and locales." (Bryman, 1993: 100)

The *reality* quantitative researchers convey is static and exists independently of the researcher. It is based on the notion that there is only one social reality out there. On the other hand, qualitative researchers believe that social *reality* is constructed by the actor and can be changed. Qualitative researchers try to preserve the multiple realities that may exist.

Burrell and Morgan (1979) developed a framework for social science research. An outline of this framework, which has been used by many researchers (e.g. Hopper and Powell, 1985; Laughlin and Lowe, 1990) and criticised by others (Chua, 1986; Laughlin, 1995), will be provided next.

6.6- Burrell and Morgan framework:

Burrell and Morgan's (1979) social science research framework is based on the argument that any social science discipline, including accounting, can be analysed along metatheoretical assumptions about the nature of social science, *the subjective-objective dimension*, and the nature of society, *regulation-radical change dimension* (Burrell and Morgan, 1979) (hereafter B&M). The result of combining the subjective-objective dimension and the regulation-radical change dimension is four paradigms: *functionalist, interpretive, structuralist,* and *humanist*. B&M argued that these paradigms share a common set of features and therefore should be viewed as contiguous but separate. To B&M, social-scientific reality depends upon which paradigm we use. The result is viewing the world in a particular way from a particular paradigm. The four paradigms define four views of the social world based upon different metatheoretical assumptions with regard to the nature of science and of society. They, as B&M argued, offer alternative views of social reality but they are mutually exclusive. In the following sections, a description of each paradigm and its application to accounting will be given.

The functionalist paradigm:

Functionalists are interested in exploring the social order from a realist, positivist, determinist and nomothetic standpoint. The paradigm is committed to the use of natural science methods to verify or falsify theories and to identify causal relations.

> "The functionalist approach to social science tends to assume that the social world is composed of relatively concrete empirical artefacts and relationships which can be identified, studied and measured through approaches derived from the natural sciences." (Burrell and Morgan, 1979: 26)

Functionalist views accounting phenomena as concrete real-world relations possessing regularities and causal relationships that are amenable to scientific explanation and prediction (Riahi-Belkaoui, 1997b). Theories developed under this paradigm are assumed to be value free and used to understand and predict behaviour.

The interpretive paradigm:

The concern under the interpretive paradigm is shifted from the natural sciences with their emphasis on investigation of external process in a material world to the cultural sciences with their emphasis on the investigation of the internal process of the human mind.

> "The interpretive paradigm is informed by a concern to understand the world as it is, to understand the fundamental nature of the social world at the level of subjective experience. It seeks explanation within the realm of individual consciousness and subjectivity, within the frame of reference of the participant as opposed to the observer of action." (Burrell and Morgan, 1979: 28)

The interpretive view in accounting aims to understand the subjective experience of individuals involved in the preparation, communication, verification or use of accounting information (Riahi-Belkaoui, 1997b). The focus is on the ability of information to "construct reality" and the role of accounting as a linguistic tool. The emphasis here is shifted from understanding reality as objectively identified to individuals' experience. Therefore, theories developed under this view would not be value free theories.

The radical change humanist paradigm:

Humanists are concerned with how people create and maintain a mode of social organisation in which they live and try to change it. Their aim is to understand the relationship between consciousness and the external world. Like the interpretive paradigm, the humanist paradigm emphasises how reality is socially created and sustained but ties this to how people become imprisoned within the bounds of realities. Critical theory as one of the humanist schools of thought emphasises interpretation rather than explanation or prediction. Habermas distinguished between the empirical/analytic sciences of a positivist orientation, which serve the interests of control; the historical/hermeneutic sciences of the phenomenological tradition, which aim at understanding meaning without influencing it; and the critical science perspective characteristic of the Frankfurt School, which aims both to understand the world and change it (Burrell and Morgan, 1979; Johnson and Duberley, 2000). One of the critics of the critical theory is the use of our own language and conceptual frameworks from our own culture to understand the meanings and interpretations of a different culture and even other individuals and groups within our own culture (Ryan et al, 1997). However, critical theory in accounting assumes that theories and facts are mere reflections of a realistic worldview (Riahi-Belkaoui, 1997b).

The structuralist paradigm:

This paradigm is driven by radical change and objectivism. Structuralists concentrate on structural relationships within the social world. They focus on the fundamental conflicts which are the product of and reflected in structures and relationships (Hopper and Powell, 1985). This view of social science research is interested in challenging the social order. Change occurs through economic and political crises. Structuralist accountants hold an objective view of the social world and focus on contradictions and crises created by accounting process (Riahi-Belkaoui, 1997b).

Although B&M's framework has provided a tool to classify social research, its insistence on the mutual exclusivity of the paradigms is considered as one of its limitations (Roberts and Scapens, 1985; Chua, 1986; Willmott, 1990). The dubious distinction between the radical structuralist and humanist paradigms is another criticism of the framework (Hopper and Powell, 1985; Chua, 1986).

Traditional accounting thought and most accounting research are built upon functionalist assumptions implied by the neo-classical economic theory of free market (Chua, 1986; Tilt, 1994; Lukka and Kasanen, 1995). Accountants try to represent organisations and their activities in terms of numbers. This metaphor gives partial and incomplete representation of the reality to which the numbers relate (Morgan, 1988). The numerical view is related to some extent to an objective view. The objectivity of accounting creates many problems related to the ability to represent the *reality* in a true manner. Morgan (1988: 482) argued that "the only viable long-term solution to this problem rests in recognising and accepting the basic subjectivity of accounting." He emphasised that accountants are engaged in interpreting a complex reality. The interpretive alternative emphasises the role of language, interpretation and understanding in social science (Hopper and Powell, 1985; Chua, 1986; Boland, 1993). The focus is on reality as constructed and conceived by individuals (Hopper and Powell, 1985). However, the interpretive alternative has been criticised for using the actor agreement as the standard for judging the adequacy of an explanation and the lack of evaluative dimensions (Habermas, 1978). These criticisms have led to the emergence and the development of other research alternatives. Laughlin's (1995) middle-range thinking methodology is discussed next.

6.7- Middle-range thinking methodology:

Laughlin (1995) argued that the choice of research ontological, epistemological, human nature and methodological assumptions can be expressed in terms of "theory," "methodology" and "change" choices. The theory dimension is related to the assumptions about ontology and epistemology. The methodology dimension is related, in addition to methodological choices, to human nature assumptions. The change dimension is concerned with whether the research aims to achieve change in the phenomena being researched. Laughlin (1995) argued that choices at these three levels must be made prior to conducting any empirical investigation. He proposed a 'middle-range' alternative approach to empirical research in accounting, which is based on taking a mid-point on theory, methodology and change continuums.

> "The theory "dimension" refers to high to low levels of usage of prior theorising before undertaking any investigation. The "methodology" dimension ranges from high to low levels of theoretical closure on the methods of investigation. The "change" dimension relates to high to low levels of critique with regard to the status quo and the need for change in the phenomena being investigated." p 68

Laughlin (1995) believed that the 'medium' position is a more realistic depiction of the social and technical nature of accounting systems design. He suggested that German critical theory seems to satisfy the medium perspective on theory, methodology and change (Laughlin, 1995). The critical alternative emphasises human potentiality and totality. The emphasis on totality leads to the consideration of social reality as being subjectively created and objectively real (Chua, 1986).

All approaches of acquiring knowledge, from description to prediction, from quantitative to qualitative, from discrete facts to patterns, from similarities and differences to causal relations, are needed in order to develop theories and research in accounting. However, the difference is how to approach and interpret these facts. The world is full of ideas and concepts which constitute reality. The question is how many worlds are out there? Positivists believe that there is only one world and theories can be verified or falsified in this world whereas phenomenologists believe that reality is influenced by individuals' perceptions. Tinker et al (1982) argued that individuals are not complete free from values, biases and prejudices so that our perceptions are coloured by aesthetic, emotional, educational and environmental characteristics. Laughlin and Lowe (1990) believed that accounting knowledge and theories depend on key underlying assumptions which mould and determine their nature. The aim of conducting empirical research is to understand and explain the reality of social or natural phenomena. Understanding disclosure and accountability practices in the Libyan context is the aim of this study. To achieve this understanding, data was to be collected from participants in this context. Prior to designing and deciding upon the research methodology and methods and collecting the data, a pilot study was undertaken.

6.8- The pilot study:

The importance of conducting a pilot study is to explore the feasibility of studying the research issue(s) and to help in deciding the research methodology and method(s). Pilot research provides first-hand insight into the issue under investigation from the participants' perspective (Ghauri et al, 1995). The pilot research helps in refining data collection plans with respect to not only the content of the data but also to the procedures to be followed (Yin, 1989). Yin (1989) suggested that the inquiry of the pilot research can be designed to be much broader and less focused than the final data collection plan.

A pilot study was conducted in the light of the study's aims and objectives (See Appendix 6.1 - The pilot study). The initial aim of the study was to understand how and explain why Libyan State Owned Companies disclose their financial information. Therefore, the primary aim of the pilot study was to explore Libyan State Owned Companies' disclosure policies and practices and managers' attitudes about these policies and practices. The aim was to explore the level of producing and disclosing accounting information by these companies, to identify the users of accounting information and to understand interviewees' attitudes about accounting information disclosure policies and practices. The pilot study also aimed to identify the main accounting information users and their perceptions about the information provided by Libyan State Owned Companies. Therefore, two groups were to be considered in the pilot study, information producers and information users. Four publicly held companies (the Arabic Soft Drinks Company, the National Trailers Company, the Electronic Company and the Tobacco and Match Company) were visited. The choice of these companies was based on the issue of access. Other companies were approached but declined to provide access. Unstructured interviews were conducted with employees within Finance and Accounting Departments in the above mentioned companies. The issue of accounting information disclosure policies and practices was explored. Questions about companies' relationships with stakeholders were raised. The importance of the Secretary of Industry in this relationship provided a motive to explore the role played by the Secretary of Industry in Libyan State Owned Companies' decision making processes in general and disclosure decisions in particular. Unstructured interviews were held with officials in the Companies Department in the Secretary of Industry. These interviews focused on issues related to the type of information required and whether companies provided the Secretary of Industry with this information. Interviewees' perceptions about companies' disclosure policies and practices were explored. In addition to the Secretary of Industry, interviewees identified other information users that require and use companies' financial information. These included, among others, the Secretary of Treasury, the Secretary of Economy and Planning, the Public Control Office and the Tax Office. Interviews were conducted with officials in these institutions and questions were raised about the quality, quantity and timeliness of the information provided by Libyan State Owned Companies.

Disclosure upon request and to meet legal requirements and the delay in providing information were the main conjectures induced from these interviews. The role of accountability in the process of providing information was realised. Religion was identified as an important element in the interactions within and outside these organisations. These conjectures led to the following three main points. The first point is related to the accountability relationship between the Secretary of Industry and companies and the willingness of the National Trailers Company to take part in any further research. This led to the consideration of the Secretary of Industry and the National Trailers Company as potential participants in this study. The second implication of the above conjectures is introducing accountability as another dimension to this study. The information obtained from the pilot cases was used in parallel with an ongoing review of disclosure and accountability literature. This process strengthened the research focus and linked the study's theoretical argument with empirical observations. The aim of the study was therefore modified to include the accountability dimension. The third point is related to the research ontological and epistemological assumptions and their implications on the methodology and method suitable for this study. These conjectures and their implications were considered in adopting the research methodology and data collection method(s). In the following sections, the study's ontological and epistemological assumptions are defined. The adopted methodology and method are provided.

6.9- Research methodology and method:

Understanding disclosure and accountability practices from the participants' perspective within a Libyan context is based on the belief that *reality* is socially constructed (ontology). To understand socially constructed reality, constructionism epistemology was adopted. Constructionists argue for individual participation as a condition for understanding the social world (Crotty, 1998). The voluntarism view of human nature, where the relationship between participants is based on free will, was adopted. Interpretive approach as a means of gaining a 'richer' understanding of accountability and disclosure processes and the role of actors in these processes was adopted. Upon these assumptions and the aim of the study, ethnomethodology was proposed as the study's methodology. Ideographic methods were used in collecting the data.

6.9.1- Ethnomethodology:

To understand the subjectively constructed reality of disclosure and accountability, ethnomethodology was seen as suitable for this type of social inquiry (Morgan and Smircich, 1980). Ethnomethodology was described as "the investigation of the rational properties of indexical and other practical actions as contingent ongoing accomplishments of organised artful practices of everyday life" (Garfinkel, 1967: 11). Ethnomethodology refers to the study of practical actions (Garfinkel, 1967). These actions occur in, influence and are influenced by, their contexts. Ethnomethodology focuses on individuals' practical reasoning and the ways in which they make the social world sensible to themselves and to others (Garfinkel, 1967; Bryman, 1993). In this context, social reality is reflexively constituted by accounts of reality and that the actions of social agents based on these accounts constructs, maintains and reproduces social reality (e.g. Garfinkel, 1967; Berger and Luckmann, 1967; Hines, 1991). From Garfinkel's (1967) ethnomethodological perspective, accountability is seen as a reflective component of ongoing social action. This link between accountability, as a feature of social action, and ethnomethodology, with its focus on the individual's practical reasoning, provides another rationale for choosing ethnomethodology as the study's methodology. This methodology serves the research ontological assumption in that reality is both objectively and subjectively constructed. It also serves the epistemological assumption in that meanings attached to this reality are socially constructed. The epistemological assumption that views reality as socially constructed focuses on understanding the specific processes through which reality is created (Morgan and Smircich, 1980). Morgan and Smircich (1980: 497) pointed to the role of epistemology in such methodology as "to demonstrate the methods used in everyday life to create subjectively an agreed or negotiated social order."

Although using both quantitative and qualitative methods is possible, the current research adopted the qualitative approach to understand disclosure practices and accountability processes and relationships within the research setting. The qualitative approach allows the researcher to obtain a 'rich' understanding of the research issue from the participants' account.

6.9.2- Sources of data:

A review of the available literature was essential to build the study's theoretical base and to establish an insight into the development of accounting, accountability and disclosure practices in developed countries in general and developing countries in particular (See Chapters 3, 4 and 5). The importance of accounting information in decision making processes and the influence of regulations and social contexts on disclosure decisions were explored (See Chapter 3). Different theories to explain disclosure practices in liberal market economies were provided (See Chapter 3). The role of accounting in economic development in developing countries and the relationship between accounting and its environmental context were considered (See Chapter 4). Culture and economic effects on accounting development were discussed (See Chapter 4). Accountability forms and the relationships between accountability and disclosure practices were explored (See Chapter 5). This review provided a theoretical background to the issues this study aims to explore and understand.

In order to achieve the objectives of this study, Libya was taken as a context for the study. Therefore, it is important to describe the Libyan environment and analyse the extent to which the status of accounting in Libya may have been influenced by other countries' accounting systems. Data about the social environment, past and current political and economic systems, regulation and rules were gathered (See Chapter 2). This data provided a background to the study's empirical data and observations.

Empirical data were collected from different sources. The main data sources were companies and accounting information users (stakeholders). First, the National Trailers Company (NTC) was chosen to take part in the study. The choice of one company was based on the aims of this study to understand the particularities of disclosure practices and accountability processes in such a context. The relatively short time available to conduct the field study coupled with the access issue have led to the NTC choice. The NTC was considered by the SI as one of the most successful companies in the Libyan socialist oriented economy. This provided another reason for choosing the company which was visited before the data collection process. The visit was part of a pilot study that included three other companies, the Secretary of Industry and other Institutions. Furthermore, the importance of the industrial sector in the development of the country was another motivation behind selecting a company within the industrial sector and thereby the NTC. The total investment in the industrial sector from 1970 to 1990 was about LD4,550 million or 17.2 per cent of the total public investment. The industrial sector came second after the health sector with 33 per cent of the expenditures. Other reasons for this choice included the feasibility of obtaining data and the cost issues.

Second, officials within the Companies Department and Budget Department, among others, in the Secretary of Industry (SI) as information users represented another data source. Data was collected from officials within the SI to capture their perceptions about and satisfaction with the quality, quantity and timeliness of information provided. This choice was also related to the accountability dimension of this study. The accountability relationship between the SI and the company provided an opportunity to explore accountability structure and process in a socialist context. The importance of the SI in relation to the company, and thereafter to this study, was due the accountee-accountor relationship between the SI and the company. The SI owned 75 per cent of the NTC's capital and therefore represented an important source of accountability in the SI-NTC accountability relationship.

In addition to the above two main data sources, data was collected from other accounting information users. These included, among others, the Secretary of Treasury, the Secretary of Economy and Planning, the Tax Office, the Public Control Office and the Libyan Accountants Union. Further, secondary data was obtained from industry reports, official statistics and the literature. However, it was important to determine the availability of data, knowledge gaps and time and cost constraints to establish the feasibility of the study. These constraints were taken in consideration in the research design. The data collection techniques which were used to collect the empirical data of this study are discussed next.

6.9.3- Research method:

Understanding the *reality* of disclosure and accountability practices from the participants' perspective may be better achieved by collecting data through ideographic methods. Therefore, qualitative methods are more appropriate to achieve the objectives of this study. Qualitative data may suggest a theory to explain the phenomena being studied which can then be strengthened by quantitative support (Eisenhardt, 1989). However, the case study method, which was adopted in this study, is seen as more suitable than other research methods (e.g. surveys, questionnaires, etc.) to understand the particularities of disclosure and accountability processes in the research setting.

6.9.3.1- Case study:

The term case study method is used to refer to "an empirical inquiry that investigates a contemporary phenomena within its real-life context; when boundaries between phenomenon and context are not clearly evident; and in which multiple sources of evidence are used" (Yin, 1989: 23). A case study is "a detailed investigation, often with data collected over a period of time, of one or more organisations, or groups within organisations, with a view to providing an analysis of the context and processes involved in the phenomena under study" (Hartley, 1994: 208-9). Hartley (1994) argued that a case study approach is not a method but rather a research strategy. Eisenhardt (1989) argued that case study is a research strategy which focuses on understanding the dynamics present within single settings. However, the terms case study method and case study strategy have been used interchangeably. Stake (1995) distinguished between three purposes of case study. First, the use of a case study to understand and learn more about a particular case. This type of case study is called *intrinsic case study*. Second, the use of a case study to understand something through studying something else. The aim is to accomplish something other than understanding a particular case. This type of inquiry is called *instrumental case study*. Finally, *collective case study* refers to conducting a detailed investigation where more than one case is chosen. Case studies can involve either a single or multiple cases. Yin (1989) distinguished between three types of case studies: descriptive, exploratory and explanatory. Scapens (1990) added illustrative and experimental case studies.

The case study method, which was adopted in this study, would enable us explore and understand disclosure policies and practices and accountability relationships between the Secretary of Industry (SI) and the National Trailers Company (NTC). The SI and the NTC were chosen to represent two cases in this study. The NTC was a joint venture company where the SI owned 75 per cent of its capital and an Italian company - Calabrese - owned 25 per cent of the capital. The selection of a case study relies on theoretical sampling as cases are chosen for theoretical rather than statistical reasons (Glaser and Strauss, 1967). Cases may be chosen to replicate previous cases, extend emergent theory, or to fill theoretical categories (Eisenhardt, 1989).

In undertaking case studies, different methods can be used in collecting and analysing data. These methods may be either quantitative, qualitative or both (Hartley, 1994). Archives, observations, questionnaires and interviews are among data collection methods which may be adopted when undertaking case study research (Eisenhardt, 1989). Participant observation is probably the collection method with which qualitative research is most closely associated (Bryman, 1993). Through participant observation, it is possible to describe what goes on, who or what is involved, when and where things happen and how they occur (Jorgensen, 1989). Participant observation is especially appropriate for exploratory studies, descriptive studies and studies aimed at gathering theoretical interpretation. The main advantage of this method is that it enables the researcher to collect first-hand data in a natural setting. Moreover, researchers can understand and interpret the observed behaviour, attitude and situation more than using only questionnaires or interviews. However, one of the disadvantages of being an observer is the inability to observe and record all actions in a setting. The main disadvantage is that most observations are made by individuals who may find it difficult to translate the events into useful information. Other problems are concerned with ethics, objectivity, visibility and the impact of the researcher on those being observed. Observer bias may arise due to different interpretations of an action, event or behaviour. Thus, due to the above limitations and the time and cost constraints, participant observation was not adopted as the main data collection method in this study.

Using questionnaires as a data collection method has many advantages. Questionnaires allow the researcher to collect data from a large sample. It is considered to be cheaper than other methods, i.e. interviews; telephone questionnaire, etc. In spite of the advantages of questionnaires as tool for data collection, there are some disadvantages of this method. One of the main disadvantages (of the questionnaire) is the misinterpretation of questions by participants. Low rate of response and unanswered questions are the most common problems with posted questionnaires. Furthermore, questionnaires are criticised for not allowing respondents to express freely their views due to the questionnaires' limited and pre-determined answers. Although the questionnaire method was not the main data collection method in this study, a relatively small questionnaire was used (See Appendices 6.2 and 6.3 - The NTC's data collection permission and the NTC questionnaire respectively). The questionnaire, which was used to support the data collected using the study's data collection method (i.e. interviews), was distributed to participants within the NTC.

The use of the interview method in collecting the study's empirical data was considered. The interview method has three main features that distinguish it from other methods: it is a highly flexible method; it can be used almost anywhere; and it produces data of great depth (King, 1994). The consequent danger of using this method is that researchers may feel that it is too familiar, straightforward and even boring. The goal of a qualitative research interview is to see the phenomena from the perspective of the interviewee, and to understand how and why he or she comes to have this particular perspective. The interview has a wide variety of forms and multiplicity of uses. The most common type of interviewing is individual, face to face verbal interchange. An interview can be structured, semi-structured or unstructured.

A key feature of the qualitative research interview method is the nature of the relationship between the interviewer and the interviewee. This view is based on seeing the interviewee as a participant in the research actively shaping the course of the interview rather than passively responding to the interview's pre-set questions (King, 1994). However, it has been suggested that this relationship may bias and affect the research findings (Gilbert, 1993). There are several sources of bias or error arising from carrying out an interview. Saunders et al (1997) described three types of biases to be considered when conducting interviews. These are interviewer bias, interviewee or response bias and sample bias. Interviewer bias is related to the interviewer's comments, tone or verbal behaviour during the interview that may affect the interviewee response. Interviewee bias occurs when an interviewee gives biased answers either to conceal some facts or to please the interviewer. Sample bias may occur as a result of bias in the individuals or organisational participants who agree to be interviewed. These may not have the information the researcher is looking for to answer the research question(s) and to achieve the research objective(s).

A semi-structured interview method was adopted to collect data from participants. Interviews were held with, among others, the NTC's Manager, Accounts Manager, Finance Manager and Internal Auditor (See Appendix 6.4 - The NTC interview schedule). Officials within the SI's Companies Department and Budget Department were also interviewed (See Appendices 6.5 and 6.6 – The SI's data collection permission and the SI interview schedule). Other interviews were conducted with officials in the Secretary of Economy and Planning, the Secretary of Treasury, the

Public Control Office and the Libyan Accountants Union. The snowballing technique was used to identify key actors in the research settings. These actors were invited to take part in the study. An outline of the research main issues and topics was handed over to participants beforehand. Stake (1995) asserted the usefulness of having an outline of the primary research topics needing attention and possibly handing the respondent a copy prior to starting the interview. In addition, documents from the NTC, the SI and other sources were collected. The benefit of using documents is to corroborate and augment evidence from other sources (Yin, 1989).

The use of the case study method would enable us explore and understand disclosure policies and practices and accountability relationship between the SI and NTC. The current disclosure and accountability practices' underpinnings were explored through the use of an explanatory case study. Explanations of the reasons for accounting and disclosure practices would be best reached by adopting the explanatory form of case study. However, case studies aim at understanding the specific rather than the general. The next section will discuss the issues of generalisations and particularisations.

6.9.3.2- Generalisations versus particularisations:

Generalisation from case studies is not the main concern for researchers adopting this method. Scapens (1990) and Yin (1989) distinguished between theoretical generalisations and statistical generalisations.

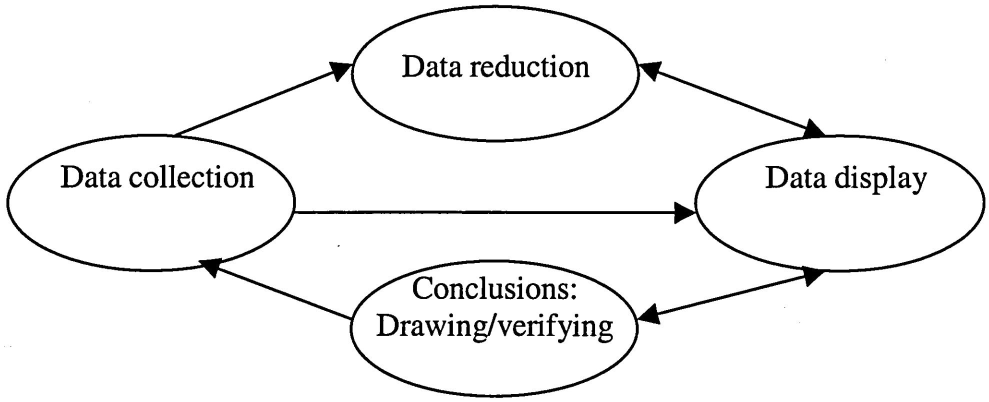
> "Case study ... does not represent a 'sample,' and the investigator's goal is to expand and generalise theories (analytic generalisation) and not to enumerate frequencies (statistical generalisation)." (Yin, 1989: 21)

The case study adopted here does not attempt to locate universal truths or generalisable theories that explain disclosure practices and accountability processes. The unique circumstances of each case study make generalisation a difficult task. Scapens (1990) argued that statistical generalisations as opposed to theoretical generalisations do not explain, rather they only indicate the statistical regularities. The aim of case study is not to understand other cases but to understand a particular case (Stake, 1995). Therefore, the objectives of using the case study method as a research method in the current study was not to develop universal or generalisable truths of disclosure and accountability but to understand the process of accounting disclosure within the NTC and the accountability relationships within and between the SI and the NTC. The theoretical generalisations from this case study would show how and why the NTC provides its private information to stakeholders in general and to the SI in particular. The actual disclosure practices and the use of information would provide evidence on disclosure-related similarities and differences between Liberal market economies and the Libyan Socialist oriented economy.

6.9.4- Data collection process:

The process of collecting data could be divided into four major steps: data collection, data display, data reduction and conclusion (Miles and Huberman, 1994). Figure 6.1 illustrates these steps and their interrelationships. Data were collected mainly through the use of interviews from participants within the SI, the NTC and other Institutions (i.e. the Tax Office, the Public Control Office, etc.). A fieldwork plan was prepared to guide the researcher in the data collection process (See Appendix 6.7 – Fieldwork plan). The plan described the research setting and the main actors to be asked to participate in the study. It also highlighted the issues to be discussed with the participants. The interview process, number of interviewees, the timing of interviews, etc. for the SI and the NTC are explained in more detail in chapters seven and eight respectively. Displaying the interview data in tables and other forms is a helpful tool to reduce, categorise, understand and interpret the data (Miles and Huberman, 1994). Therefore, after the collection process, data were grouped and reduced into different categories. Categorising the data helped the researcher to develop an understanding of how disclosure and accountability were practised and understood by participants. This process was coupled with reducing the data collected into categories to help the researcher to move from burdensome unorganised data to more organised data from which patterns may emerge. From these patterns, observations were made. These observations were fed back to participants to comment and reflect on them. Receiving feedback from participants is important as a source of assuring the confirmability of observations (Miles and Huberman, 1994; Stake, 1995). After collecting and analysing the data, an account of each case study was provided.

Figure 6.1: The process of data collection



Source: Miles and Huberman (1994: 12)

6.10- Conclusion:

The above discussion argued for adopting the interpretive approach of social inquiry to understand disclosure practices and accountability processes in the SI-NTC context. Different assumptions regarding ontology, human nature, epistemology and methodology implied different grounds for knowledge about the social world (Morgan and Smircich, 1980). Ontologically, the research was based on the belief that reality is socially constructed (Berger and Luckmann, 1967; Crotty, 1998). The study's epistemology was constructionism, which focuses on analysing the specific processes through which reality is created (Crotty, 1998). Ideographic methods were argued to be more suitable than nomothetic methods to understand the socially constructed reality. The case study method was adopted to understand the SI-NTC disclosure practices and accountability processes.

The next chapter will provide and analyse the data collected from the SI. Chapter eight will be devoted to the data collected from the NTC. The relationship between the SI and the NTC and the role of information disclosure and accountability in this relationship will be explored and analysed in chapter nine.

Chapter 7

Information demand and accountability construction

'The case of the Secretary of Industry'

7.0- Introduction:

The previous chapter discussed the study's research methodology and method and outlined the data collection process. This chapter and the next two chapters provide and analyse the data collected from the Secretary of Industry and the National Trailers Company. This chapter will provide and reflect on the data collected from the Secretary of Industry; the study's first case study. Due to the SI's relationships with the sector's companies in general and the NTC in particular, obtaining data about the SI was important. The aim was to understand the accountability relationship between the SI and the sector companies in general and the NTC in particular and the role of information disclosure in this process. The chapter starts with a definition and a background of the case - the Secretary of Industry - and the data collection methods used. This is followed by a description of the data collected, the SI's management and relationships with the sector's companies and institutions, the SI's objectives and plans and the socialist aspect of the economy and the role of the State in such economy. Information demand and the issues of power and control in demanding information are then explored. The SI accountability construction process is discussed.

7.1- Background to the Secretary of Industry:

The first Libyan Ministry of Industry (currently known as the Secretary of Industry) was created in 1961. The Ministry of Industry's main objectives aimed at maximising the advantages of the country's resources to create a sector that provided employment opportunities, treasury revenues and foreign exchange and diversified the economic resources. To accomplish these and other objectives, the government adopted short-term and long-term planning strategies. The first five-year development plan (1963-1968) was launched in 1963 upon which the industrial sector was allocated 4 per cent of the total planned expenditures of LD169.1 million. After the 1969 revolution, more attention was paid to industry and the development of public sector projects. The industrial sector was allocated 11.8 per cent of the total investment of LD1,965 million in the 1973-1975 three-year development plan. The 1976-1980 Socio-Economic Transformation plan allocated 15.2 per cent of the total investment of LD7,170 million to the industrial sector. The plan cited that one of the most important goals to be accomplished was for Libya to enter the field of heavy industry such as steel and iron, aluminium and petrochemicals. The commitment to the industrial sector and particularly to heavy industry was reflected in the 1981-1985 Socio-Economic Development Plan, which allocated 23.1 per cent of the total investment of LD17,000 million to the industrial sector – 16.1 per cent to heavy industry and 7 per cent to light industry. Most of the industrial projects were allocated on the Mediterranean coast to minimise the overland transport costs of plant imports and product exports and to be next to the sea as a source of cooling water. Allocations to the industrial sector in the 1994-1996 three-year programme declined to represent 4 per cent of the total investment of LD2,400 million. The actual investment of the 1994-1996 plan was LD1,450.566 million, 60.44 per cent less than initial allocations. The portion of the industrial sector of the actual expenditures was 9.1 per cent. Table 7.1 shows the industrial sector portion in the country's 1963-1968, 1973-1975, 1976-1980, 1981-1985 and 1994-1996 development plans. The researcher did not obtain the industrial sector portion in the country's total investment in 1969-1972, 1986-1993 and 1997-2000. The decline in the industrial sector allocations and actual expenditures in the 1994-1996 period was due mainly to reduction in the number of companies that were supervised by the Secretary of Industry. There were a number of bodies supervising Libyan Sate Owned Companies. For instance, the Secretary of Housing and Utility supervised building material and cement companies whereas the Secretary of Energy supervised oil and petrochemical companies.

Table 7.1: Allocations to the Industrial sector in Libya's development plans

	1963-68*	**1973-75**	**1976-80**	**1981-85**	**1994-96***
Industry (%)	5.2	11.8	15.2	23.1	9.1
Total investment (LDM)	551	1965	7170	17000**	1450.566

**Numbers and percentages represent the actual expenditure.*
*** This number does not include LD1500 million allocated to projects reserves.*

7.2- Research design:

The aim of this study is to understand accounting information disclosure policies and practices and accountability processes in a democratic socialist context of Libya. The aim of this section is to describe the data collected from the Secretary of Industry and the methods used in this process. The Secretary of Industry among other secretaries, such as the Secretary of Economy and Planning and the Secretary of Treasury, were members of the General People's Committee (See Chapter 2). The SI's responsibilities included supervising thirty-one companies, including the National Trailers Company. The methods used in collecting data from the Secretary of Industry are described next.

7.2.1- Data collection methods:

Data were collected mainly through conducting semi-structured interviews within the SI with senior managers and officials. Although access and obtaining data was difficult, social and personal relationships played an important role in supporting the formal request to collect the data from the setting. The SI's interviewees were all male and included the Commercial Affairs Department Manager, the Planning and Following-up Department Manager, the Quality Control Department Manager and the Heads of Legal, Performance and Following-up, Accounts and Budget Divisions within the SI's Companies Department. The interviews, which were held between January and March 2000, lasted from forty-five minutes to an hour and half duration sometimes in two stages. Only two of seven interviewees agreed to their interviews being tape-recorded. However, interviewees were invited to switch off the tape recorder whenever they liked. An outline of the interview's main issues was given to the interviewees before starting the interview (See Appendix 6.6 - The SI interview schedule). Notes were taken during interviews followed by a summary of the main points and issues raised in the interviews. The recorded interviews were later transcribed.

Data was also collected from documents made available to and obtained by the researcher. The researcher was given access to review some of the SI's documents. Observations and informal discussions were made in the SI context.

7.2.2- Description of data collected:

The interviews conducted in the SI represented the main data source of this case study. Interviewees were asked to describe their jobs and responsibilities and their relationships with the industrial sector companies. The data collected covered issues related to information demand and supply, power and control. In addition to data collected through interviews, a number of official documents and statistics were obtained from the SI. These included companies' financial and administrative data for the 1996-1999 period, the SI's 1999 industrial guide, the 1999 available investment projects, the uniform accounting guide, companies' investment volume, the sector's annual production plan for 1998 and the sector's information bulletin for 1992, 1996 and 1998. The data also included the sector's production activity reports for 1996, 1997, 1998 and 1999, the SI's Budget Division report for 1999 and a number of companies' monthly meetings' minutes. Other documents collected from the Secretary of Economy and Planning which were used in the data analysis included the 1973-1975, 1976-1980, 1981-1985 and 1994-1996 development plans, the 1997 Economic and Social Indicators (1962-1996) report and the 1998 Economic and Social Achievements in 28 years report. The collected data was used to describe the SI's information demand and accountability process. Based upon the data collected, the following sections describe the SI's management, companies and institutions and objectives and plans.

7.3- The SI management:

The Secretary of Industry managed its activities through a number of Departments, Boards and Institutions (See Appendix 7.1 - The Secretary of Industry chart). The Secretary of Industry's Secretary appointed a General Deputy and two Assistant Deputies: one for technical affairs and the other for production. The Production Deputy was concerned with companies' production, commercial, sales and financial issues. Companies provided the Production Deputy with monthly, quarterly and annual reports about their production, costs, sales levels and other administrative and financial information. Companies' financial reports were examined in the SI's Companies Department. The SI's Companies Department consisted of the Budget Division, the Legal Division, the Following-up and Performance Division and the Cadre Division. Companies' production reports were dealt with in the Production Department that compares the levels of production achieved and production targets. Issues related to exports and imports were dealt with in the Commercial Affairs Department.

The Technical Affairs Deputy was more concerned with technical issues rather than financial issues. The Project Planning and Follow-up Department, as one of the departments attached to the Technical Affairs Deputy, was concerned with planning new projects and following-up current projects. The Mineral Resources Department, which was attached to the Technical Affairs Deputy, was a relatively new department and was concerned with exploring and supervising mineral sites. The Quality Control Department was responsible for the hygiene and the quality of companies' products. This process was done through making sure that companies used and followed the right production components and procedures. The Research and Development Department was concerned with developing new ways of production and introducing new tools. The above mentioned Departments were accountable to the Technical Affairs Deputy to whom they provided their reports.

In addition to the above mentioned Departments and Divisions, there were a number of Boards and Institutions that reported directly to the SI's General Deputy. Furthermore, there were the SI representatives in the country's municipalities and regions who supervise and provide advice to public and private companies within their regions excluding other companies that are supervised by other sectors and the thirty-one companies that account directly to the SI. These representatives held regular meetings with the SI's Secretary or the General Deputy to whom they provide their reports.

7.4- The SI's companies and institutions:

The Secretary of Industry supervised a number of companies that employed approximately 50,000 employees in 1999, 90 per cent of which were Libyans (the Industrial Guide, 1999). There were three types of companies that were supervised by the Secretary of Industry; Collective Ownership Companies, State Owned Companies and Joint Venture Companies. First, Collective Ownership Companies were found to be small-scale private companies which started to emerge in late 1988. These were either the result of transferring State Owned Companies' ownership to groups or new established businesses. The SI delegated the supervision responsibility for these businesses to its representatives in municipalities. The second type of companies supervised by the SI, State Owned Companies, were either fully or partially owned by the State. Fully State Owned Companies were those where the State, represented by the SI, other public companies, banks and the like, owned all their capital whereas partially State Owned Companies were those which the State shared their ownership with other public or private, domestic or foreign parties. For example, the ownership of the National Company for Soap and Detergents was shared between three parties. They were the SI, which owned 80 per cent of the capital, the Development Bank with 6.9 per cent of the capital, and domestic private sector, which owned 13.1 per cent of the company's capital. The third type of companies supervised by the SI, Joint Venture Companies, were those where the State and a foreign partner(s) with special arrangements shared a company's ownership. The structure of Joint Venture Companies ownership differed and depended on each company's article of association - the agreement arrangements between the State and the foreign partner. However, the State always owns more than half (i.e. 51 per cent) of a company's capital where foreign partners' ownership was involved (Article 4 of the Commercial Act no. 65 of 1970). For instance, the SI owned 67 per cent of the Libyan Tractors Company's capital and a Canadian company, Massey-Ferguson, owned 33 per cent of the capital. The SI owned 75 per cent of the National Trailers Company and the Italian company, Calabrese, owned 25 per cent of the capital.

In the last decade, the ownership of 147 plants and productive units had been transferred to employees as part of the quasi-privatisation process (these new establishments were known in Libya as Industrial Partnerships or Collective Ownership Companies). The private sector had established 10,250 Collective Ownership Companies by 1998 (Economic and Social Achievements in 28 years, 1998). Furthermore, the supervision of 115 plants had been transferred from the Secretary of Industry to other economic sectors which had activities linked to these companies' products. The Secretary of Industry has currently thirty-one companies divided into six categories, which include 180 plants. The six categories are basic metallurgical industry, electrical and engineering industry, chemical industry, spinning and textile industry, furniture and paper industry, and food production industry. Table 7.2 shows the SI companies divided into the six categories and the ownership structure of each company.

Table 7.2: The SI companies and their ownership structure

The industry	The company	The company owners
Spinning and Textile Industry	General Company of Textiles and Clothing	The SI, the Development Bank, Workers' Welfare, and the General National Company for Spinning and Textiles.
	General National Company for Spinning and Textiles	The SI, the Development Bank, Jamaheria Bank, Libyan Insurance Company, Workers' Welfare, Libyan Crescent Association, and the Medical Equipment Organisation.
	National Company for Textiles	The SI, the Development Bank, Workers' Welfare, and the General National Company for Spinning and Textiles.

The industry	The company	The company owners
Furniture and Paper Industry	General Furniture Company	The SI
	General Company for Paper Manufacturing and Paper Products	The SI
Chemical Industry	General Company for Chemical Industries	The SI
	National Company for Soap and Detergents	80 per cent the SI, 6.9 per cent the Development Bank, and 13.1 per cent domestic private sector.
	Laden manufacturing and Industrial Sponge General Company	The SI
	National Tube Manufacturing Company	62 per cent the SI, 21.5 the public sector, 6.4 per cent domestic private sector, and 10.1 per cent foreign private sector.
	Aman company for Batteries and Tires	The SI
	General Company for Leather Products	The SI
	Libyan-Maltese Company for Industrial Development	15 per cent the Development Bank, 49 per cent Libyan-Maltese Holding Company, and 36 per cent others.
Metallurgical Industry	Libyan Iron and Steel Company	The SI
	General Scrap Company	Libyan Iron and Steel Company
	General Pipe Company	The SI
	National Development Company	The SI, the Development Bank and the private sector.
Electrical and Engineering Industry	National Trailers Company	75 per cent the SI and 25 per cent Calabrese (Italian company).
	Libyan Tractors Company	67 per cent the SI and 33 per cent Massey-Ferguson (Canadian company).
	Trucks and Vehicles Company	75 per cent the SI and 25 per cent IVECO (Italian company).

The industry	The company	The company owners
	Electro Domestic Industry Company	The SI and other private sector parties.
	General Company for Wires and Electrical Products	The SI
	General Electronics Company	The SI
	Arab Company for Engineering Industry	The SI, the Development Bank and the General National Company.
	El Shrara Company for Vehicles Maintenance	The SI
	General Industrial Corporation	The SI
Food Industry	Arab Company for Processing and Bottling Soft Drinks	The SI
	General National Company for Processing National Drinks	The SI
	National Company for Food Manufacturing	The SI
	General Tobacco Company	The SI
	El Kufra Company For Industrial Investment	Islamic Association
	El Kufra Company For Projects Development	Islamic Association

Source: The industrial sector production report of 1999.

In addition, the sector had other bodies and institutions that were attached to it such as the Industrial Research Centre, the Information and Documentation Centre and the Development Bank. The Industrial Research Centre was established in 1970. The centre aimed at offering consultation and technical support to the industrial sector. It conducted technical and economic feasibility studies for industrial projects. The centre was also responsible for publishing the industrial sector's investment opportunities available in Libya. The Information and Documentation Centre was established in 1989. The centre objectives included organising training programmes for the sector employees and preparing periodic reports about the industrial sector companies. The Development Bank was created in 1981 to help finance industrial projects. The bank was permitted to make loans to the industrial sector, to participate in the equity capital of industrial companies and to facilitate the import of machinery and raw materials (the Industrial

Guide, 1999). The general aim of the above and other institutions was to develop the Libyan industrial sector and to achieve the SI's goals within the country's centrally planned economic framework. The next section will describe the SI's objectives and plans.

7.5- The SI's objectives and plans:

The data collected showed that the SI aimed at developing the country's industrial production abilities through increasing the number of companies and their production capacities, using local raw material in the production process, replacing imports by local products, and expanding the petrochemical, electrical and engineering industries. The SI also aimed at exporting local products and establishing mutual trade relationships with other countries. To achieve the above and other objectives, the SI prepared the sector's *Annual Production Plan* based on the availability of foreign exchange and companies' production capacities and targets.

> "The SI prepares the sector's production plan annually where each company's production capacity and targets are set. Following the execution of the plan, the SI compares the targets with the achieved levels of production to determine and tackle any variances." (The SI's Planning and Following-up Manager)

The industrial sector's production plan aims included maximising the use of companies' capacity, increasing production outputs and reducing production costs within the available foreign exchange framework. It also aimed at meeting the local market demand and reducing the need for foreign exchange through encouraging the use of local production materials and factors and the SI's inter-companies co-operation. The SI's 1998 Production Plan, for instance, recognised the importance and the effect of foreign exchange on determining the sector's production targets. This was due to the need to import production components, maintenance equipment and requirements, spare parts and specialised foreign workers. It was also due to implementing new projects or extending the existing ones. The SI attributed, partially, companies' inefficiency and not achieving production targets to the foreign exchange available, needed and allocated to the industrial sector. It also acknowledged the banking sector delay in completing foreign exchange transfers as another problem that negatively affected companies' production processes. As a result, foreign exchange restraints prevented the industrial sector from using efficiently its production capacity. To achieve the SI objectives using the available resources, the SI determined companies' production targets upon the foreign exchange available (and allocated) to the industrial sector. Table 7.3 shows the industrial sector production capacity and targets and the actual production for 1996, 1997, 1998 and 1999. The table shows a gap between production capacity and production targets. The production capacity to production targets ratio for 1997 was 73 per cent. As a result of a combination of many factors that included foreign exchange shortages, only 38 per cent of the sector's production capacity was used to achieve only 66 per cent of the sector's production targets in 1998 - this is equivalent to the use of only 25 per cent of the sector's production capacity (66 per cent of 38 per cent). The SI's Planning and Following-up Manager attributed production deficiency to "foreign exchange shortages...and to high levels of production costs."

Table 7.3: The SI companies' production capacity & targets & actual production (in thousands).

	Production capacity (LDT)	**Production targets (LDT)**	**Capacity to targets (%)**	**Actual production (LDT)**	**Actual to capacity (%)**	**Actual to targets (%)**
1996	1,900,991	1,341,551	71	822,387	**43**	61
1997	2,025,600	**1,474,800**	**73**	839,765	41	57
1998	**2,349,734**	1,346,429	57	**890,694**	**38**	**66**
1999	2,110,234	1,201,163	57	953,839	45	79

Source: The SI's 1999 companies' meeting reports: 1999 and The SI's 2000 companies' meeting reports: 2000.

The SI prepared, quarterly and annually, reports about the sector companies' activities known as the *Production Activity Report*. The report, which was prepared, inter alia, for industrial sector meeting purposes, did not cover only issues related to companies' production capacities, targets and achievements but covered many other aspects. The Production Activity Report contained information about each company's name, location, type of activity, capital, plants, foreign exchange needed and available, sales, employees, etc. Two types of Production Activity Report were prepared: a summary report and a detailed report. The summarised report was divided into seven sections that include production, sales, foreign exchange budget, payments to the Secretary of Treasury, financial statements, employment, and problems facing companies. The detailed report provided more details about the summarised report components and other components for each company. It provided information about the sector companies' expenditures, debts and payments to the Social Welfare Security. The detailed report was then sent to the General People's Committee to whom, inter alia, the SI was accountable.

The SI designed and distributed to companies information-gathering forms within which most of the information was provided. An example of these forms is shown in

Figure 7.1. The aim of this process was to collect similar information and to make comparisons between companies.

> "The SI prepares pre-designed information gathering forms to collect companies' information periodically (i.e. monthly, quarterly and annually). The SI requires information about companies' production, sales, and so on." (The SI's Commercial Affairs Department Manager)

Figure 7.1: A pre-designed sales report

Sales during December 1999
(The amount is in LD'000')

Name of the company:

The Secretary of Industry
Information and Industrial
Documentation Centre
Form No. 1-1-3

Plant and product type	Measurement unit	Direct sales		Distribution branches		Public bodies	
		Quantity	Amount	Quantity	Amount	Quantity	Amount
Total							

The Executive Manager

7.6- The economic and socialist aspects of the industry:

The data collected showed that the Libyan industrial sector has passed through different stages of development. In order to build the country's Socialist economy, a strategy was adopted in the period 1970-1983 in order to recognise both domestic needs and internal and external trade. The strategy was based on nationalising the existing foreign and local enterprises, rationalising imports only to the necessary items, organising and developing the production and marketing strategies of local products and seeking access to external markets to export the production's surplus. Great attention had been given to the industrial sector and to heavy industry in particular. Three-year and five-year transformational plans were introduced. In the 1963-1968 plan, the emphasis was put on agriculture, forestry, education, health and communication development while the 1973-1975 and the 1981-1985 plans emphasised the industrial sector. The aim of the industrial sector in the 1981-1985 transformational plan for instance was to improve the economic structure for the benefit of transformational industries, to produce industrial goods, to meet consumption needs and to increase surplus for export. The growth in industrial outputs was hoped to lead to an improvement in the national economy. The 1973-1975 and 1981-1985 plans gave priority to chemical, petrochemical and oil refining exporting industries as well as accelerating the pace of growth of basic metal and engineering products industries, which constitute the main basis for industrial development.

Libya has given the industrial sector a great interest as it considered manufacturing to be an important element to ensure sustainable economic growth and to provide substitute resources for revenue to achieve a varied productive economy (See Appendix 7.2 – The transformational budget and actual expenditures for the industrial sector from 1970 to 1996). This sector had established in the last three decades seventy-two companies in different fields with 442 plants. The capital invested in these companies had reached LD 5 billion.

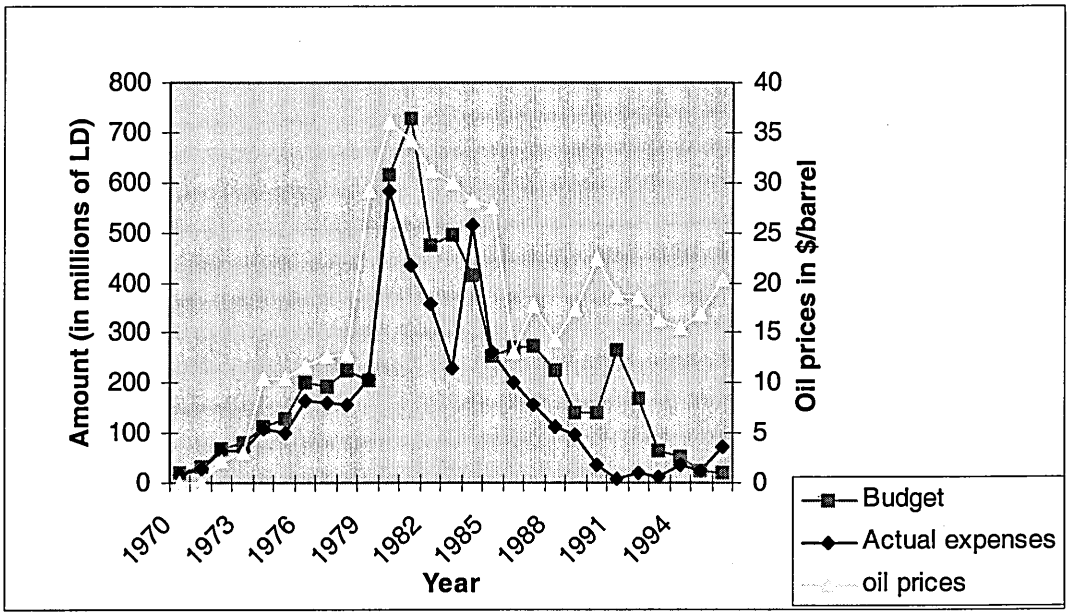
The industrial sector's share of GDP increased from 1.8 per cent in 1972 to 9.7 per cent in 1997 as shown in Table 7.4. GDP growth rates had slowed and fluctuated sharply in response to changes in the world oil market during that period, which affected the industrial budget. The shortage in foreign exchange, upon which the industrial budget was based, was due to a great extent to the decrease in oil prices. Figure 7.2 illustrates a strong relationship between oil prices and the industrial sector budget during the 1970-1996 period.

Table 7.4: The share of the industrial sector in Gross Domestic Product in Libya in the period 1972-1997 (%)

Year	GDP	Year	GDP
1972	1.8	**1985**	5.4
1973	2.0	**1986**	5.3
1974	1.5	**1987**	7.1
1975	1.8	**1988**	7.3
1976	1.9	**1989**	6.7
1977	2.2	**1990**	7.1
1978	2.7	**1991**	6.7
1979	2.4	**1992**	7.8
1980	2.0	**1993**	8.3
1981	2.9	**1994**	8.8
1982	3.0	**1995**	9.3
1983	3.9	**1996**	9.4
1984	4.6	**1997***	**9.7**

Source: Economic and Social Indicators (1962-1996), Secretariat of Planning: Libya, 1997: 42-48.
** Economic & Social Achievements in 28 years 1998: 11.*

Figure 7.2: Budget and oil prices from 1970 to 1996



During the 1981-1996 period, oil prices had experienced a steady decline and then a weak recovery. The recovery in oil prices had not been followed by an increase in the State's budgets and actual expenses. The decline in the State's budgets and expenditures in that period could be attributed also to the UN sanctions that had been imposed on Libya during the 1990-1999 period (See Chapter 2). The SI's Planning and Following-up Department Manager pointed to the effect of oil prices decline on the SI new projects by stating that

> "The execution [of new projects] process depends to a great extent on the foreign exchange needed and available. In some cases, it is not possible to execute a project because of foreign exchange shortages that has a strong relationship with the decrease in oil prices in the last a few years."

The non-oil manufacturing and construction sectors, which account for about 20 per cent of GDP, had expanded from processing mostly agricultural products to include petrochemicals, iron, steel and aluminium.

In the light of the government's encouragement towards the establishment of private businesses in the 1990s, the SI offered a number of projects to be invested in by domestic or foreign businesses. According to the 1997 Act regarding Foreign Capitals Investment Encouragement and its implementations, foreign businesses are allowed to invest, establish and run businesses in Libya. The projects offered by the SI include producing light Diesel Engines and light Truck Rear Axles, establishing a chemical complex, and making use of metallic ores and granite rocks (Available Investment Projects in Libya: the SI, 1999). The aims of these projects were to make use of the available raw materials, meet local needs and export the surplus to other countries.

7.7- Companies uniform accounting guide:

In its efforts to obtain comparable and reliable data, and due to the absence of Libyan accounting standards and the equivalent of the UK's Statements of Standard Accounting Practice (SSAP) or the US accounting standards, the SI issued the Uniform Accounting Guide (UAG) in 1988 for companies to use in preparing their accounts and reports. The UAG did not contain accounting and reporting standards but classified and defined financial statements' items and described accounting and costing recording procedures. Prior to the issuance of the UAG, a number of studies by the SI's Industrial Research Centre on the sector companies found that accounting and cost systems in these companies were weak and/or not organised. For this reason, the accounting guide was issued to help companies to develop their accounting and cost systems. The main objectives of the UAG cost system procedures were to help companies to measure production costs, to provide the necessary information for budget preparation process and to provide information to a company's management. The extent to which companies apply the UAG was voluntary and left to companies, which may or may not apply the guide or introduce some adjustments to it to suit their accounting systems. The flexibility in the application of the UAG was mainly due to the diversity in companies' activities and to the differences in their accounting systems.

The UAG described mainly cost accounting systems, records and books, and the structure of the profit and loss account and balance sheet. Financial statements' items were categorised and given code numbers. Assets were given number 1 whereas liabilities were given number 2. Revenues and expenses were numbered 3 and 4 respectively. Adding a number on the right side of each category's code number would indicate to an item within the main category. Following this pattern, financial statements' components were coded. However, companies could add items and therefore codes that were not included in the UAG. The guide was designed to be used through a computer system. The guide also provided a layout of some records and books such as stock, labour, wages and overhead expenses' books (See Appendix 7.3 – Purchasing order and item balance card). The guide also provided a layout of the trade account, profit and loss account, dividends account and balance sheet. Although the issuance of the guide was a step towards applying a uniform accounting system in the manufacturing companies, this step has not been taken any further.

7.8- Data analysis:

Having described the data collected from the SI, this section describes how the interview data were analysed. Initially, interview transcripts and notes were scanned for direct or indirect references to disclosure, accountability, power, control, penalties and related concepts, then all verbatim statements were aggregated (Yin, 1989; Bryman, 1993; Hartley, 1994). Words and phrases related to these concepts were screened and categorised. Tables were used to categorise these words and phrases. The aim of this process was to reduce the data to a manageable form (Miles and Huberman, 1994). Table 7.5 is an example of the use of tables in the analysis process. Comments were made about these words and phrases. Themes and patterns were then identified. Data from official documents were used to support the analysis and provide more understanding to the SI's function and its relationships with companies. The main observations were fed back to the participants during a second visit to the SI in December 2000. The next two main sections analyse the SI's information demand and accountability process.

Table 7.5: Interview data analysis.

Words or phrases	Interview notes	Comments
Pre-designed forms	The SI prepares **pre-designed** information gathering forms to collect companies' information periodically (i.e. monthly, quarterly and annually). (The SI's Commercial Affairs Department Manager)	Power and accountability.
Punishment	In the case of charging a company's People's Committee [Administration Board], the **punishment** could reach sacking the committee...This has happened in two companies in 1999. (The Head of the SI's Performance and Following-up Division)	Accountability and sanctions.

7.9- Information demand:

The SI required information from the sector companies monthly, quarterly and annually. The requested information included information about production, sales, costs and expenses, imports and exports, working hours, wages, safety measures, foreign exchange needed, allocated and spent, and investments. The supply of information can be either ex ante - what is going to be done (e.g. a company's budget)- or ex post - what has been done (e.g. a company's financial statements, production reports, etc.) (Laughlin, 1996). Reports produced by companies were divided into two types - external and internal. For external reports, numbers and data were integrated into the published financial statements and reports. Internal reports were prepared to include detailed data for internal management to inform, evaluate and motivate various levels of management. Information was provided to the SI regularly or upon request through companies' Information System Departments or other departments. Each company had a body responsible for gathering and organising information before sending it to the SI. This information, which covered financial, managerial and production aspects, was sent to the SI's Information Centre where information about the sector as a whole was gathered, (re)organised, and (re)distributed (Information and Documentation Centre, 1996). In addition, companies' information was sent directly to the concerned management or department within the SI. This information was either sent on the SI's pre-designed information gathering forms or the company's own forms.

The Head of the SI's Performance and Following-up Division believed, as he stated in the following quote, that companies' employees' awareness of the importance of information was low and therefore they considered the timing of providing information to some extent as not of much importance.

> "Our problem is that information and data are regarded as trivial and not important. When information is required, the waiting period sometimes is long before receiving the information."

The same point was emphasised by the Head of the SI's Budget Division who stated that "most companies do not have adequate awareness of the importance of accounting."

The delay in providing information affected the accountability process and the implementation of sanctions (Stewart, 1984; Carnaghan et al, 1996). The sanctions point will be discussed in the next section. The SI used formal or informal methods to obtain companies' information.

> "In the case of a delay in providing the SI with information requested, the information is requested personally in the SI's meetings with companies' representatives." (The SI's Commercial Affairs Department Manager)

The more time taken between an action and providing information about it, the more chance for diffusing accountability. From the SI's perspective, companies were not fully committed to providing information within the time period stated by the SI for monthly, quarterly and annual reports or as soon as possible for unscheduled requests. The consideration of information as trivial was a culture aspect that affected the timing of disclosing information. This aspect did not affect only the process of preparing, organising and disclosing the information but also the process of using the information. Therefore, disclosure decisions and accountability relationships were affected by culture attributes (Carnaghan et al, 1996). The following quotes of three interviewees within the SI reflect on companies' commitment to providing information to the SI on timely bases.

> "Companies should provide information within the first ten days of each month to the SI. However, I cannot say that companies are 100 per cent committed to that...It is the 23rd of this month [i.e. January 2000] and we are now preparing for the sector's meeting. The year ended about a month ago. All information is supposed to be here now but still some companies have not provided us with their information yet." (The Head of Performance and Following-up Division) [Sentence in brackets added]

> "Companies are not fully co-operative in providing information." (The Head of Performance and Following-up Division)

> "Companies provide the SI with periodic reports each three-months. Companies are not 100 per cent committed to that." (Planning and Following-up Manager)

Although companies were required by the Libyan Commercial and Financial laws to prepare and provide the SI, among others, with their financial statements within the first three months of each year, companies were not committed to this time-scale. According to the SI's Budget Division report about companies' latest prepared annual reports as in 31/12/1999, of the thirty-one companies supervised by the SI, eight companies had not provided the SI with their financial statements for the fiscal year 1998 until the 31st of December 1999. This delay in preparing companies' annual reports raises two issues: the timing and the usefulness of the information provided in these financial statements.

The Head of the Budget Division within the SI's Companies Department pointed to the effect of not providing the SI with companies' information

> "If a company does not provide the SI with regular accounts and annual reports, we [the SI] may not be able to understand the company's...solvency and financial position...and what problems the company faces. All these affect our decisions." [Sentence in brackets added]

Companies held regular meetings to review their strategies, policies, difficulties and to find ways to tackle existing or emerging problems. Copies of companies' meetings' minutes were sent to the SI which reviews decisions taken by a company from a legal, administrative and financial point of view. The SI analysed these documents and used them as evidence to hold companies accountable for any malpractice and deviance from their objectives. Copies of companies' General Committee or Administration Board meeting's minutes were obtained from the SI. From reviewing the meetings' minutes, it was apparent that companies reviewed their monthly production, sales, and employee reports. Companies also reviewed their expenditures reports, payments to the Secretary of Treasury and Social Security Welfare reports, and debt reports. The main problems many companies faced, which were cited in these minutes, included employees absenteeism, frequent power cuts, inefficient marketing strategy, and low levels of sales due to low levels of quality or demand and high production costs. Companies discussed in their meetings, in addition to the above problems, the Public Control Office comments on their annual reports and the companies' Finance and Accounting Departments response to that. Budgets and financial reports were also reviewed and attested in these meetings. The dominant issue included in most companies discussions was the negative effect of inadequate foreign exchange allocations on their imports, production and sales strategies. The shortage of foreign exchange resulted in deviations from the companies' budget. From these minutes, it appeared that many companies suffered from a shortage in skilled work force in some departments which had led to many of them hiring less skilled personal. This affected production and quality levels negatively. Quality control was an issue discussed in many of these meetings and emphasis was put on maintaining high levels of quality. In this context, the SI's Quality Control Manager stated that "the modern concept of quality is producing goods or providing services which satisfy consumers and with the lowest cost possible." Companies had emphasised that the Quality Control Department's position in the hierarchy and therefore its accountability should be to the top management and not to the medium management. This view was consistent with the SI's Quality Control Manager's attitude towards the Quality Control Department's position in the hierarchy.

> "I have an idea, which was refused [by the SI], about the position of Quality Control Department in companies' hierarchy. Companies' Quality Control Departments should be accountable to the SI as the case with Finance Controllers and their relations with and accountability to the Treasury. Quality control officers in any company should be managerially accountable to the SI to avoid being influenced by parties within the company." (The SI's Quality Control Manager) [Sentence in brackets added]

However, the SI's Quality Control Department was a unit within the Production Department until 1997 when the former was established. The SI's Quality Control

Manager considered the establishment of this department as a big step towards improving the sector products' quality. Other problems the SI's companies discussed in their meetings included:

- The shortage in storage spaces and the conditions of the current ones which affected the production and sales processes.
- Communication and transportation inefficiency were considered as problems that affected companies' production, particularly companies with branches across the country.

The giving and receiving of accounts influence the way accounts' producers and recipients perceive and relate to the source and the audience of the account. The relationship between the source of an account and its audience is governed by universal and historical aspects of accountability (Willmott, 1996) that may involve the exercising of power and control to which we turn next.

7.9.1- Power and control:

While legal requirements may indicate that certain information must be disclosed, the quality and quantity of those disclosures are often at management discretion (Carnaghan et al, 1996). Penalties imposed on companies due to their malpractice and delay in providing information are either explicit or implicit. These penalties were found to be different in liberal market and central market economies (Earnhart, 1999). In the SI context, explicit penalties included blame letters, suspending or sacking a company's manager or Administration Board, and foreign exchange reallocation to more successful companies.

> "Companies are blamed not only for the delay in providing information but also for any malpractice." (The Head of Performance and Following-up Division)

> "In the case of charging a company's People's Committee [Administration Board], the punishment could reach sacking the committee...This has happened in two companies in 1999." (The Head of Performance and Following-up Division) [Sentence in brackets added]

> "In the case of [production decline], the remainder of a company's foreign exchange is reallocated. If the SI believes that a company is inefficient, it may reallocate the company's foreign exchange budget to other companies." (The SI's Planning and Following-up Manager) [Sentence in brackets added]

Implicit penalties included delaying or denying a company the right to spend its foreign exchange budget. Further, companies avoided being punished in terms of delays in completing some procedures (i.e. importing, pricing and foreign exchange procedures) or attesting their budgets by the SI through implementing the SI's targets and instructions. Suspending or sacking a company's board or manager was an alternative the SI applied when companies functioned insufficiently. The Head of the SI's Performance and Following-up Division, in the above quote, provided an example of sacking companies' committees. However, imposing penalties can be considered as the application of the principal's power over the agent to perform as agreed.

There were a number of ways through which the SI influenced and to some extent controlled companies' decisions. These included holding either periodic meetings with the sector's companies or separate meetings with some companies individually or in groups. The influence of the Libyan side, which is appointed by the SI, in companies' Administration Boards, General Assemblies and Watchdog Committees (See Chapter 2) was another way through which the SI affected companies' decisions. There was also the effect of foreign exchange budget allocation process on companies' targets. According to the available foreign exchange, the SI determined companies' production targets. In this respect, the SI's Companies' Affairs Manager stated that

> "Budget is prepared upon a production plan that is put according to the SI targets and is restricted by the foreign exchange available. The Production plan is put to all companies...the foreign exchange needed to produce each product is determined...For instance, if producing 1,000 units of product A requires $10,000 and the target is to produce 9,000 units, the foreign exchange needed is $90,000. Based upon that, a comparison is made between the exchange needed and the exchange available upon which the budget is prepared."

The SI was not always able to force companies to provide information. The SI can request the information and impose sanctions upon companies that do not provide information. The SI used its majority in companies' General Assembly to exert pressure on companies to change, introduce or achieve their goals.

> "The SI may not be able to influence directly the company's decisions particularly in the case of the existence of a foreign partner. Therefore, the SI uses the General Assembly, which puts the company's policies, to put pressure on or introduce a change in the company ... The SI influences the General Assembly because it nominates most of the Assembly members." (The Head of the Legal Division in the SI's Companies Department)

Another step in which the SI influenced companies' decisions was the issuance of a Uniform Accounting Guide (See section 7.7). The SI issued the Uniform Accounting Guide to be used by the sector's companies as guidance in relation to their accounting and costing systems.

Having described the process of information demand and supply between companies and the SI, the next section describes the accountability construction process and the role of information in this process.

7.10- The SI accountability construction process:

Equivalent departments within the SI and the industrial sector companies held regular meetings with each other. The SI's and industrial sector companies' departments provided each other with their accounts for their obligations and achievements. Part of the accountability relationship between the SI's and companies' departments was enacted synchronically. The Head of Performance and Following-up Division in the SI's Companies Department stated that

> "There is another type of meeting. It is the meeting of the equivalent administration in the SI and companies. For example, the Commercial Affairs Department in the SI holds regular meetings as part of the control process with companies' Finance Managers. We here, as Companies Department, hold periodic meetings regarding companies' debts and budgets with companies' Finance Managers."

The type of accountability between the SI's departments and their equivalent departments in companies depended on the nature of each department's duties and activities. Departments within the industrial sector companies had relationships with the equivalent departments in the SI. The SI advised the industrial sector companies to establish departments equivalent to those existing in the SI as appropriate. For instance, the SI's Production Department had contacts with, inter alia, companies' Production Departments. The SI's Production Department assisted companies in achieving their targets through facilitating the procedures of purchasing new tools and introducing new production technology. Companies' Production Departments on the other hand were accountable to the SI's Production Department for maintaining production levels. Similarly, the SI's and companies' Quality Control Departments held bilateral meetings in which accounts were provided. The accountability relationships between these departments indicated that accountability was executed in part synchronically as well as chronically. However, personal relationships and social attributes played an important part in constructing and discharging accountability within and between the SI and the industrial sector companies.

The SI accountability relationships will be discussed in the next sections from three different angles; accountability within the SI, the SI accountability to others and holding others to account. Within each category, accountability procedures will be explored and discussed.

7.10.1- Within the SI accountability:

Departments and Divisions within the SI's hierarchy were accountable to each other and to their immediate superiors in the sense of following instructions and providing each other with information. Hierarchical and reciprocal accountability modes were identified between the SI departments. These departments were accountable for their actions to their superiors in the hierarchical form, which is referred to sometimes as an *upward* form of accountability. The Head of the Performance and Following-up Division in the SI's Companies Department explained the hierarchical mode of accountability within the SI by stating that

> "The process in the SI starts with an employee providing a report to his superior in the department. The Head of the department then transfers the report to the Production Affairs Deputy. The latter then provides a report to the General Deputy who then sends a report to the SI Secretary."

In the reciprocal form of accountability, not only were subordinates accountable to their superiors for their conduct but superiors were also accountable to subordinates for some of their actions. The following two quotes describe this form of accountability in relation to budget preparation.

> "We [the Budget Division] require companies to provide us with their budgets before the beginning of each year...The budget is considered as the company's future plan which is prepared upon specific targets." (The SI's Head of the Budget Division) [Sentence in brackets added]

> "This information [the budget] is sent to the Production Department and the Commercial Affairs Department to determine imports and foreign exchange needed." (The Head of the Accounts Division in the SI) [Sentence in brackets added]

The above quotes indicate how not only companies and the SI but also the SI's departments were accountable in preparing the sector's budget and determining foreign exchange allocation.

The SI's Companies Department was accountable for keeping track of companies' production and sales policies, budgets and annual reports preparation, and other administrative matters. The SI's Production Department was accountable to the SI's Production Deputy for ensuring that companies keep up with pre-agreed production levels. The quality of these products was the responsibility of the Quality and Control Department, which was accountable to the Technical Affairs Deputy. The Project Planning and Following-up Department co-ordinated its effort with the Companies Department and the Production Department by providing information to each other regarding, inter alia, companies' production and sales targets, expenses and revenues, and foreign exchange allocated to help companies achieve their objectives. The SI can help companies to achieve their targets by negotiating the foreign exchange allocation process with the Secretary of Treasury and the Libyan Central Bank, seeking the repayment of companies' debts, and facilitating import and export procedures. The following quote captures some of these issues.

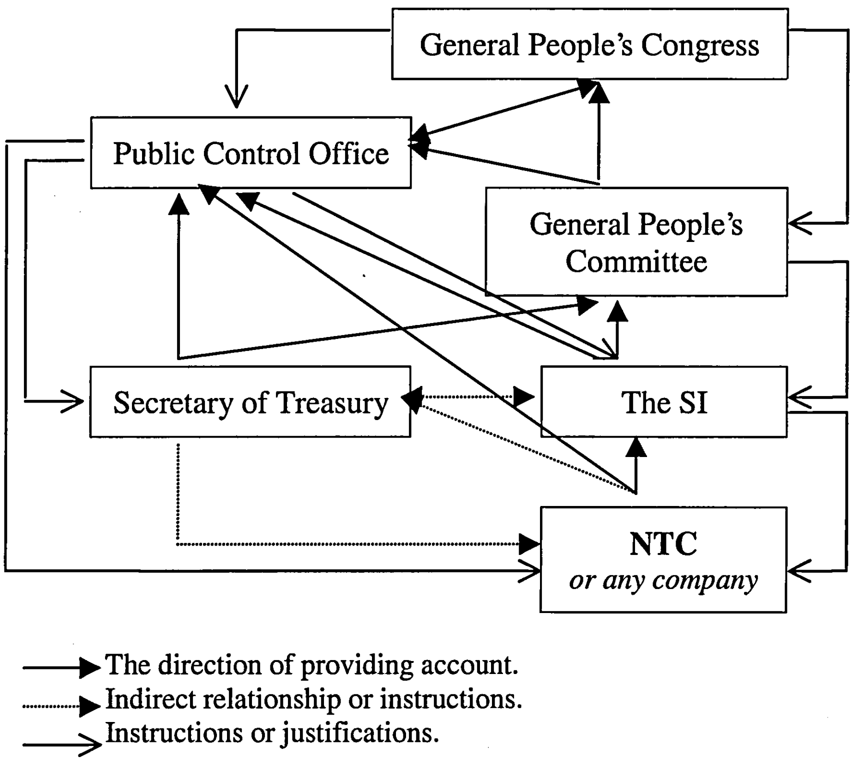
> "If a company suffers from some problems, the SI tries to help and advise her...The help is *not financial* but *technical*...for instance, if a company suffers from some sort of stagnation, the SI advises the company on how to improve its liquidity and revenues. In some occasions, the SI helps the company, for instance, to get its debts from other public bodies by writing to them or to the Treasury and/or the General People's Congress." (The Head of the SI's Budget Division) [Emphasis added]

The SI's Commercial Affairs, Production and Companies Departments were accountable to each other for providing the data required by each other. The Research and Development Department was accountable to the SI's departments and companies whereas these departments and companies were accountable to the Research and Development Department for providing it with accurate and adequate data to carry out its tasks. The department was involved in searching for new ways and tools for production and providing training programmes to the industrial sector employees. The Information and Documentation Centre was accountable to the SI's departments in terms of preparing and providing information to these departments. The SI departments are accountable to the SI's Information Centre for providing the centre with the information obtained from companies. Companies sent their information either directly to the Information Centre or to other departments within the SI. Bottom-up accountability discharging was identified in the process of information flow where officers at low levels provided their reports and accounts to top level management. On the other hand, top-bottom accountability discharging occurred when managers at top management levels provided their accounts to managers and employees at low levels. The former was carried out either upon request from the top management or as institutionalised routines whereas the latter occurred often voluntarily.

7.10.2- Accountability to others:

The SI was enmeshed in a web of accountability relations with outside bodies (Sinclair, 1995). The SI was accountable to the General People's Committee, the Public Control Office, the General People's Congress, the Secretary of Treasury and the public. It was also accountable to the sector's companies in the sense that it provides them with technical assistance and legal advice. The SI also provided its help to companies in the processes of budget ratification, foreign exchange allocation, importing and exporting facilitation, and international relations. Therefore, the SI and companies were characterised with reciprocal accountability relationships. Figure 7.3 illustrates the SI's accountability relationships with the sector companies (e.g. the NTC), the General People's Committee, the General People's Congress, the Public Control Office and the Secretary of Treasury.

Figure 7.3: The SI's relationships and accountability to other parties.



The SI's accountability to the General People's Committee was discharged through providing the latter with periodic reports about the sector's plans and achievements. Although, the SI did not have a direct and formal relationship with the General People's Congress, it was accountable to it indirectly through the General People's Committee. The SI was also accountable to the Secretary of Treasury for the ways it spent and collected its resources. However, although the SI accountability relationships with the NTC were the focus of this study, the SI's accountability relationships with the Secretary of Treasury, the Public Control Office and the General People's Congress were considered as they constituted the SI's context. The SI was accountable to the Secretary of Treasury for advising the sector companies to make their payments of taxes, custom fees, social welfare and the State's portion in the companies' profits to the

Secretary of Treasury. It was also accountable to the Secretary of Treasury for providing it with the sectors budget and foreign exchange needed. The SI was accountable to the Public Control Office in the sense that it must, in accordance with the Act No 11 of 1996 governing the Public Control Office, provide it with the sector plans and achievements and justifications for any malpractice. The SI's accountability to the General People's Congress was discharged mainly by providing the latter with the sector reports through the General People's Committee.

7.10.3- Holding others to account:

The SI held companies under its supervision accountable for executing their policies and plans. The General People's Congress as the Libyan highest legislative body was accountable to the SI for passing laws and decrees to help the sector to achieve its objectives. The SI also held the Secretary of Treasury to account for budget and foreign exchange allocation. This occurred in the General People's Committee meetings where Secretaries provided their accounts. The SI held the Secretary of Treasury accountable in part for companies' malpractice or not achieving their targets due to the shortage or delay in providing the foreign exchange needed. The type of information the SI required from companies (e.g. NTC) reflected different forms of accountability. The accountability forms which were described in the SI-companies relationships included financial and managerial accountability (Sinclair, 1995). The relationship between the Secretary of Industry and the sector's companies was described by an interviewee as a *father-son* relationship (The Head of Performance and Following-up Division in the SI). The father-son metaphor (which will be explored further in chapter 9) was used by the interviewee to refer to the relationships between the SI's Companies Department in particular and the SI in general and the sector's companies. Embedded in this metaphor is the accountability relationship where the son (a company) is accountable to the father (the SI) for spending, protecting and managing his (the company's) resources. The father on the other hand is accountable to the son for providing him with all necessary meanings – financial or non-financial - (which include foreign exchange needed in the case of companies) to achieve pre-agreed goals. The use of this metaphor also reflected the father's power through which instructions are given to the son. Therefore, reciprocal but unbalanced accountability relationships exist between the son and the father.

Other forms of accountability were identified in the SI's relationships with the sector companies. Legal accountability was recognised as companies were required to provide the SI with their information in accordance with Libyan Financial and Commercial Laws. The SI's Budget Division Manager stated that "Legal action may be taken against companies that are late in preparing their annual reports." Companies were also obliged to establish certain bodies (e.g. General Assembly) and to follow particular procedures (e.g. prepare annual reports). From the legal point of view, the SI's Legal Division was responsible for, inter alia, making sure that companies had a General Assembly and an Administration Board bodies that were established in accordance with Libyan laws. Furthermore, the SI's legal Division advised the SI and the sector companies on how to act lawfully when conflicts arise between these companies and other parties.

7.11- Conclusion:

The above sections highlighted the SI's main information requirements and accountability relationships. Information flow from companies to the SI and its relationship with power structure was considered. Although companies provided the SI with information about many aspects of their activities, the quality of this information was questioned due to the lead time of providing the information. Companies' unawareness of the importance of information, as many interviewees within the SI believed, was the main factor that led to the delay in providing information. Accountability to others, holding others to account and accountability within the SI were described and analysed. The next chapter will provide and analyse the data collected from the study's second case study, the National Trailers Company.

Chapter 8

Accounting information disclosure and accountability relationships

'The case of the National Trailers Company'

8.0- Introduction:

The previous chapter provided and analysed the data collected from the Secretary of Industry. This chapter is devoted to describing and analysing the data collected from the National Trailers Company, the study's second case study. The chapter describes the company's management structure, disclosure policies and practices, and accountability processes. A historical background of the company is provided next. This is followed by the research design section, which describes data collection methods and the data collected. The company's management and financial system are then described. The chapter then describes and analyses the company's disclosure policies and practices and accountability processes.

8.1- The National Trailers Company background:

The National Trailers Company (NTC) was one of the thirty-one companies supervised by the Secretary of Industry. The NTC is located on the North West coast of Libya about twenty kilometres east of the capital city, Tripoli. It was established in 1981 with a capital of LD7,600,000. The company was a joint venture where the Secretary of Industry (SI) owned 75 per cent of its capital and an Italian company, Calabrese, owned 25 per cent of the capital. The company's capital was divided into 76,000 shares with a face value of LD 100 a share. The SI and Calabrese paid LD 5,700,000 and LD 1,900,000 respectively for the company's capital. Article No. 11 of the company's article of association (i.e. the agreement between the SI and Calabrese to establish the company) prohibited Calabrese from selling part or all of its shares to a third party without permission from the Secretary of Industry. In contrast, the Secretary of Industry did not need permission from Calabrese to sell all or part of its shares. Calabrese offered various types of arrangements in different countries in connection with local needs. In some places, licences and know-how transfer arrangements have been offered with, as in the case of the NTC, or without direct involvement in the share capital. The NTC, under a license from Calabrese, undertook the manufacturing, trading and maintaining the fitting and equipment for trucks in accordance with Calabrese's specifications. The company produced up to twenty-six products that included tipper bodies and trailers, drinking water tanks, cesspool emptying, refrigerators, concrete mixer, semi-trailer cement carries, refuse compactor, sewer-cleaning, and fire-fighting equipment for different kinds of trucks.

The National Trailers Company was chosen as a case study for this research. Collecting data from the NTC requires a research design to which we turn now.

8.2- Research design:

The aim of this study is to understand accounting information disclosure policies and practices and accountability processes in a democratic socialist context of Libya. Exploring disclosure and accountability issues within the National Trailers Company context would provide an understanding of how disclosure is practised and accountability is constructed, changed and discharged in this setting. The aim of this section is to describe the data collection methods used and the data collected from the National Trailers Company.

8.2.1- Data collection methods:

Data was collected from the National Trailers Company by means of interviews, questionnaires, document analyses and observation. Social and personal relationships played an important role in supporting the formal request to collect the data from the company. Thirteen semi-structured interviews were conducted with officials within the company to understand the disclosure and accountability processes. All participants were male and included the Finance Manager, the Commerce Manager, the Production Manager, the Internal Auditor and the Executive Manager. Other interviews were held with Heads of Departments and Offices within the company. The interviews, which were held between January and March 2000, ranged from forty-five minutes to two hours in duration and were held in some cases in two stages with the same interviewee. Some interviews were held with more than one participant at the same time. A checklist of issues was used to guide the questions, a copy of which was given to participants (See Appendix 6.4 - The NTC interview schedule). Interviewees were allowed the time to express their answers without interruption. Of the thirteen interviews conducted in the NTC, only one interviewee agreed to have the interview tape-recorded. This interviewee sometimes switched off the tape recorder to comment on issues which he believed were sensitive. Notes were taken during these interviews followed by the writing up of the interviews' transcript immediately after finishing each interview.

In addition to interviews, twenty-eight questionnaires were distributed to the company's Managers and Heads of Departments and Offices. Twenty questionnaires were collected. The questions focused on the company's internal and external accountability relationships. Of the returned questionnaires, thirteen questionnaires were answered during interviews. In these interviews, the questionnaire questions were used to guide and develop the interviews. Therefore, the data collected through interviews included answers to the questionnaire questions. Furthermore, the researcher was given permission to review some of the company's documents such as production and sales reports and annual reports. Other data was collected by being present in the company and being involved in informal talks with employees.

8.2.2- Description of data collected:

The data collected from the company included interviewees accounts, returned questionnaires, reports and documents. Interviewees were asked to describe their jobs, responsibilities, accountability relationships and the company's disclosure policies and practices. They were asked to describe their relationships with the SI, the Secretary of Treasury, the Public Control Office and the public. Documents obtained included the company's annual reports for the period 1993-1999, the company's budget for 1999 and 2000, the 1999 production, sales, expenditures and employees reports, the Internal Auditor report for 1999, the company's charts for 1981-1994, 1995-1997 and 1998-2000, a description of the company's Departments and Offices responsibilities, the company's article of association (the company's establishment contract) and the company's Financial System. The data collected was used to describe the company and its disclosure practices and accountability process. Upon the data collected, the next section describes the company's profits, production and sales.

8.3- The company's profits, production and sales data:

The company was established in accordance with the SI's decree number 47 of 1981 and has made profits since. The company's profits for 1993, 1994, 1995, 1996, 1997, 1998 and 1999 were LD 508,000, 274,000, 302,000, 1,097,000, 307,000, 350,000 and 154,000 respectively. The company's annual profits were distributed, whenever the

General Assembly decided that, between the Secretary of Industry and the Italian company, Calabrese, on 3:1 basis. The NTC had to deduct from its annual profits before making any dividends, according to the establishment contract, 5 per cent for legal provision, 10 per cent for research and development, and no more than 25 per cent for workers remuneration. The General Assembly had to decide what to do with the remaining profit.

The NTC achieved LD 8,869,000 in production during the year 1999. The levels of production were LD 4,585,000, 4,730,000, 10,279,000, 12,161,000 and 10,299,000 for 1994, 1995, 1996, 1997 and 1998 respectively. Since the NTC was the only company that produced the products mentioned above, customers not only had to make their payments to the company in advance but they may also have waited up to three years, according to the Public Control Office report of 1995, before they received their purchases. The NTC's Executive Manager indicated in an interview that the waiting period was reduced to about six months (or at least so when the research was carried out). The *'Pay and Wait'* policy was applied in the company. However, there were several reasons why this company in particular or other companies in general were not able to provide their products in a shorter time. These reasons were cited in the Secretary of Industry's Production Activity Reports of 1995, 1996, 1997 and 1998 and included: the shortage in production material due to the delay in allocating foreign exchange, insufficient budgets to meet the companies' targets, administration's instability, production halts due to problems in water and power supply and the shortage of cash available to some companies. The company's annual sales for 1994, 1995, 1996, 1997, 1998 and 1999 were LD 5,879,000, 5,982,000, 14,215,000, 13,842,000, 13,270,000 and 10,149,000 respectively.

From the above figures, it was found that there was a relationship between the level of production and the level of sales. The increase in the company's 1996 profit was due mainly to the increase in production and in sales. Table 8.1 illustrates the company's sales, production and profit for the years 1994, 1995, 1996, 1997, 1998 and 1999. The increase in production costs and the decrease in profits in 1997 were due to a wages increase, the start of operation of two production units and the increase in the material used in the production process due to the increase in production levels.

Table 8.1: Sales, production and profit comparison* (The amount in LD'000')

	1994	1995	1996	1997	1998	1999
Profit	274	302	1,097	307	350	154
Sales	5,879	5,982	14,215	13,842	13,270	10,149
Production	4,585	4,730	10,279	12,161	10,299	8,869

* Data based on NTC's annual reports for the above years.

In addition to preparing the annual reports, the company prepared, before the end of each year, a budget for the following year. The expected sales were the starting point in preparing the budget. The company's Marketing Department supplied the Budget Department with the expected sales for the following year. Then the company's production plan to meet the expected sales was prepared based upon the company's production capacity and ability. In the NTC, as in many other companies, and due to the need for foreign exchange to import production requirements and materials, companies' production targets were often reduced by the Secretary of Industry to the levels of the foreign exchange available and allocated to the company(ies).

8.4- The NTC management:

Based upon the data collected, the NTC management consisted of three bodies: the Administration Board (AB), the General Assembly (GA) and the Watchdog Committee (WC). A brief description of these bodies and their responsibilities in the NTC context is provided below.

The Administration Board:

The Administration Board in Libyan joint venture companies depends upon the article of association between the Libyan side and the other partner(s). The Board is to be headed by a Libyan according to Article 35 of the 1970 Commercial Act. The Head of the Administration Board in some joint venture companies - as in the NTC - is at the same time the Executive Manager. In the NTC, the Administration Board consisted of eight members. Six of them were Libyans, including two from the company. Those members were appointed by the General Assembly. The other two members were Italians and appointed by the Italian partner, Calabrese. In addition to the Administration Board's eight members, Watchdog Committee members and the Internal Auditor attended the company's Administration Board meetings. The Head of the Administration Board is obliged to send the company's financial statements to the

Watchdog Committee thirty days before the General Assembly meeting. The construction and duties of the General Assembly will be explained next.

The General Assembly:

The NTC's General Assembly consisted of the company's shareholders, the SI and Calabrese, and was headed by the Head of the Administration Board. Six people represented the SI and two people represented Calabrese. The Assembly reviewed the company's production activity, investment volume, debt status and financial reports. It ratified the company's annual reports and studied the company's responses to the Public Control Office for its comments. In the process of auditing the company's annual reports, the Public Control Office required the company to reply to its comments. The Assembly prepared the company's plans and policies, ratified the budget, adopted depreciation policies, and decided on how to deal with provisions. The SI appoints its representative in the General Assembly who should be working within the industrial sector but not within the NTC. Calabrese also had to appoint its representative in the General Assembly. The NTC's Executive Manager headed the General Assembly meetings which were to be attended by the company's Watchdog Committee members. A description of the Watchdog Committee responsibilities is provided next.

The Watchdog Committee:

The NTC Watchdog Committee was composed of three Libyans appointed by the General Assembly and an Italian who was appointed by Calabrese. There are two conditions for appointing the Libyan side in a company's Watchdog Committee. First, the nominee should be working within the industrial sector - the SI or any body attached to the SI such as the High Institute for Industry, Industrial Research Centre, etc. Second, the nominee should not be working in any of the SI's companies. The Libyan side of the NTC Watchdog Committee, in fact, consisted of government officials working within the industrial sector. The committee held meetings at least once every three months to make sure that the company had its assets and money kept in good conditions and with the same amount that appeared in the company's records. To achieve this, either all or one of its members were required to make expected and/or unexpected visits to the company to check, investigate and audit its records. The aim of this process was not to substitute the Internal Auditing Office and the Public Control Office in auditing the company's accounts, but to provide reports to the General Assembly to whom the Watchdog Committee was accountable.

> "The committee [Watchdog Committee] should always come to the company to attend the meetings but honestly they do not." (The NTC's Executive Manager) [Sentence in brackets added]

Having described the NTC's management structure, the next section will provide a description of the company's chart.

8.5- The NTC chart:

A chart is a helpful tool in identifying and explaining formal relationships and accountabilities within firms. The data collected showed that the NTC had kept its first chart from 1981 to 1994 without any changes (See Appendix 8.1 - The NTC's 1981-1994 chart). The first chart consisted of six Offices, four Administrations, thirteen Departments and seven Units. The Offices and Administrations were accountable to the Executive Manager who was also the Head of the NTC's Administration Board. The NTC's Offices were the Legal Office, the Information System Office, the Planning, Development and Following-up Office, the Safety Office, the Quality Office and the Internal Auditor Office. The NTC's Administrations were Finance Management, Administration Management, Trade (Commerce) Management and Production Management. Under each management there were a number of departments. However, this chart was changed in 1995 (See Appendix 8.2 - The NTC's 1995-1997 chart) where some Departments and Administrations were added, abolished, joined or disjoined. The 1995 chart had been kept for only three years before a new chart was developed in 1998. The 1998 chart, which was still in operation (at the time the research was carried out), consisted of six Offices, six Administrations and seventeen Departments (See Appendix 8.3 - The NTC's 1998-2000 chart). The Offices and Administrations that were accountable directly to the Executive Manager included the Legal Office, the Information System Office, the Planning, Development and Following-up Office, the Safety Office, the Quality Office, the Internal Auditor Office, Finance Management, Administration Management, Trade Management and Production Management. However, the SI had to approve any changes in the sector companies' charts. Justifications had to be provided to the SI to endorse these changes. The company's Executive Manager stated that these changes were executed "upon the company's needs, future plans and the SI's instructions."

By comparing the 1981 and the 1998 charts, it is noticed that, inter alia, the Accounts and Budget Department was divided into two separate departments, the Accounts

Department and the Budgets Department. The Stock Department and the Costing Department were joined to form the Costing and Stock Department. However, each Department, Administration and Office had specific duties. A description of some of the NTC Offices', Administrations' and Departments' tasks will be provided next.

The Internal Auditing Office, which can be considered as one of the company's control mechanisms, was obliged to audit the company's records and books, payment documents and procedures, money and cash balances, and review the inventory reports. The NTC's Internal Auditor, who was appointed by the Executive Manager, listed his main obligations as to auditing the company's payments, sales and entries. However, he described three types of auditing the Office was involved in: accounts auditing, document auditing and technical auditing. The Office prepared a report to the Executive Manager every three months. The report was then sent to the SI's Production Deputy. Although the Office worked very closely with the Finance Management, it answered to the Executive Manager. The Finance Management, which consisted of the Budget, Accounts and Cost departments, was obliged to apply the right accounting procedures according to the Libyan Commercial Code, the Libyan Financial System Law and to follow the instructions given by some government bodies (i.e. the Public Control Office, the Tax Office). The Budget Department, which operated under the Finance Management, prepared the company's budget and financial statements and reports. The Accounts Department prepared employees' salaries, wrote payment cheques and compared the company's money balances in records and banks. The Costing and Stock Department suggested and applied the company's cost system, determined the production cost per unit, prepared monthly reports on costs of production, and reported on variances from the budget. The company's financial system is described next.

8.6- The NTC Financial System:

The company's fiscal year starts on the first of January and ends on the 31st of December each year. The company's main revenues were generated from selling its products. However, other revenues were obtained from loan interests and selling other assets. The company held the following books as part of its accounting system: the journal sheet, expense book, cash account and checks book. The Finance Management is required by the company's Financial System to prepare monthly a trial balance account and a comparison between actual and estimated production values and costs. It should also analyse any variances and report this to the Executive Manager within the first ten days of the following month.

The company's Financial System requires the company to prepare its balance sheet and profit and loss account within two months of the fiscal year end. Then, the Internal Auditor reviews, within two months at most, the company's financial statements before the company sends them to the Public Control Office. The Public Control Office appoints an auditor to audit the statements and makes a report to the company's General Assembly. The appointed external auditor is either an auditor working within the Public Control Office or a self-employed (independent) auditor. The Public Control Office appoints independent auditors to audit companies' financial statements whenever it suffers from auditing staff shortages.

However, the Libyan Financial System Law of 1967 requires that all-Libyan companies to have a Finance Controller, who works very closely with the Finance Management. The Finance Controller, who is appointed by the Secretary of Treasury, is not accountable to the company's management that he/she works in but to the Secretary of Treasury. One of the Finance Controller's responsibilities is to make sure that companies are committed to and do not exceed their budgets. They also supervise finance departments and make sure that these departments apply the right accounting procedures and policies. Finance Controllers must provide the Secretary of Treasury with a monthly report on the organisations' expenditures as set forth by the Libyan Financial System Law (See Chapter 2). They have to provide their approval on all organisations' payments that exceed a pre-agreed upon amount. However, they are independent bodies attached to organisations and provide their reports to the Secretary of Treasury. They also provide a copy of their reports to the body supervising the organisation they are reporting on.

8.7- Data analysis:

Having provided a historical background of the company and described the company's management structure and financial system, the next sections analyse the data collected from the company. The data collected was used to explore how participants understood and practised accounting information disclosure and accountability process. Initially, a content analysis of interview transcripts and interview notes was undertaken by scanning for direct or indirect references to disclosure, accountability and related concepts such as responsibility, secrecy and openness, then aggregating all verbatim statements (Yin, 1989; Bryman, 1993; Hartley, 1994). The meanings attached to the emerged themes were then explored and put into context. The observations were then fed back to participants in the company in December 2000. This process enabled the researcher to verify and improve the observations. Exploring how the company's interviewees understood and practised disclosure and accountability is the aim of the following analysis. The next sections will discuss the NTC disclosure practices and the relationships between disclosure and the economic system, the timing of disclosures and the secrecy attributes. These sections will be followed by an analysis of the company's accountability process.

8.8- The NTC's disclosure practices and the economic system:

The NTC provided the Secretary of Industry monthly, quarterly and annually with production, sales, expenses, employees, etc. reports. Table 8.2 shows the frequency of providing these reports to the SI. Most of this data was provided on pre-designed forms that were designed by the Secretary of Industry and distributed to all companies to make inter-companies comparison easy (See Appendix 8.4 - Production, sales and foreign exchange reports). However, some of the reports the company sent to the SI were provided only quarterly and others annually. The company also provided other bodies (i.e. the Public Control Office and the Tax Office) with these and other reports. However, the company's management and offices' relationship with the Secretary of Industry seemed to be more with the equivalent Offices and Departments in the Secretary of Industry. Although most of the company's official correspondents with the Secretary of Industry had to be sent through the company's Executive Manager, they were directed to the relevant Office in the Secretary of Industry or to the Production Deputy in the Secretary of Industry.

Table 8.2: The frequency of providing reports to the SI.

Monthly, quarterly and annually reports	Quarterly and annually reports	Annually sent reports
• Production report. • Sales report. • Foreign exchange report. • Expenses report. • Employees report. • Health and safety report. • Payments to the Treasury report.	• Debts report. • Current and new projects report. • The Internal Auditor report.	• Annual reports.

Within the Libyan context, companies, which are mainly State owned, were required to provide comprehensive reports to the SI on a monthly, quarterly and annual basis. Similar and/or other reports were to be provided to other users such as the Secretary of Treasury, the Public Control Office, the Tax Office, etc. Therefore, information in this context was provided to a particular public (i.e. the SI, the Secretary of Treasury, the Public Control Office, etc.) and not to the general public. The nature of the economic system applied in Libya explained in part companies' disclosure practices. Since most Libyan companies were either fully or partially State Owned Companies, maximising their market value was not considered as the companies' main objective. Avoiding losses and maximising production levels were the SI's and companies' main concern (See Chapter 7).

Many aspects of disclosure such as the company's president letter and mission statement practised and provided by companies in liberal market economies (Hendriksen, 1982) were not provided by the NTC as part of its annual reports. From a review of the company's annual reports for the period 1993-1999, it appeared that the company's mission statement was provided not within its annual reports but within its budget and mostly in separate leaflets and booklets. The NTC's Executive Manager believed that the information to be included in the mission statement was considered to be tacit knowledge to the SI and other information users. Therefore, there was no need to provide this information in the company's annual reports.

> "There is no need to state this information [i.e. NTC's mission statement] because the information is implicit and available to the people who review the annual reports [i.e. the SI, the Public Control Office, Calabrese, etc.]." (The NTC's Executive Manager) [Sentence in brackets added]

The main information users were the SI, the Public Control Office and the Tax Office. These bodies were generally identified by a number of interviewees as watchdog bodies. However, Libyan companies were obliged by the Libyan Commercial, Financial and Tax laws to provide information to their shareholders and watchdog bodies.

The need for disclosure was realised by a number of interviewees in the NTC who believed that disclosure in Libya, and due to the Libyan socialist economic system, was not needed as much as is the case in liberal market economies. The NTC's Finance Manager commented on Libyan companies' current disclosure practices by stating that

> "Disclosing information to the public who are concerned with studying whether to deal with the company is important...In Libya, we are a socialist and public sector. There are no private shareholders. Therefore, the public is not interested in this data. If there are shareholders and investors, disclosure is possible." (The Finance Manager)

This interviewee related information disclosure to its potential use. He believed that the general public was not interested in the company's information and therefore there was no need to provide the public with that information. The interviewee mentioned the country's economic system as one of disclosure determinants. He established a relationship between the existence of private shareholders and disclosure. Being a socialist State where most of the companies' capital was owned by the State explained partially the low levels of public disclosure. Further, the interviewee asserted that information was provided to particular users. The following quote captures this notion.

> "The non-existence of widespread shareholders as known in other countries limits the disclosure process. We have the SI, the foreign partner as well as watchdog bodies. I am enforced to give or provide them with the data and information required according to laws...The existence of shareholders in liberal market economies involves disclosing information in a wider form. In the socialist economy, there is a public sector and there is no need for disclosure to be wide. This means that there is no need to disclose the information widely except to the watchdog bodies and to parties which request data." (The Finance Manager)

This interviewee stated that information was not voluntarily disclosed to the public or stakeholders but it was provided to watchdog bodies either upon legal requirements, upon request or by event. Even though non-shareholders can obtain the company's information by requesting it from the company, they obtain less information than that provided to shareholders due to their limited power over companies. Due to the spread of shareholders in liberal market economies, information is provided to a wider population (Grossman and Hart, 1980; AlHashim and Arpan, 1992; Carnaghan et al, 1996).

> "We do not disclose accounting information...In Liberal market economies, disclosure is done to shareholders...We may not disclose the information since we supply our shareholders [*i.e. the SI and Calabrese*] with the information they

need...In Liberal market economies, disclosure is wider and more comprehensive."
(The NTC's Internal Auditor) [Sentence in brackets added]

A comparison between the Libyan economic system and liberal market systems regarding disclosure was made in the above quote. In liberal market economies, disclosure is argued to be motivated by market forces and therefore information is provided more openly (Watts and Zimmerman, 1986; AlHashim and Arpan, 1992). In the case of Libya (i.e. the case study), the SI and Calabrese were the company's shareholders and were provided with the company's information. This policy was described as private disclosure policy (Holland, 1998). This indicated that the economic system played a major role in shaping disclosure practices. Therefore, by understanding the economic system of a country, it is possible to predict disclosure practices in that country.

However, the importance of the public knowing more about a company was not emphasised in the NTC setting. The contractual relationship between the company and the SI gave the latter the power to demand information and reports and to investigate the company's records. Providing information upon request was the pattern. The request was either permanent (i.e. reports to be provided each month, quarter, year, etc.) or occasionally, about something as it happens or events as they occur. We can distinguish between two ways through which the company made its information available to others. First, the dissemination of the company's information to outside parties was done mostly to a particular audience upon request and/or in compliance with laws and decrees. Second, access to outside parties, mainly of statutory power, was provided in order to inspect the company's reports. In this case, outsiders (e.g. the Public Control Office) come to the company to review or inspect its reports. The issues of control and power were apparent here. The NTC's Finance Manager, in the above quote, agreed that he is enforced to provide the SI with the information it requires. This indicates that formal accountability was enforced by the SI's statutory power and was enacted through the SI-NTC contractual relationship. Beyond these comments lies the concept of accountability to shareholders. Accountability - public accountability - may be seen as widely spread in liberal market economies since shareholders are widely spread as well. In central planned economies, accountability is expected to be less spread since shareholders are usually concentrated - particularist accountability.

"The absence of a stock exchange market has a relationship with non-disclosure. Not all people need the company's information and therefore who needs the information comes directly to the company. Thus, there is no need to disclose the information." (Accountant A within NTC's Accounting Department)

> "The public is not interested in this [*i.e. accounting*] information...What is required to be disclosed is only the commercial information. Technical commercial information as types and specifications...I do not think...[disclosing accounting information] is important." (The NTC's Executive Manager) [Sentence in brackets added]

From the above discussion, a distinction is made between two kinds of public: general public and particular public. Public disclosure of the company's accounting information was limited to particular public. This was due in part to the fact that the company's shares were not traded on and to the absence of a stock exchange market. The emphasis was more on commercial information (i.e. selling prices) rather than financial information.

The cost of disclosure is another factor which affects disclosure practices (Scott, 1994; Chow et al, 1996). An accountant in the NTC's Accounts Department referred to the cost of disclosure and the absence of a stock exchange market as reasons for the company's non-disclosure policy. Due to the cost of disclosing information and to the limited number of users using the company's information, the company's policy was to keep the information undisclosed. This is different from the case in liberal market economies where information is disclosed and provided to stakeholders.

> "Here [*i.e. in Libya*] disclosure is done upon request. There are parties that are not interested in the company's data, therefore disclosing it is not necessary... Therefore, information should be provided upon request. There is no need to disclose the company's annual reports. But it is possible to disclose information about the company's assets, expansions, future projects, etc." (The NTC's Budget Manager) [Sentence in brackets added]

The interviewee was not in favour of providing numerical information to the public in terms of fully disclosing the company's annual reports. This was due to the interviewee's belief that the public or outsiders are not familiar with accounting and financial data and therefore they may not understand them. The distinction between sophisticated and unsophisticated investors was made in the capital market literature (Bushman et al, 1996). In addition, the low level of disclosure or rather nondisclosure was also due to the extent of using this information. The interviewee believed that the information was used only and for most by government bodies and not by the general public. However, as a result of not disclosing the full annual reports to the public and due to the need to inform the public about the company, the interviewee believed that narrative disclosure is better since it gives the layman information in its simplest form.

A different view about the NTC's disclosure practices was provided by the company's Costing Department Manager who stated that

> "Disclosure should be to the public. Providing the SI with the information is **not** the **correct** meaning of disclosure. Disclosure is done through newspapers and the media. Disclosure here [*in the company*] is upon request. It is upon requesting letters from the SI demanding specific information. The SI may instruct us to disclose some information in the media...Therefore, this cannot be considered as the correct meaning of disclosure. The main reason for that is the non-existence of a stock exchange market in Libya. The data is owned by the State and disclosing it is meaningless." (The NTC's Costing Department Manager) [Sentence in brackets added]

Disclosing the company's information to the public was not believed to be cost-effective. The SI as a principal instructed the company as what and when to disclose certain information through the media. Controlling the company's disclosure policy was a result of the fact that owners control the company's management (Xu and Wang, 1999). The interviewee distinguished between the correct meaning of disclosure and the company's current disclosure policy. The former should be executed to some extent voluntarily whereas the latter was executed upon request.

Regarding the socialist economic system adopted in Libya, the company was accountable to the SI in the sense that it had to apply the socialist ideology rather than liberal market practices. The NTC's Commerce Manager believed that the company would be better off if it was privatised. He commented on that by saying

> "If this company were privatised, it could produce the same quantity or more with lower costs. There are many places where costs could be reduced and improvements introduced...The State is burdened with activities and expenses. State Owned Companies' unnecessary expenses would be reduced or eliminated if these companies were privatised... I think personally that public companies should be privatised and given loans. The State gains high losses because it does everything." (The NTC's Commerce Manager)

This interviewee in the above quote believed that privatisation would solve the company's problems regarding high production costs, the inability to meet local demand and the possibility of exporting its products. This belief was based partially on the interviewee's internalised values and beliefs which had been influenced by his past work experience in a private company in the 1970s when the private sector played an important role in Libyan economy.

8.8.1- Timing of disclosure:

The timing of providing information to the Secretary of Industry, the Secretary of Treasury, the Public Control Office and Calabrese was diverse.

> "The SI requests information monthly, quarterly and annually. The Tax Office requests financial information and reports at the end of the fiscal year. The Public Control Office requests information at the ends of or within the fiscal year. The Public Control Office may request information at anytime." (The NTC's Internal Auditor)

Although the information was provided to both Calabrese and the SI, there were differences in the timing, the frequency and the quantity. The SI required more detailed information, on many occasions and about different issues whereas Calabrese was provided with information usually for meeting purposes. The NTC's Finance Manager, Budget Manager and an accountant commented on the timing of providing information to the SI and Calabrese by stating that

> "There is a difference in timing. The foreign partner's requirements are simple and they consist of the company's financial statements at the end of a fiscal year. The SI requires periodical reports and data at different times." (The Finance Manager)

> "Calabrese requests the company's financial statements, reports and data about its activities for meeting purposes." (The NTC's Budget Manager)

> "The Italian Company does not require specific information that is different from what is required by the Libyan side. The Italian Company requests only the annual report at the end of the fiscal year. The SI requests any information at any time." (An accountant within the NTC's Costing Department)

8.8.2- Secrecy:

The issue of secrecy was identified in the literature (Hofstede, 1984a; Gray, 1988; Baydoun and Willett, 1995) and was mentioned by two accountants in the company's Accounts Department.

> "Information is considered to be secretive and it is given only after getting approval or official letter." (Accountant A within NTC's Accounting Department)

> "Information is not considered a secret because the company is organised. Financial statements are given to anybody requests them." (Accountant B within NTC's Accounting Department)

There was a contrast in the interviewees' opinions about the secrecy of the company's information. There was a conflict in the interviewees' opinions about whether the company's information should be considered secret. Value conflict led to different kinds of response (or accountability) to other parties within or outside the company. The conflict between accountant 'A' and accountant 'B' in the same department may be due to value differences between the two. Interviewee 'B' referred to two things: if the company were organised and achieved its objectives and kept well established records, then its information can be provided openly. If the company were not organised, then information would be better kept undisclosed. This conflict was also related to the educational background of the interviewees. Interviewee 'B' was a postgraduate student in accounting whereas accountant 'A' was a college graduate. However, the NTC's Commerce Manager distinguished between information that should or should not be disclosed.

> "Disclosing commercial information for advertisement purposes is required. We advertise the company's products in the media...The company *should not* disclose manufacturing information since it is one of the company's *secrets*...Disclosing the annual reports is only to specific parties such as the SI and the Public Control Office." (The NTC's Commerce Manager)

The interviewee identified three types of information: commercial, manufacturing and financial information. Each type of information was to be dealt with differently. He was in favour of full disclosure of commercial information. He believed that manufacturing information that includes product designs and developments should not be disclosed. Restricted disclosure of financial information to particular public was required. The Executive Manager made a distinction between secrecy, openness and disclosure.

> "I have never felt that there is certain information which should be withheld except technical information. We have plans and illustrations for which we have a copyright and we do not want to disclose them...Other financial matters could be disclosed." (The NTC's Executive Manager)

Although the company, as the Executive Manager argued, did not have information that it wished to withhold, except technical information (i.e. plans and illustrations), the meaning and content of disclosure were understood by interviewees quite differently. In addition to disclosure upon request or by event to some parties, the company claimed that its information was available to anyone interested. Of course, official approval was required for obtaining information from the company for whatever purpose. The above views of disclosure were different from the view held by the company's Production Department Manager who stated that

> "In my opinion production information can be disclosed to the public or to any other party because it is normal information. But the company cannot disclose financial information. Even the company's employees should not have access to financial information."

Conflict in opinion between the company's Production Manager and other interviews about *what* the company may disclose was identified. The NTC's Production Department Manager believed that financial information should not be disclosed while others believed it can be disclosed. The NTC's Production Department Manager believed, on the other hand, that production information including plans can be disclosed. Others believed that production plans and illustrations should not be disclosed.

The NTC's Costing Department Manager hoped that the company's current disclosure policy will change in the future when he stated that

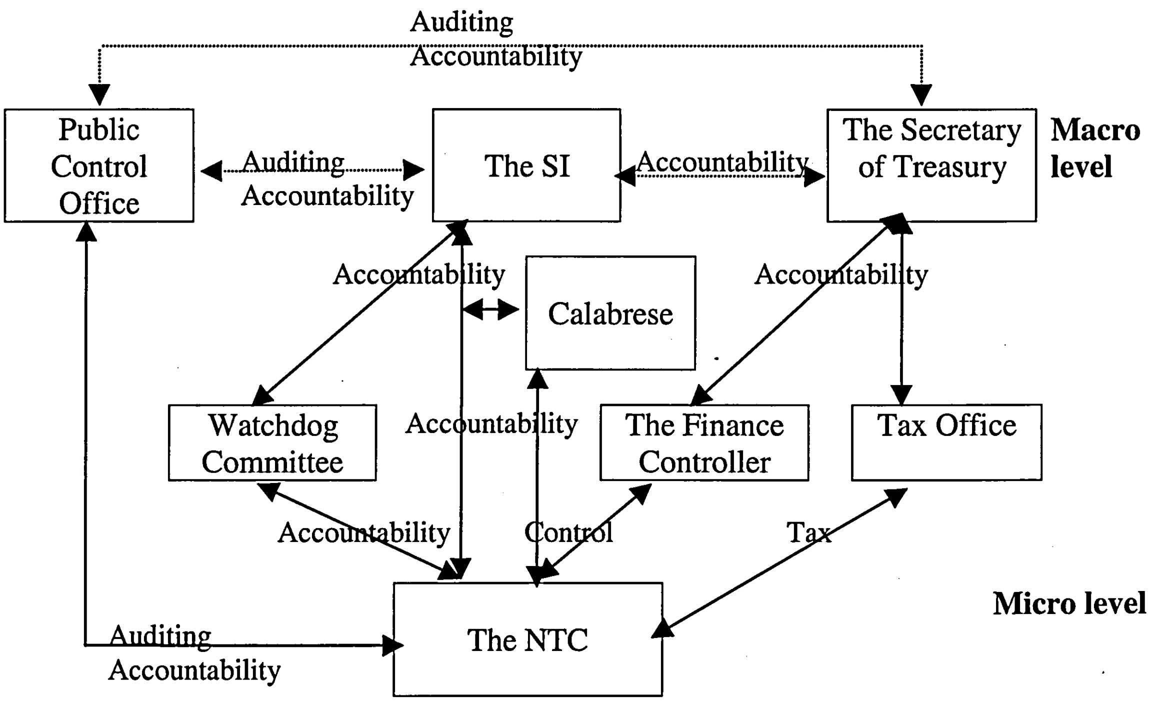
> "Disclosure policy should change. Disclosure should be wider as there are many parties that may need the information." (The NTC Costing Department Manager)

This view of disclosure is related to the process of accountability construction. Providing information to the public (particulars) is related to the accountability relationships between the company and the public (particulars). The ways in which the company's managers understood their accountability is provided next.

8.9- Accountability construction analysis:

The NTC managers (the term managers will be used hereafter to refer to the NTC's Executive Manager and Heads of Departments, Offices and Administrations) were enmeshed in an elaborating web of accountability. They varied in how and in what context they saw and understood their accountability. Managers were tangled in a web of accountability relationships. These included accountability relationships that were established within the company and the company's accountability to others. In addition to the SI, there were other parties to which the NTC was held accountable. These included the Secretary of Treasury, the Tax Office and the Public Control Office, which were identified by a number of interviewees as watchdog bodies. The company was also accountable to Calabrese. Figure 8.1 illustrates the NTC accountability relationships with outside parties. The Figure shows that the company is accountable to the Watchdog Committee and the SI. The Tax Office and the company's Finance Controller were two channels through which the Secretary of Treasury held the company to account. The Tax Office determined and collected the company's income taxes (See Chapter 2). The Public Control Office was another control mechanism that held the company to account. The NTC accountability relationships will be looked at from two angles: accountability to outsiders and accountability within the NTC. The analysis is divided as follows: the NTC's accountability to the SI and other information users will be discussed and analysed first followed by an analysis of accountability forms that exist within the company. Within each section, issues of accountability construction and accountability forms will be explored.

Figure 8.1: The NTC accountability relationships



8.9.1- The NTC's accountability to others:

In the next sections, an exploration of accountability forms that existed between the company and the SI, the Secretary of Treasury, the public and Calabrese will be discussed.

The NTC accountability to the SI:

The information required by and provided to the SI indicated that the NTC disclosed the information to some extent upon the SI's requirements. Many interviewees believed that information in general was provided to the SI upon request.

> "Because the SI is a high authority, any data that is required by them is given … Here disclosure is done upon request." (The Budget Department Manager)

> "The SI requests information monthly, quarterly and annually." (The Internal Auditor)

This information included managerial, production, accounting and narrative information. Most of this information was supplied to the SI on pre-designed forms (See Appendix 8.4 - Production, sales and foreign exchange reports) monthly, quarterly and/or annually. The SI's statutory power allowed it to require the information to be provided in the way it wants. The company reported on many aspects of its activity to the SI. The information provided included financial information, which aimed at providing the SI with a clear picture of the company's financial position and earnings status, and non-financial information. Since the company operates within a central planned economy, the increase in profits was not the ultimate target. However, companies in such economic systems are still required to secure at least an acceptable level of profitability. Increasing production levels and avoiding losses were the company's and the SI's main concern (See Chapter 7). This was reflected in high taxes (up to 60 per cent of taxable income) and the concern about reaching the breakeven point. The NTC level of production was usually determined not solely upon the company's ability and the market needs but also and more importantly upon the foreign exchange available and allocated to the company and the SI instructions. This policy can be seen as a control mechanism by which the SI controlled and set the NTC's targets through the foreign exchange allocation. An interviewee in the NTC explained how the company's budget was prepared and the role of the SI in that when he stated

> "The budget is prepared upon the foreign exchange available and not upon the production capacity. Previously, the budget was prepared upon the company's production capacity or ability. It was then sent to the SI, which allocates the company's portion of the foreign exchange. Based upon that, production and importing processes were done. Currently, the SI allocates the foreign exchange to the company upon which the company prepares its budget. Therefore, the foreign exchange is allocated first and then the budget is prepared upon the available foreign exchange. This could mean operating the plant with less than its designed production capability; 60 per cent of the designed production capability for instance." (An accountant from the NTC)

The company was accountable to the SI in the sense that it had to provide information that portrayed its profits, production levels and costs. The SI was also interested in knowing the company's status regarding preparing its financial statements. The SI was concerned with how the company spent its foreign exchange budget. Therefore, the company was required to provide the SI with full details of the foreign exchange spent and for what purposes. This was then compared with the company's budget to report and make decisions about any variances. The NTC's budget was prepared upon the market demand, the company's production ability, the SI production targets and the foreign exchange available and allocated to the company. Departments within the company's Finance, Production and Commerce Administrations work together to prepare the company's budget.

> "The budget is prepared upon the data provided to us by other departments about their future estimations. The SI determines production targets upon which budgets are prepared. For instance, [*the SI decides that a company should work on*] 70 per cent of the company's capacity. Future projects' data is obtained from the Research and Development Administration. Upon the production targets, determination of the required materials, which either purchased locally or imported, is done." (The Costing Department Manager) [Sentence in brackets added]

The SI required also managerial and administrative information about the company's employees, working hours, safety, etc. The analysis of the data collected indicated that different forms of accountability existed between the SI and the NTC. There was the NTC's managerial accountability to the SI. This accountability was seen as more encompassing with various subtypes: financial, process and programme accountability (Sinclair, 1995). The NTC had to provide the SI with evidence on how it had spent its budget. Process accountability involves providing the SI with information that reflects whether the company had implemented the agreed plans. To discharge programme accountability, the company provided the SI with information that shows whether the company had achieved its targets. However, the NTC provided its information either in the form of annual reports, production reports, sales reports or other reports to specific parties (i.e. the SI, the Public Control Office, etc.).

On some occasions, the NTC treated the SI as knowing some information and therefore did not disclose or provide the SI with that information. However, there are some tasks for which the agent who undertakes them always has more information than the principal (Stewart, 1984; Broadbent et al, 1996). This would have some implications on the methods of accountability the principal imposes. These methods have to recognise the impossibility of making tacit knowledge objectively available to the principal (Broadbent et al, 1996). In the SI-NTC context, a number of control mechanisms such as the Public Control Office and Finance Controllers were established. The establishment of these mechanisms reflected the levels of trust within the SI-NTC context.

> "Where there is low trust the principal will be at pains to try to exert greater control over the behaviour of the agent. Invariably, this will lead to the use of more formal control mechanisms by the principal...Where there is high trust the agent is anticipated to fulfil the expectations of the principal and it follows that sophisticated and formal controls are invariably not seen as necessary." (Broadbent et al, 1996: 274)

Trust is also related to the values held by the principal and the agent. Broadbent et al (1996) argued that value conflict between the agent and the principal will be more apparent when low levels of trust exist. In such situations, more sophisticated control systems are implemented. The conflict between the SI and the NTC led to low trust and therefore the implementation of sophisticated control systems. The SI, through the NTC's General Assembly in which she had the majority, established a watchdog committee for the company. This committee was an important device in the NTC's control system.

The NTC accountability to the Secretary of Treasury:

The NTC's relation with the Secretary of Treasury is important since the latter authorises and attests the company's budget and foreign exchange policy. The Secretary of Treasury, in co-operation with the Libyan Central Bank, allocates the available foreign exchange to Secretaries, Organisations, Institutions, etc. The SI distributes the allocated exchange to its companies and institutions. This is done in co-operation with companies, to know their capacities and targets, and with the Secretary of Economy and Planning, to compare the Secretary's production targets with companies' ability. Therefore, the NTC was accountable for the money allocated to it by the SI and the Secretary of Treasury. Financial accountability was involved here. The company's Executive Manager stated that

> "I am accountable to the extent of resources allocated to me. I think it is a very simple equation. There is at the beginning of each fiscal year a budget and at the end of each year there is a budget. This, I think, is an international equation ... There is a plan which is proposed at the beginning. A comprehensive plan includes training, production, sales, etc. ... We propose the budget ... future plan ... and then they come to hold him accountable as to what extent he has executed the plan. Variance analysis is done to know the reasons for that. From this side, we should give the manager full authority in performing his job. After providing him with a plan and objectives, the manager has to choose the way to achieve these objectives. But sometimes, some pressure is being put on him to perform in a certain way and therefore we cannot hold him accountable." (The NTC's Executive Manager)

The interviewee believed that the pressure imposed on managers by top officials in the hierarchy diffused their accountability. Exogenous factors such as the foreign exchange available and the SI instructions affected the company's performance and therefore limited or diffused its accountability. These factors were to be considered when holding managers to account for their actions. The NTC's accountability to the Secretary of Treasury was also related to the Secretary of Treasury's (the State's) portion in the company's profits. These included tolls, taxes, stamps, tariffs and other rates of charge that the company was to collect for the Secretary of Treasury. The company was therefore financially accountable to the Secretary of Treasury for money spending and collection policies and activities.

The company was also accountable legally to the Secretary of Treasury in a sense that it had to apply Libyan Tax, Financial and Commercial laws. This was done through two mechanisms. The first mechanism is the Tax Office, which is concerned with taxes, tolls, tariffs, etc. that the company is to provide the Secretary of Treasury with. Companies in general are required to provide the Tax Office within two months after the fiscal year ends with their primary tax determination. They are also required to provide the Office with their financial statements and show that they have prepared their financial statements in accordance with Libyan Tax, Financial and Commercial laws and accepted accounting procedures. Of these requirements, the Tax Law requires companies to apply the straight-line method for fixed assets depreciation. The company did not indicate in its financial reports the use of the straight-line method for fixed assets depreciation as it presumed that everybody knew that this method was applied.

The second mechanism is through companies' Finance Controllers. Finance Controllers were appointed by and accountable to the Secretary of Treasury but they work in publicly held organisations. In companies, they make sure that a company applies the financial laws. Being close to the company's daily financial transactions, they are the Secretary of Treasury's eyes on the State's capital. Although they work in publicly held organisations, they provide their accounts to the Secretary of Treasury. Therefore, through the Finance Controller, the company was in part financially accountable to the Secretary of Treasury.

Libyan companies are required by Tax Law to provide the Tax Office with their balance sheet, trading account, process account, profit and loss account, depreciation statement, and detailed statements of the company's expenses and dividends. Therefore, in these ways the NTC was financially accountable to the Tax Office. However, the Tax Office has the statutory power to bring companies to court in the case of non-compliance with Tax Law.

The NTC accountability to the public:

The NTC managers saw their accountability to the public differently. This was based on the type of the relationship between the company and the public. A number of the NTC's managers believed that the company's accountability to the public is discharged through their accountability to the SI and watchdog bodies. There is also another explanation of the way managers saw their public accountability. They believed that since there is no direct trading relationship with the public except customers, their public accountability is limited. The company's main concern was its shareholders and watchdog bodies (i.e. the Public Control Office, the Tax Office). Therefore, making the company's information available to the public was not on the company's agenda.

Information was believed to be of interest, and provided, only to particular public and not to the general public.

The NTC accountability to Calabrese:

The article of association drew the NTC's relationship with Calabrese. This relationship was based on Calabrese's ownership of 25 per cent of the company's capital and know-how licence arrangements. Therefore, the NTC was accountable to Calabrese in the sense that it had to apply the article of association decrees. The most obvious accountability forms to Calabrese were legal accountability and financial accountability. Financial accountability was important here since Calabrese shared the NTC ownership with the SI. The NTC was obligated to provide Calabrese with information in accordance with the article of association. Furthermore, there was a hidden political accountability to the Italian partner. Political accountability to Calabrese was determined by the relationship between Libya and Italy, which is based to a great extent upon common political and economic interests. However, Calabrese was part of the NTC management, which was accountable to, among others, the SI, the Public Control Office, the Secretary of Treasury and the Tax Office. Calabrese's representative on the company's Administration Board, in a brief interview in December 2000, stated that Calabrese and the NTC work together to achieve the company's objectives. Therefore, there was a chain of accountability between the NTC on one hand and Calabrese and the SI on the other.

The above discussion highlighted the company's accountability relationships with outside parties. The next section will focus on accountability relationships within the company.

8.9.2- Accountability within the NTC:

Apart from the NTC accountability to outsiders (i.e. the SI, the Secretary of Treasury, etc.), there were accountability relationships within the company. There were different forms of accountability which were constructed between top, medium and low management levels within the company. Managers at the low level were accountable to those at the medium level who were in turn accountable to those at the top level. The top management was ultimately accountable to, among others, the SI. The NTC's Executive Manager commented on the company's hierarchical accountability by stating that

> "Within the company ... I am [the Executive Manager] accountable to the Administration Board to prepare the Executive Manager's report. And accountable to the General Assembly because it represents the owners of the company." (The NTC's Executive Manager) [Sentence in brackets added]

There were also reciprocal accountability relationships between the company's departments and administrations.

> "Departments share responsibility in preparing some of the accounting numbers. Costing Department data are relied upon and used by the Budget Department for instance and therefore the responsibility is joint." (An accountant)

The focus of accountabilities that emerged within the company was different and depended on the nature of each department or administration. It also depended on the values and beliefs being held by people in these departments. These values and beliefs shaped the company's culture. Morgan (1986) described organisational culture as a process of reality construction that allows people to see and understand particular events, actions, objects, utterances, or situations in distinctive ways. The process of reality construction is an ongoing process, which evolves as circumstances change (Berger and Luckmann, 1967). However, people within the NTC communicated their information within the company either as part of their commitment to the company, their needs to belong to the company, or only to satisfy their superiors' needs. Accountability played a role in these three reasons for communication. Reciprocal accountability forms characterised the first two types of communication. Personal accountability was emphasised here as employees felt personally responsible for the success of the company. Hierarchical accountability characterised the need to satisfy superiors' needs. Implementing loyalty in NTC's employees was one of the aspects the Executive Manager tried to establish when he stated

> "I feel that information should be made available to all [*i.e. NTC's employees*]. There is no need to the secrecy. Most of the information should be circulated between all [*i.e. NTC's employees*] and this implements the spirit of belonging to the company. When managers at second [*medium*] levels feel like having information about what is going on in the company, this implements the spirit of belonging to the company." (The NTC's Executive Manager) [Sentence in brackets added]

Corporate culture, regulation and political system are some drivers which can change accountability (Sinclair, 1995; Carnaghan et al, 1996; Ahrens, 1996). Corporate culture is based on a set of values and beliefs, which affect the way accountability is constructed. Politics have a great influence on accountability construction and change. If the boundaries between politicians' and public organisations' tasks are well defined, each party would be accountable for his actions and do not interfere in the other party's tasks. If the line between politicians' and managers' tasks, especially those of State owned organisations, is ill defined, each party may consciously or unconsciously act on the other's territory (Sinclair, 1995). This may diffuse the accountability.

8.10- Conclusion:

This chapter highlighted the NTC's disclosure policies and practices and accountability construction processes. Disclosures upon request or event were the most obvious patterns of the company's disclosure practices. The company's disclosure practices were limited and directed to a particular public, which included the company's Administration Board and the General Assembly, the SI, Calabrese, the Secretary of Treasury, the Tax Office and the Public Control Office. The above discussion indicated that accounts were provided to those who had the statutory power to hold the company to account.

The chapter showed that the company was accountable to a number of bodies and was required to provide them with its reports on different issues in different times. Although a number of accountability forms were identified within the company or between the company and outside parties, managerial, legal and financial accountability forms were the most emphasised upon. These forms affected the type of information the company provided to the SI and other information users. Managerial and financial information were the most required and provided information. The importance of accountability procedures varied and depended on to whom the account was provided. However, these and other issues will be discussed in more detail in the next chapter, which will provide a critical analysis of the SI-NTC disclosure and accountability practices.

Chapter 9

Critical analysis of the SI-NTC disclosure and accountability practices

9.0- Introduction:

The previous two chapters provided an account of disclosure policies and practices and accountability construction processes in the SI-NTC context. They described the process of demanding and supplying information in such a context. Different accountability relationships and procedures were identified. In this chapter, a critical analysis of the web of accountability relationships that were described in the previous two chapters and existed within and between the SI and the NTC and between the latter and outside parties is provided. The analysis of the SI and the NTC data revealed many complexities in the accountability procedures and pressures the company encounters. The chapter starts by exploring accountability dimensions in the SI-NTC context. The chapter then provides a reflection on the accountability construction process. This reflection is divided into two parts: outward accountability and accountability within the company. The chapter then describes and discusses accountability forms that existed within the company and the SI and between the company, the SI and outside parties; the role of institutionalisation in accountability process; and the relationships between accountability, control and power. Disclosure practices and accountability forms and the need for disclosures for macro and micro purposes are then discussed. A reflection on the role of regulation in accounting development and the relationship between societal culture and accounting value dimensions is provided in the last two sections of the chapter.

9.1- Accountability dimensions:

In the context of financial disclosure, two conditions must be fulfilled in order to talk about accountability to stakeholders (Carnaghan et al, 1996). First, there must be a stakeholder relationship. The relationship between the NTC on one side and the SI, the Public Control Office and the Secretary of Treasury on the other fulfilled this condition. The second condition is related to the existence of information asymmetry between management and a given stakeholder or group. The second condition applied to the SI-NTC context where each party had more information than the other regarding its activities. Understanding and interpreting the SI and the NTC disclosure practices and accountability procedures required an understanding of the context in which they existed. This context included culture, economic, social, etc. factors that influenced the SI and the NTC decisions and relationships. Thus, understanding the context will not be completed without understanding its parts, which include disclosure practices and accountability procedures. This hermeneutic rule is based on the argument that we must understand the whole in terms of the detail and the detail in terms of the whole (Gadamer, 1975). To this end, O'Loughlin's (1990) accountability dimensions were examined to understand the SI-NTC accountability relationships. The first element of these dimensions was the effectiveness of communication systems through which explanations and justifications of actions and decisions to outside actors occur. This dimension, which will be examined later, is considered as an important ingredient of successful accountability structures (Mulgan, 2000). The second dimension was the influence of outside actors on the organisation's decision making. In the SI-NTC context, there were outside parties (e.g. the Public Control Office) that influenced and interfered in the decisions taken by the SI, the NTC or both. The third dimension to understand accountability was the discretionary and non-discretionary spheres of decision-making. In the SI-NTC context, the communication system's ineffectiveness was mentioned by a number of interviewees who argued that there was a delay in providing information to the SI due to the inefficiency of post services and other communication means. The quality of the information the SI receives was in question since information was received late or was incomplete. The quantity of the information the SI received from companies was burdensome and sometimes was not questioned. The SI imposed little scrutiny to the information it received as many of the NTC's interviewees believed. Interviewees within the NTC argued that the SI had not sought clarification for or questioned the information the company sends on a timely basis. In contrast, interviewees within the SI argued that companies' information was important and relied upon in the SI decision making process. The lead-time in providing the information made to some extent the scrutiny meaningless and prevented the SI from scrutinising the responsible bodies.

The quality, quantity and timeliness of information communicated were important factors to evaluate communication systems (O'Loughlin, 1990). The channels through which explanations and justifications were provided affected the interpretations of the information provided (Carnaghan et al, 1996). The company provided its information to the SI and other parties through self established communication channels or personal contacts (See Chapter 7). Outsiders' influence on organisations' decision-making process was an important factor in understanding accountability relationships. The greater the influence the more likely that organisations will make decisions that may not represent the best alternative available to it at the time. This will affect the accountability relationship since organisations may not feel responsible for actions and decisions beyond their control. The process of influencing decisions was related to the discretionary and non-discretionary spheres of decision making (O'Loughlin, 1990). Understanding the SI and the NTC decision making boundaries would provide a 'better' understanding of accountability relationships between the SI and the NTC. The SI was concerned with the general strategy for the industrial sector as a whole while the company was concerned with decisions at the micro level. The strategy the SI adopts had to be considered by companies in preparing their plans, budgets and policies. The following section reflects on the SI-NTC accountability construction.

9.2- Reflection on accountability construction:

Three categories for analysing accountability construction and discharge were identified: outward accountability, upward accountability and inward accountability. Outward accountability described accountability forms that existed between the company on one hand and the SI, the Secretary of Treasury, the Public Control Office and the public on the other. Upward accountability was related to accountability relationships between the company's management levels, which could be hierarchical or lateral, formal or informal. Inward accountability was concerned with ethical and moral issues and their effects on accountability construction. The following discussion will be divided into two main sections: outward accountability and within the company accountability. Accountability within the company is divided into two subsections: upward accountability and inward accountability.

9.2.1- Outward accountability:

The NTC relationships with outside parties were reciprocal where the company was accountable to and held to account, inter alia, the SI, the Secretary of Treasury and the Public Control Office (See Figure 8.1, p 181). Hierarchical and lateral accountability existed between the company and some outside parties. The next sections will reflect on the accountability forms that existed between the company and the SI, the Secretary of Treasury, the public and the Public Control Office.

Reflections on the NTC's accountability to the SI:

From the collected data, it was found that the company was *managerially* accountable to the SI. This form of accountability was hierarchical where the SI had the right to request information from the company and the latter was obliged to provide the required information. Within the SI-NTC context, there were demands from the top management levels within the SI-NTC hierarchy. These demands were based implicitly on the employment contract where the agent (the company) was expected to perform certain functions to fulfil the principal's (the SI) expectations. Hierarchical accountability, known in the literature as managerial or bureaucratic accountability, operates to insure the stability of the hierarchical relationship between managerial superiors and subordinates (O'Loughlin, 1990). In the SI-NTC context, hierarchical accountability forms such as financial, managerial and legal accountability were emphasised (See Chapter 8).

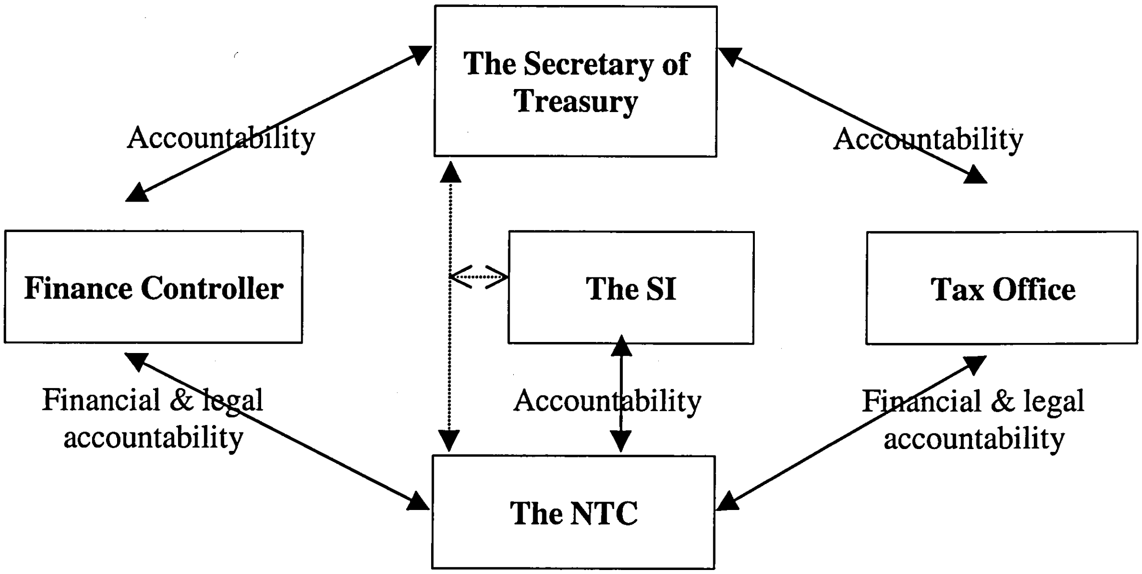
The company was also *financially* accountable to the SI. It provided the SI with a picture of how financial resources, including foreign exchange budget, were managed. Financial accountability was related to the extent that whether financial resources were spent according to the plans. The company's Executive Manager commenting on his financial accountability stated that "I am accountable to the extent ... resources ... allocated to me." The link between the transfer of resources and providing accounts was obvious here. However, accounts were provided not only as a result of economic resources transfer (Laughlin, 1990) but also due to the internalised belief that the SI had a statutory right to demand information.

Reflections on the NTC's accountability to the Secretary of Treasury:

The Secretary of Treasury had two mechanisms through which it held the company accountable. These were the Tax Office and the Finance Controller. The NTC's accountability to the Secretary of Treasury was formal and hierarchical. Both *financial* and *legal* accountability forms were identified in the NTC-Secretary of Treasury relationships (See Chapter 8). Figure 9.1 illustrates the company's relations with the Secretary of Treasury and accountability forms that emerged as a result of that relationship. The dotted arrows indicate an indirect relationship between the Secretary of Treasury and the NTC. Apart from the Tax Office and Finance Controller, the Secretary of Treasury may require information from the company through the SI.

Therefore, the NTC was accountable financially and legally to the Secretary of Treasury.

Figure 9.1: The NTC-Secretary of Treasury accountability relationships



Reflections on the NTC's accountability to the public:

Since many people did not use most of the company's products, *public* accountability was less emphasised by the company's interviewees. Since the company operated within and provided services to the public, it should therefore be held accountable to the public for its activities that may affect the public (Benston, 1982; Stanton, 1997). Benston (1982) argued that corporations receive permission to operate within a society from the public and therefore have to be held accountable to the public. Furthermore, the public was the ultimate owner of State Owned Companies and therefore the NTC was ultimately accountable to the public.

> "Of course, there is accountability to the State. Belonging to the industrial sector gives me the feeling that I have to provide something to the industry and thereafter to the benefit of the country. This may include the creation of trained workforce, developing human resources, training, bringing a new products and technology and changing some industrial ideas." (The NTC's Executive Manager)

The NTC's Executive Manager indirectly referred to the company's public accountability. He saw his public accountability, not in terms of providing explanations and justifications to the public, but through training and improving production techniques. This contradicts Sinclair's (1995) finding in that public accountability was seen to involve more direct accountability to the public, lobby groups, community and individuals. Public accountability was not recognised nor emphasised in the company's context. It was limited to customer and watchdog bodies' accountability rather than to the general public (Romzek and Dubnick, 1987; Sinclair, 1995; Glynn and Perkins, 1997; Parker and Gould, 1999). Interviewees felt that they were more attached and close to customers and watchdog bodies than to the public and therefore accountable more to customers as well as to watchdog bodies.

Reflections on the NTC's accountability to the Public Control Office:

The Public Control Office was responsible for making sure that the company applies Libyan Financial, Tax and Commercial laws, accepted accounting procedures, and the Public Control Office instructions regarding financial and administrative issues. The company was obliged to provide evidence to the Public Control Office for implementing these laws, procedures and instructions. *Managerial* and *legal* accountability forms were identified in the NTC-Public Control Office relationship. The NTC's Executive Manager described the Public Control Office as a watchdog body to whom the company is obliged to provide its reports.

The company was also *financially* accountable to the Public Control Office in the sense that it was obliged to provide the Public Control Office with justifications on how it had spent its financial resources. This was part of the company auditing process, which was carried out by the Public Control Office. The auditor appointed by the Public Control Office to audit the company may inspect the company's Internal Auditor records.

The above discussion highlighted accountability forms that existed between the company on one hand and the SI, the Secretary of Treasury, the Public and the Public Control Office on the other. Table 9.1 summarises these forms which were mainly managerial, financial and legal. The next section will be devoted to accountability forms that existed and identified within the company.

Table 9.1: The NTC accountability to outside parties

The NTC's accountability to:	Accountability forms
The Secretary of Industry.	Financial, managerial and legal.
The Public Control Office.	Financial, managerial and legal.
The Secretary of Treasury.	Financial and legal.
The Public.	Was not emphasised.

9.2.2- Accountability forms within the NTC:

In this section, accountability forms that existed within the company will be explored. Accountability within the company will be looked at from two perspectives: upward and inward accountability. Upward accountability explores accountability forms that existed within and between the company's management levels. Inward forms of accountability that interviewees regarded as a threshold in their actions are explored.

Upward accountability:

The NTC management was composed of three management levels; top, medium and lower levels (See Chapter 8). The top management level included the General Assembly, the Watchdog Committee, the Administration Board and the Executive Manager. The Executive Manager was accountable to the General Assembly, the Administration Board and the Watchdog Committee. The chain of accountability of the Executive Manager started with his accountability to the Administration Board and the General Assembly. This form of accountability was also outward accountability since the General Assembly was composed of external actors; the SI and Calabrese. However, within the company *managerial* accountability was recognised.

The medium management level consisted of the company's Offices and Administrations. Medium level managers were accountable to the Executive Manager. Hierarchical, but not necessarily formal accountability, was the pattern in this relationship. Although accounts and information flowed upward through the company's hierarchy, informal means of providing accounts and information were identified during employees' informal meetings. The provision of these accounts was governed not only by the established laws and rules but also by friendship, favouritism, and other values and beliefs. Information requests and flow were done through hierarchical channels. This was different from how the company's previous Executive Manager required information. An interviewee - the NTC's Internal Auditor - explained that the previous Executive Manager required information directly from the Department or the person who had that information. He (the Internal Auditor) did not agree with that way of requiring information since this may interfere with managers' responsibilities. The Internal Auditor believed that requiring information through hierarchical channels was better than jumping around and requesting information directly from the person who had it without informing his superior as this led to conflict and confusion in the bond of accountability (Stewart, 1984). Accountability was more likely to be diffused if actions were not linked to their source and therefore the management or the person responsible for them.

Managers at the medium level referred to different accountability forms. The nature and focus of accountability depended, among other things, upon the nature of work of each management. This was stated by an accountant in the NTC's Costing Department.

> "If production delay happens, the Costing Department may not be held accountable for that. If the delay is in preparing the financial statements, then the Costing Department may be held accountable and responsible for that. If the delay was in preparing the budget, the Costing Department may be partially accountable for that. In general, the Costing Department is accountable when the action is related to the work of Finance Administration." (Accountant H)

Interviewees referred, consciously or unconsciously, to *financial*, *legal* and *managerial* accountability forms that existed between their level and the top management. The company's Finance Manager referred to financial, managerial and legal accountability forms.

> "My responsibilities include the supervision of the administration's work and its departments. There is accountability in all directions: financial, managerial and legal." (The Finance Manager)

The NTC's lower management level encompassed the company's departments and units. The relationship between this level and the top management was in general hierarchical. Information flowed from lower to top levels through Departments', Administrations' and Offices' Managers. Decisions of what and when information was to be provided to the SI or other outside actors were taken at the medium and top levels. Disclosing information decisions were either widely spread among the company's managers or highly centralised (Carnaghan et al, 1996).

Inward accountability:

Interviewees referred to issues regarding professionalism and personal consciences. *Personal* and *professional* forms of accountability were described within the company with different emphasis. Interviewees referred to their personal accountability on many occasions. Professional accountability occurred where administrators perceive a duty to adhere to the standards of professional or expert groups of which they were members (O'Loughlin, 1990). The company's Executive Manager emphasised that when he stated that although he is an industrial engineer, he is aware of management tasks and challenges.

> "In the beginning, I want to say that I am an industrial engineer and part of, if not all, the industrial engineer's tasks are technical and administrative." (The Executive Manager)

The interviewee attached himself very closely to his profession (i.e. engineering) and saw himself accountable to the profession's ideals and standards, but linked that to managerial accountability. However, personal, professional and public accountability forms were emphasised by the interviewee when he stated that "Being attached to the industrial sector gives me the feeling that I have to provide something to the industry and thereafter to the benefit of the country" (the Executive Manager). These forms were connected to managerial accountability in terms of being accountable to the industry (the SI). The interviewee referred to being attached to the industrial sector which was related to his profession; engineering. The interviewee also referred to the feeling to provide something to the sector in return for being a manager, which indicated personal accountability. Achieving the SI's objectives may be considered as part of discharging public accountability. Upon the above reflections on accountability construction, different accountability forms were identified within the SI-NTC context, to which we turn now.

9.3- Accountability forms:

The complexity of the relationships within the SI-NTC and with outside parties produced a number of accountability forms and relationships. The SI and the NTC were entangled in webs of accountability relationships that included not only economic aspects, but also social, cultural and political aspects. The following is a reflection on accountability forms and relationships that were identified within the SI-NTC context. This reflection is based on a critical analysis of accountability forms that were described in the SI-NTC context and those identified in the accountability literature with reference to Sinclair's (1995) forms of accountability.

Sinclair's (1995) managerial accountability was identified within the company and between the company and the SI. Monitoring outputs and achieving targets, which have been approved by the SI, were the concern or duty of the company. The process by which these outputs were achieved was monitored by the SI, which held the company accountable for achieving these outputs. This form of accountability was found to be mainly formal and hierarchical. Related to managerial accountability was legal and financial accountability. Legal accountability was related to contractual relationships. It was similar to the managerial form in that it involved the frequent application of control to a wide range of public administration activities. In contrast to managerial accountability, legal accountability was based on relationships between a controlling party outside (e.g. the Public Control Office) or inside (e.g. the Internal Auditor) the company and members of the company. Financial accountability was concerned with whether money had been spent as agreed and according to a projected budget. There was a great emphasis within and between the company and the SI on financial and legal accountability. The company's Finance Manager and the Executive Manager emphasised financial and legal accountability. Although this relationship was mainly formal and hierarchical, informal aspects to the accountability construction were introduced through social and personal relationships.

The NTC's public accountability was described as to watchdog bodies and customers, to whom the company had direct contact, but not to the public in general (See section 9.2.1 above and Chapter 8). Within the NTC, public accountability was narrowed down to customer and watchdog bodies accountability. Smircich (1983: 161) argued that "Human actors do not know or perceive *the* world, but know and perceive *their* world, through the medium of culturally specific frames of reference" (emphasis in original). This situation was identified in the NTC interviewees' understanding of their public accountability. They perceived their accountability not to the public (*the* world) but to customers and watchdog bodies (*their* world). Although this accountability was formal and hierarchical, dialogue and talk, which are elements of socialising forms of accountability (Roberts, 1991, 1996), were important in these accountability relationships. Interviewees within the SI recognised their public accountability to the public. As a result, particularistic and universalistic accountability relationships were constructed. Particularistic accountability relationships related to institutionalised obligations to kinship and friendship while universalistic accountability relationships oriented to institutionalised obligations to society (Jonsson, 1996). Particular accountability to specific parties led the company to disclose information to particular public. Being accountable to particulars as it was the case in the NTC is what Sinclair (1995: 222) described as the traditional concept of public administration which focuses on ""upward" political or parliamentary accountability." This concept was emphasised in discharging the company's accountability whereas "outward" or public accountability to the public was less emphasised. The notion of providing information to particular public upon request or by event was the disclosure pattern between the company and outside parties. The flow of information between the company and these parties was mainly to meet legal and contractual, formal or informal, requirements. The emphasis was on financial, managerial and legal information.

Political accountability was understood as a chain of relationships. The traditional concept of political accountability, which stems from Athenian democratic and Westminster traditions of vesting responsibility in the public servant, was apparent within the SI-NTC relationship (Sinclair, 1995). There was a chain of accountability relationships between the NTC's employees to their managers who in turn were accountable to the company's Executive Manager and to the SI. Although this form of accountability was formal and hierarchical, reciprocal and informal accountability relationships enhanced the levels of understanding and dialogue between the SI and the NTC. The SI not only advised the NTC but also controlled some of its decision making process through their representatives in the company's General Assembly and Watchdog Committee. Although political accountability was not identified nor described directly by interviewees, the context of the company's relations with the SI reflected this accountability. The informal political accountability drew on the philosophy implemented through the socialist ideology the country adopted. The SI and the NTC decision making boundaries were not clearly defined but implementing these decisions, either politically or economically oriented, was sometimes costly. The NTC's Executive Manager cited an example of this when he referred to the SI's decision that instructing the company to use the Libyan Iron and Steel Company's steel in its production process instead of importing it from Italy. Implementing this decision forced the company to make some changes in its products' specifications and production processes, in consultation with the Italian partner, due to differences between the Libyan and the Italian inputs. This example showed the SI's power over the company. The political structure and the legal requirements of the country required companies to answer directly or indirectly to their supervisors (e.g. the SI), the General People's Committee, the General People's Congress and other watchdog bodies (See Figure 7.3, p 160). Hierarchical accountability characterised this structure of accountability. However, companies through their supervisors were accountable in an informal way to the public through the General People's Congress.

Professional accountability was less emphasised within the SI-NTC context. Accounting and engineering professions were the most referred to professions in the

NTC for at least two reasons. Accounting was the means through which the company's financial situation was expressed and communicated internally or externally whereas engineering was the profession that dominated the highly engineering dependent production process. A prefix *an Engineer* was always used to refer to an engineer in the company while accountants were called by their names without using a title. In their model, Romzek and Dubnick (1987) restricted professional accountability to the relationship between an agency manager and his or her expert employees. In contrast, O'Loughlin (1990) suggested that this notion of deference to experts can also apply to the relationship between the agency as a whole and outside actors. Thus, this characteristic of accountability can be exhibited in "internal" as well as "external" relationships. The latter case was apparent in the SI-NTC situation where the NTC's Executive Manager believed that his professional accountability was expanded to include accountability to the SI and thereafter to the public. Accountability in this sense was humanised and socialised. Dialogue was the basis for understanding the profession's requirements in situations where actions were needed. However, professional accountability, in terms of accountability to a profession, professional body and the community, did not appear to be given any significance in the company's context.

Personal accountability was represented by the dialogue with the self. It is the process of holding the self accountable by the self before being held accountable or questioned by others (Roberts, 1991, 1996). There are many categories to which the self goes back to assess its personal accountability. These include culture, religion, laws, values and beliefs. Culture affects the establishment of personal accountability through the internalisation of values. Within the Libyan context, religion, *i.e. Islam*, plays an important role in shaping personal accountability. Muslims, as required by Islam, have to question their actions or hold themselves accountable before being held accountable by *Allah* in the day of judgement for what they have done in their life (Abdul-Rahman and Goddard, 1998). Therefore, there is a tussle within the self between sacred and secular values (Laughlin, 1988; Kluvers, 2001). There is the fear of the immediate and postponed accountability. Accountability to Allah and therefore praise or punishment is for most postponed to the day of judgement whereas accountability to an organisation or to the self upon secular values happens during the lifetime. Personal accountability includes accountability to Allah. This form of accountability was formal in the sense that it rested on the Koran (Muslims' holy book) and informal in the sense that it existed within the text of social life.

In addition to accountability to Allah, there was the effect of personal relationships and contacts on accountability construction. The NTC's Finance Controller provided an example of how personal contacts affected the web of accountability when he quoted what his previous manager at the Secretary of Treasury had told him regarding the process of evaluating the performance of finance controllers: "If I am told that a Finance Controller is good, that means he/she is probably bad. If I am told that a Finance Controller is bad, that means he/she is probably good." 'Good' and 'bad' concepts, in this context, were related to protecting the public money and resources. Finance Controllers who made their organisations spend less were seen by some people who work within or deal with the organisation as 'bad' due to the difficulties and complexities in getting a share in the organisation's resources and vice versa. The term 'good' in this context meant that a Finance Controller was flexible in applying laws and decrees, which could be overridden by personal and social relationships. The role of friendship and favouritism, which contradicted with or halted the application of laws and decrees, was seen to be important. The result would be hindering the process of implementing formal accountability procedures.

9.4- Accountability and institutionalisation:

Thynne and Goldring (1987) argued that to understand accountability forms within a context, it is not sufficient to seek this understanding solely through concentration on a particular aspect or form of accountability but through considering accountability within the context of culture. Therefore, the influence of culture on accountability is to be considered in understanding accountability relationships and construction. The influence of laws, values and beliefs, as culture elements, on accountability procedures and disclosure practices are explored through Scott's (1995) institutional elements: regulative, normative and cognitive. Scott's regulative pillar is concerned with rule-setting, monitoring and sanctioning activities (Scott, 1995). The processes of establishing rules and inspecting others' conformity to them operate through informal mores and formal rules and laws. The regulative pillar's emphasis is on conformity to rules and regulatory requirements. Different bodies within or outside the SI and the NTC carried out the implementation of laws and rules within the SI-NTC context. The

NTC's Internal Auditor and Finance Controller were examples of internal control mechanisms. The Public Control Office was another control mechanism and was located outside the company and the SI but had the power to inspect whether laws and rules in both settings were applied. The normative pillar emphasises a prescriptive, evaluative, and obligatory dimension comprising socially mediated values, norms and roles (Scott, 1995). Within the SI-NTC context, the norm was that the company provides the SI, among others, with its accounts, reports and the required information. Scott's cognitive pillar emphasises cultural systems and constitutive rules that are involved in the creation of categories and the construction of typifications that support collective action (Scott, 1995). The cognitive approach stresses the legitimacy that comes from adopting a common frame of reference or definition of the situation, which is taken for granted (Scott, 1955). The socialist ideology and the central planned economy practices were the frame of reference within which the NTC works.

Regulative, normative and cognitive aspects of the SI-NTC relationship were important factors in understanding accountability relationships and disclosure practices. They governed the social behaviour and enabled social action through which accountability was constructed and disclosure was practised. The construction of the accountability process seemed to move from hierarchical to lateral, from formal to informal, from individualised to socialised, and vice versa, forms of accountability. The role of favouritism and personal contacts influenced accountability procedures within or outside the company. Therefore, accountability was constructed from the implications of personal relationships on accountability. The influence of personal and social relationships affected and pushed the formal relationships and dragged them towards informal relationships. Laws and rules that govern these informal relationships directed them toward formal relationships. Therefore, there was a tussle between socialised, informal, and lateral forms of accountability on one hand and individualised, formal, and hierarchical forms of accountability on the other hand. This process will continue and change frequently in response to changes in regulative, normative and cognitive aspects of the SI-NTC relationship. This will affect disclosure practices in the sense that quantity, quality, type and timeliness of information communicated reflect internal and external accountability pressure the NTC is experiencing.

Although informal and unwritten contractual relationship existed between the SI and the NTC, the relationship seemed to be more towards formal and hierarchical and the focus was on ex post reports. Providing reports to, inter alia, the SI was an institutionalised routine within the NTC where information was provided as part of the company's routines. The mobilisation of accounting performance in accountability relations was oriented towards providing and seeking explanations upon which conflict could be reduced and understanding may be reached. Roberts (1996: 55) argued that socialising forms of accountability "not only humanise the experience of work but also do much to realise the routine interdependence of action in work relations." Therefore, the establishment of hierarchical and formal relationships emerged from informal and unwritten relationships as well as from implementing legal requirements. Thus, what started as hierarchical accountability tended toward lateral and informal accountability and what started as informal and lateral accountability tended toward formal and hierarchical accountability. In a broader sense, informal constraints led to more formal ones where traditions and customs were replaced by economic, political and judicial rules. Burns and Scapens (2000) argued that rules can emerge out of the established routines or could be imposed and become implemented through the establishment of routines.

> "[R]ules are established and, through their implementation, routines will emerge...[R]outines may emerge which either have deviated from the original rules, or were never explicitly set out in the form of rules. In such cases, it may be decided to formalise the established routines in a set of rules." (Burns and Scapens, 2000: 7)

The company's accountability relationships were characterised by hierarchical, mutual or reciprocal accountability. The company was obliged to perform in accordance with the plan, which had been ratified by the SI. It had to provide an account for its actions to the SI. The SI, on the other hand, was accountable to the company in the sense that it was obliged to provide the company with the required foreign exchange and attest its budget. These relations were mediated by power and control factors. Power is the ability to influence the behaviour and actions of others (Wrong, 1979). The interrelationships between accountability, control and power are the focus of the next section.

9.5- Accountability, control and power:

The source of control within the SI-NTC context differed. In the managerial, political, public and professional accountability forms, the source of control originated either within the setting itself, which was either the SI or the NTC, or from outside sources, which included watchdog bodies. For personal forms of accountability the source of control came from within the self but was managed, affected or influenced by culture, religion, values and beliefs which were either internal or external sources. Internal sources of control relied on the authority inherent in either formal hierarchical relationships or informal "social and personal relationships" within the SI or the company. External sources of control reflected a similar distinction where authority can be derived from either formalised arrangements set forth in laws or legal contracts or through the informal exercise of power by interests located outside the SI-NTC setting (Romzek and Dubnick, 1987; O'Loughlin, 1990). The NTC used its internal control mechanism to provide accounts to different departments. The Internal Auditor was one example of the internal control mechanism the company used to account itself before being held accountable by others. External to the company, there were many parties (e.g. the Public Control Office) that demanded accounts from the company. Therefore, external power was exercised over the self (i.e. the company). The self used its power to hold itself accountable (internal accountability) either from the self point of view or from others' point of view (Roberts, 1991, 1996). There was also the possibility for the self to be held accountable by others (external accountability). The influence of these others varied and depended to some extent on the type of the relationship between the self and others. Peer pressure, as a source of power, played a role noticed in the SI meetings with companies where managers of insufficient companies try to avoid sanctions the SI may impose.

Talk and dialogue characterised socialising forms of accountability (Roberts, 1996). Informal relationships between the accountor and the accountee existed where decisions were reached not through enforcement but through understanding and negotiation. The level of mutual understanding between the SI and the NTC depended to some extent on the matter under consideration. The Head of the Performance and Following-up Division in the SI's Companies Department stated that

> "there are some issues on which a company's manager does not take decisions before consulting the company's General Assembly. These include changes to the company's capital and purchasing or selling fixed assets."

The SI, mainly through the company's General Assembly, had the upper hand on issues that affect the company's entity. The room for dialogue in such circumstances was narrow. In issues related to the company's policies and targets, there was more chance for the company to express its views and establish a dialogue with the SI. The interdependence between the company and the SI in such stances minimised the exercise of power to enforce decisions. However, socialising forms of accountability existed where relationships were unmediated by hierarchy between individuals of equal status or with no direct functional relationship (Roberts, 1996).

Discipline and power characterised the individualising form of accountability (Roberts, 1996). Individualising, formal and hierarchical forms of accountability were the main accounts produced in power-based relationships. Roberts (1996) suggested that informal accountability forms are present in organisations alongside formal hierarchical accountability. Information disclosure influenced formal and hierarchical relationships that existed between firms and their stakeholders. Stewart (1984) pointed out that the role of information in accountability lies in forming the raw material for the account and reaching an understanding. He described information as a source of power. Information, as source of power, affects decisions and therefore should be managed in that context. Since the superior is often dependent on the subordinate for the provision of information with which the subordinate is then assessed, the subordinate has many opportunities to conceal, distort or dress the information which he or she channels through the system (Roberts and Scapens, 1985). The superior uses his power to make judgements about the subordinate's efforts. Within the SI-NTC context, the SI had more knowledge than the NTC on macro and industry issues whereas the NTC had more information regarding its activities. Accountability provided a base for disclosing information needed for assessing expected performance, ex ante, as well as for reporting on the past, ex post. However, by providing information to outsiders (i.e. stakeholders), firms are giving up an important power source. The process of providing stakeholders with firms' information may increase the stakeholders' power and therefore ability to make decisions that may affect the firm.

Where Foucault focused on discipline and power in explaining accountability, Habermas used the notion of dialogue to illuminate accountability construction and relationships (Roberts, 1991, 1996). Although the room for dialogue in carrying out the SI's instructions and goals was narrow, dialogue between the SI and NTC existed since the enforcement mechanism alone led in the past to (e.g. instructing the company to use local raw materials) and may result in negative consequences. In cases of dialogue, the SI kept the upper hand on most occasions, as it owned 75 per cent of the company's capital. Information asymmetry in the SI-NTC relationship may lead the company to deviate from the SI targets and goals. Therefore, formal relations were used within a socialised context to promote self-awareness, consciousness and to eliminate deviant behaviour. These hierarchical accountability relationships in turn tended to be dissolved into more lateral accountability. These relationships reflected the extent to which the SI and the NTC were enmeshed in the web of accountability. The existence of different forms of accountability and connections in the SI-NTC context and between the SI and the NTC on one hand and the Public Control Office, the Secretary of Treasury and Calabrese on the other reflected the interrelationships in this web of accountability. Accounts provided within this web were the result of not only economic reasons but also social and cultural reasons. These included sacred (theological) reasons, which were divorced from the secular reasons of accountability in the Euro-Centric accountability literature (Laughlin, 1988, 1990, 1996; Kluvers, 2001). The influence of family and tribal values and connections on the accountability web was pronounced. Accountability, whether internal or external, provided a basis for providing information to actors within or outside the company. The relationships between disclosure practices and accountability forms are discussed next.

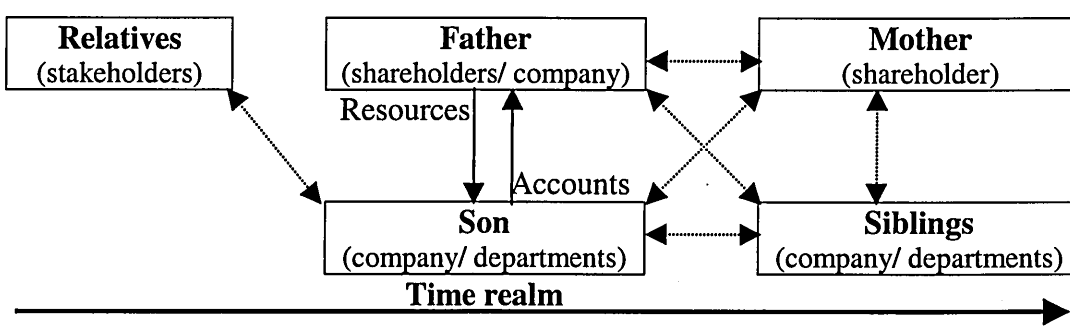
9.6- Disclosure practices and accountability forms:

In liberal market economies, firms' unwillingness to fully disclose their information is due in part to the threat of entry by competitors which may reduce the firm's profit or share in the market (Darrough and Stoughton, 1990; Wagenhofer, 1990; Dye and Sridhar, 1995). Low levels of disclosure in the Libyan context were not due to the threat of entry, since the economic system (i.e. socialist) was different from that of liberal market countries, but occurred for other reasons. These reasons were related to the ambiguity of information users' objectives and needs, the cost of disclosures, the absence of a stock exchange market and mandatory disclosure requirements, and the low level of awareness of the importance of information to decision makers (See Chapters 7 and 8). The awareness issue was related to the values and beliefs possessed by managers and individuals within or outside companies and organisations. These reasons could be classified as related to economic, legal, cultural and financial attributes (Beaver, 1981; Carnaghan et al, 1996). The weakness of the accounting profession was cited as another reason for low disclosure levels by the vice president of the Libyan Accountants Union. Inadequate regulatory framework and enforcement mechanisms, the lack of accounting profession and the absence of an effective capital market were identified as some of the reasons for low levels of accounting disclosure and accounting standards in developing countries (Ahmed and Nicholls, 1994). The above conditions applied to the case of Libya where laws were tax and State oriented, the 'capital market' was controlled by the State and the accounting profession was weak.

The notion that the public is not interested in the NTC's information was an example of interviewees' values and beliefs about the importance of information to the public. This notion was different from that of the public 'right to know' theory which argues that the public has the right to know information about companies' activities. Under the public right to know concept, a company is not only accountable to its management, shareholders and creditors, but also to the society at large (Bedford, 1973; Stanton, 1997). The NTC's Finance Manager commenting on the need for public disclosure stated that disclosure upon request begets fewer problems and questions. Gibbins and Newton (1994) suggested different responses organisations may take in the process of providing their accounts. One of these actions is a defensive strategy, which may take the form of justification and rationalisation. In the NTC's defensive context, the company's affairs were kept private or shared only with a limited number of employees and authorities. Instead of full disclosure, the NTC adopted limited disclosure policy where it disclosed only part of the available information to particular public to meet legal, financial and managerial requirements (See Figure 5.2, p 108). Therefore, the public was divided into small groups that represented different groups with different interests. Information provided to these groups (such as customers, the Public Control Office and the SI) depended upon the pressure they exerted on and the type of relationships they had with the company.

The rationale for the company's disclosure policy was to provide information to the SI, to protect the company from any penalties the SI may impose and to present an image for the company as being committed to its and the SI's objectives within the constraints surrounding it. The SI's Head of the Performance and Following-up Division used a father-son metaphor to describe the SI's relations with companies. This relationship is illustrated in Figure 9.2. The Figure illustrates a relationship between a *father*, who may represent a company or shareholders, and a *son*, who may represent a company or departments within a company. The "father" and "son" concepts are used here not to refer to the social meaning of these words but to refer to the roles connected to them and apply that to organisations. These roles differ not only between cultures but also within cultures. Embedded in this metaphor is the accountability relationship where the son (an agent) is accountable to the father (the principal) for spending and protecting resources allocated to the son (the agent) and managing these resources. The father (the principal) on the other hand is accountable to the son (the agent) for meeting the son's (the agent's) requirements and means to achieve pre-agreed goals. Therefore, reciprocal but unbalanced accountability relationships exist between the son and the father. The father/shareholders/company provides resources to and seeks justifications and explanations from the son/company/department. The latter provides his accounts to the former to avoid being, inter alia, penalised or deprived from access to resources. However, the son may be able to obtain resources from, and therefore obliged to provide information and accounts to, his siblings (other companies or departments), mother and relatives (stakeholders). In addition to the issue of resources transfer, the son is obliged to adhere to family and society values and follow their rules and norms. This is similar in some way to how organisations are influenced by their subculture, organisation culture and societal culture (Morgan, 1986). This process indicates the existence of accountability relationships that are not based on economic reasons (See Chapter 5). The institutionalisation of individuals' values and beliefs led to the conceptualisation of individuals' loyalty to the SI in terms of executing its orders and providing it with the information required. The use of this metaphor reflected power relationships where the father (the principal) is pictured to be more powerful than the son (the agent). Age and gender are two conjectures deduced from this metaphor where young people provide accounts to older people. The use of the words "father" and "son" indicated gender preference in masculine culture (Hofstede, 1984a). The realm of time in Figure 9.2 indicates that the process of giving and demanding resources and information is an ongoing process.

Figure 9.2: Father-son accountability and disclosure relationships



Through time, new bodies and relationship may emerge which either adhere to previously held or establish new rules and routines. Similarly, fathers and sons grow up and die and children are born but the roles the society gives to each of them may not change or change slightly over time. The emergence of new rules will be interpreted in the context of the existing rules and routines. The reproduction of the previous routines will influence the implementation of the new rules and the emergence of the new routines (Burns and Scapens, 2000). These rules and routines are influenced by peoples' values and beliefs. This may result in different disclosure requirements and accountability pressure.

The aim of providing information to the SI was to bridge the physical distance between the company and the SI by making what was physically remote from the SI close and "visible" and giving it a form of "presence" at the company (Roberts and Scapens, 1985). The aim of making the invisible visible is one of the main features of accountability (Munro, 1996; Roberts, 1991). Accounting may be considered as a powerful and legitimate instrument for realising the visibility and the presence of an action (Roberts, 1996). This visibility and this presence are only partial. Consequently, despite the ability of information systems to bridge the physical distance, such distance has a decisive impact on the forms of accountability that emerge.

9.7- Disclosure for macro and micro purposes:

The need for information in making macro and micro decisions underlined the SI's frequent demands to companies to provide it with information. Making informed decisions required providing information on a timely basis to the SI. Informed decisions refer to decisions that are based on the available information. Rational decisions are difficult to obtain due to the imperfection of decision-makers' knowledge and therefore decisions are rational to the extent information on which decisions are based reflect the available information. Simon (1976) described this rationality as bounded (limited) rationality. Both the SI and the NTC, in making their informed decisions, needed the other party's information.

The need for the NTC's information in the decision making process at both micro and macro levels was identified. The SI, among other parties, required the NTC, and other companies, to provide it with its information to be used in making decisions at different levels. The information was used for control and planing purposes and to evaluate companies' performance. Companies acted as both *providers* of information upon which decisions were based and as *actors* within society where decisions were to be implemented. The information provided by companies was used not only by the SI but also by other parties such as the Secretary of Economy and Planning to prepare the State's annual plan and economic and social indicators. These indicators included the country's GDP, exports and imports, per capita, etc. The Secretary of Treasury and the Libyan Central Bank also used the information provided by companies to put the country's budget and determine the foreign exchange needed by different sectors and allocate the available foreign exchange. Therefore, companies' information played an important role in the State's decisions as these decisions depended to some extent on the indexes obtained by using, inter alia, companies' information. Information required by the SI covered not only accounting information but also non-accounting information. Although narrative information was of importance, the focus within the SI and the NTC was on quantifiable data. This was realised as the NTC neither provided nor was it required to provide narrative information through publishing its mission statement, the president's letter and the management decision analysis.

The NTC disclosure practices were not adequate, fair and full (Gaa, 1986; Lev, 1988; Riahi-Belkaoui, 2000). The company's information was provided to particular public and not to the general public which jeopardised the fairness concept of disclosure. The company's financial statements did not reflect all relevant information available to the company. The company considered some items (i.e. fixed assets depreciation methods) as known implicitly - tacit knowledge - to information users and therefore did not disclose them. Other items were not disclosed due to the belief at the company's different management levels that these items were either not needed by external users or considered as internal or private information by the company. These practices were coupled with the absence of Libyan accounting standards to regulate disclosure practices. These practices indicated that the NTC disclosures were inadequate, unfair and incomplete.

Environmental issues were not included in the company's disclosures for at least four reasons. First, low levels of disclosure in general had led the company to focus on financial rather than environmental issues. Second, the type of products the company produces did not directly affect negatively the environment. Third, the low level of awareness of the importance of disclosure in general meant that less emphasis was given to disclosing environmental issues. The fourth reason is related to the outside pressure on the company(ies) to release environmental related information which was either low or non existent.

9.8- The role of regulation and profession in accounting development:

Two approaches for regulating financial practices have been identified in the literature (e.g. Beaver, 1978; Bird and Locke, 1981; Chow et al, 1996). Regulating financial practices is accomplished either through a legally constituted public body to which the responsibility for implementing, monitoring and enforcing accounting standards is given or through a voluntary approach which relies on self-regulation. Theoretically, the Libyan Accountants Union was responsible for establishing and monitoring accounting standards and practices in Libya (Accounting Profession Law no 116 of 1973), but practically it had failed to issue and implement Libyan accounting standards according to its vice president. Of the two approaches to regulate accounting profession - professional self-regulation and statutory control - Libyan accounting profession was governed by the Libyan Commercial and Financial Laws. The weakness of the Libyan Accountants Union has led the State to be the sole accounting regulating statutory. In fact, public bodies such as the Public Control Office have taken the absence of an effective accounting association to instruct and demand companies to follow certain accounting procedures.

Nobes and Parker (1995) argued that the nature of the accountancy profession in a country influences accounting development. The Libyan accounting profession has been influenced for decades by colonisation and international businesses followed by the move towards central planned economy and recently the emergence and the encouragement of establishing private businesses (See Chapter 2). The Libyan accounting practices were mainly imported from or imposed by Italy, the UK and the US. The UK and the US accounting systems still influence Libyan accounting practices. These practices were institutionalised within companies' practices and through the education process (Kilani, 1988; Buzied, 1998). The influence of developed countries' accounting practices on Libyan accounting practices may be understood following the inductive approach or the deductive approach to accounting practices classification (See Chapter 4). Inductively, Libyan companies' accounting systems were expected to be influenced by and to follow the UK and the US accounting practices. A number of studies found that Libyan companies' accounting practices were influenced by the UK and the US accounting practices (Kilani, 1988; Buzied, 1998). From the deductive point of analysis, the practice was expected to be influenced by the government-driven and tax-dominated accounting systems such those of France and Italy. However, the case study data showed that although the NTC's accounting system and financial reports were government-driven and tax-dominated, they were oriented towards the UK and the US accounting practices. The NTC's Internal Auditor referred to the use of the UK and the US accounting practices.

Of the problems facing the development of the accounting profession in Libya in general was the lack of appropriate accounting systems that reflect the needs of the society and institutions within the society (Kilani, 1988). The shortage of accountants and poor communication systems were also identified as other problems facing the development of appropriate accounting systems. Holzer and Chandler (1981) summarised developing countries' accounting problems to be related to the profession, enterprise, government and accounting education. The weakness of the Libyan accounting profession meant that neither Libyan accounting standards were developed nor were imported accounting practices challenged. Companies were mainly owned by the government which had the statutory power to require and acquire information it needs and impose changes in accounting practices through laws and decrees.

9.9- Societal culture and accounting value dimensions:

The relationship between Hofstede's (1984a, 1984b) cultural dimensions and Gray's (1988) accounting value dimensions within the Libyan context confirmed to some extent the study's prior expectation (See Chapter 4, p 76). The expectation was that low levels of professionalism and high levels of uniformity, conservatism and secrecy would characterise Libyan accounting profession and practice. The Libyan accounting profession, which was represented by the Libyan Accountants Union, was not well established. Bengharbia (1989) found that the Libyan accounting profession was not organised and accounting and auditing standards did not exist.

The secrecy dimension was also identified in the study's context where information was provided only to particular public mainly to meet legal requirements. This is consistent with Hofstede's collectivism dimension where people are expected to integrate into groups that protect them in exchange for unquestioned loyalty (Hofstede, 1991). The unquestioned loyalty includes the provision of information. The NTC's information provision to particular public reflected the country's collectivist characterisation. Information was provided mainly to collective groups within which the company was integrated in exchange for loyalty. The structure of accountability that follows this pattern of disclosure differed from that of companies functioning within individualistic societies. Within the SI-NTC context, high power distance was realised in the sense that the SI's instructions, which did not always best serve the company's objectives, had to be executed. Members of the NTC accepted some of these demands without questioning their justifications and reluctantly required explanations on others. Gray (1988) linked Hofstede's societal values with accounting value dimensions and argued that secrecy is positively associated with strong uncertainty avoidance, high power distance and collectivism.

In relation to the study's prior expectation regarding the existence of low levels of professionalism and high levels of uniformity, conservatism and secrecy in Libya, the study observed low levels of professionalism and uniformity and high levels of secrecy and conservatism. Gray (1988) argued that professionalism is more likely to exist in societies within which individualism and weak levels of uncertainty avoidance exist. In the current case study, statutory control approach to accounting regulation rather than professionalism approach was adopted in a society that was characterised by collectivism and high levels of uncertainty avoidance. The NTC's accounting practices were characterised by high levels of conservatism and secrecy and low levels of uniformity. Although Gray (1988) argued that the link between a uniform accounting system and societal value dimension is to the collectivism dimension, a uniform accounting system was not adopted in Libya.

A preference for secrecy was linked to collectivism and high power distance as culture dimensions. Arab countries, as collectivist societies, scored high levels of power distance in comparison with individualistic countries such as the UK and the US (Hofstede, 1991). Gray (1988) argued that secrecy is consistent with a preference for collectivism with its concern for those closely involved with the firm rather than external parties. However, it may be argued that public disclosure of financial information was not needed due to, inter alia, the access the government had to Libyan State Owned Companies' information. Switzerland is an example where disclosure is neither needed nor practised due to the access the Swiss government and banks have to

Swiss firms' financial data (AlHashim and Arpan, 1992). However, the study confirmed Perera's (1989) finding to the case of Libya that developing countries were collectivist societies with a relatively low degree of professionalism in the accounting subculture. It contradicted Perera's finding that there was association between high levels of uncertainty avoidance and adopting a uniform accounting system. Table 9.2 shows the relationship between individualism as a societal value dimension and professionalism, uniformity, conservatism and secrecy as accounting subculture dimensions in both Anglo-Saxon countries and Libya. High levels of professionalism and low levels of uniformity, conservatism and secrecy exist in individualistic societies (Fechner and Kilgore, 1994). Based on the SI-NTC case study data, low levels of professionalism and individualism were accompanied by low levels of uniformity and high levels of conservatism and secrecy. These attributes characterised a collectivistic society with relatively high levels of uncertainty avoidance.

Table 9.2: The relationship between accounting values and Individualism in Libyan and Anglo-Saxon contexts.

		Accounting subculture dimensions			
		Professionalism	**Uniformity**	**Conservatism**	**Secrecy**
Societal value dimensions	**Individualism (Anglo-Saxon countries)**	High	Low	Low	Low
	Collectivism (Libya)*	Low	Low	High	High

Source: Fechner & Kilgore (1994: 269).
** This was based on the case study observations.*

The company's disclosure practice was oriented to serve mainly government agencies at macro levels whereas disclosure practices in liberal market economies, the UK and the US, were oriented to serve mainly organisations and individuals at micro levels. This conflict in the orientation of the UK and the US accounting systems on one hand and the Libyan accounting system on the other, and the use of the former systems within and to achieve the latter objectives, has led to diffusion in disclosure and accountability practices in Libya. Although Libyan accounting practices were influenced by and oriented towards the UK and the US accounting systems, disclosure practices were no way nearer the UK and the US disclosure practices. The difference in economic systems provided an explanation, though only partial, to disclosure practices differences. This was coupled with the difference in the spread of ownership and public accountability. In the UK and the US, as in many other liberal market countries, companies' ownership is widely spread. One way for companies within the UK and the US context to provide their accounts to current and potential shareholders is through public disclosure. Although disclosure practices in the UK and the US differ, they are similar in the sense that they are provided to the general public. In Libya, the role of the public was divorced from the company's disclosure and accountability practices and was traced back to, inter alia, the ownership and cultural issues. Accountability was influenced by peoples' held and institutionalised values and beliefs. Being owned by and accountable to the State, represented by the SI in our case, involved the provision of information to the State's representative body(ies) to fulfil accountability requirements.

9.10- Conclusion:

The chapter analysed the data collected from the SI and the NTC to understand and reflect on the SI-NTC disclosure and accountability practices. The analyses focused on the webs of accountability relationships the SI and the NTC enmeshed in and the role of information disclosure in these relationships. The webs of accountability relationships led to the identification of different accountability forms within and between the SI and the company. External accountability led the company to establish internal accountability relationships through which information was provided within the company. The provision of information within the company - internal disclosure - provided a basis for external disclosure. Understanding the company's external disclosure practices and external accountability relationships required an understanding of its internal accountability and internal disclosure and vice versa. It is the case of hermeneutic circle of understanding the whole through grasping its parts, and comprehending the meaning of parts through divining the whole (Crotty, 1998). This process entailed understanding the context within which the SI and the NTC existed. This consisted of the country's legal, economic, social and cultural frameworks. Upon the data collected and analysed in this chapter and the previous two chapters, the next chapter will provide the study's observations.

Chapter 10

Discussions and conclusions

10.0- Introduction:

Chapter nine provided a critical analysis of the SI and the NTC disclosure and accountability practices. It was observed that the company provided its information, not to the general public, but to a particular public. Webs of accountability structures and relationships, within which the company was enmeshed, were described. Different forms of accountability were identified. The chapter showed that accounts were provided not only for economic reasons but also for social and cultural reasons.

The aim of this chapter is to make sense of the study's observations. These observations were based on the data collected from the research setting and analysed with the aim of understanding the accountability process and how, when and why information was disclosed. The chapter discusses the extent to which the existing disclosure and accountability literature explains the observations of this study. Before providing and reflecting on the study's observations, the next section summarises the disclosure-accountability debate. This debate is related to the study's knowledge problem and theoretical argument.

10.1- Disclosure and accountability debate:

The literature review of chapters three and five noted that previous research had focused on explanations of disclosure and accountability practices mainly in liberal market economies (e.g. Buzby, 1975; Penman, 1980; Inchausti, 1997; Dye, 1990; Sinclair, 1995; Botosan, 1997; Emmanuel et al, 1999; Parker and Gould, 1999). Disclosure and accountability studies have been conducted in Western public sector and private sector contexts (See Chapter 3, pp 45-55; Chapter 5, pp 96-104) with few studies in non-western contexts (See Chapter 4, pp 66-8). Table 10.1 summarises the main points in the disclosure-accountability debate and the study's observations.

Table 10.1: Some points in the disclosure-accountability debate and the study's observations.

<table>
<tr><th colspan="2" rowspan="2"></th><th colspan="2">Western context</th><th rowspan="2">Libyan public sector
(the SI-NTC context)</th></tr>
<tr><th>Private sector</th><th>Public sector</th></tr>
<tr><td rowspan="2">Normative studies</td><td>Disclosure</td><td>• Economically driven - neo-classical economies, Efficient Market Hypothesis (Watts and Zimmerman, 1986).
• Competition - full and public disclosure (Frost and Pownall, 1994).
• Regulation – voluntary and mandatory disclosure (Cooke and Wallace, 1990).</td><td>• Public disclosure.
• Introducing private sector practices to the public sector to increase transparency, accountability and efficiency (Mayston, 1993).</td><td rowspan="2">• Public disclosure in a socialist context (Jaruga, 1990).</td></tr>
<tr><td>Accountability</td><td>• Economic rationality (Principal-Agent model)
• Principals and agents pursue their self-interests and maximise their expected utility (Scapens, 1984).
• Accountability construction: accountability to shareholders; or accountability to shareholders and society (Macintosh, 1999).</td><td>• Public accountability (Benston, 1982; Stanton, 1997).
• Public sector rationality to serve public interests.</td></tr>
<tr><td rowspan="2">Descriptive studies</td><td>Disclosure practices</td><td>• Influences of firm characteristics and regulation on disclosure (Inchausti, 1997; Cooke, 1992).
• Stock market reaction to disclosure (Healy and Palepu, 1993).
• Firm structure and disclosure (Tornqvist, 1999).
• The use of information disclosure and the benefit of dealing with both management accounting and financial accounting in studying accountability (Tornqvist, 1999).</td><td>• Intra- and inter-information disclosure of public organisations (Coy et al, 1997)
• Public accountability rather than decision usefulness was argued for as a basis for external reporting (Coy et al, 2001).</td><td rowspan="2">• Information enclosure. (pp 237-9)
• Influence of Islam. (pp 200-10)
• Influence of family/social/personal relationships. (p 201)
• Influence of socialism. (p 199)
• Legal requirements. (p 199, p212)
• The organisational web and the social web of accountability. (pp 226-7)</td></tr>
<tr><td>Accountability construction</td><td>• The interdependency and the construction of accountability (Gibbins and Newton, 1994).
• The role of operational considerations and accounting information in the process of accountability (Ahrens, 1996).
• Managerial accountability in smaller businesses (Ritchie and Richardson, 2000).</td><td>• Individualising and socialising accountabilities (Broadbent et al, 1999).
• Managerial, public, political, professional and personal accountability forms (Sinclair, 1995).
• The influence of sacred and secular values on accountability construction (Laughlin, 1990).</td></tr>
</table>

Economic and social theories have been used to explain disclosure practices mainly in liberal market settings (See Chapter 3, pp 42-5). Most of disclosure studies in Western contexts have been embedded mostly in economic theories (See Table 10.1). Typical liberal market disclosure studies focused, inter alia, on issues related to mandatory versus voluntary disclosure, the right to know information and securities markets' reaction to firms' disclosures (Benston, 1982; Dye, 1990; Lev and Penman 1990; Cooke, 1991; Healy and Palepu, 1993; Gigler, 1994; Carnaghan et al, 1996).

Although there have been a growing number of theoretical accountability studies (Stewart, 1984; Roberts and Scapens, 1985; Roberts, 1991, 1996; Willmott, 1996; Macintosh, 1999; Mulgan, 2000), few empirical studies have been conducted, mainly in liberal market economies, to explore the nature of accountability in the public sector (Romzek and Dubnik, 1987; O'Loughlin, 1990; Sinclair, 1995; Broadbent et al, 1999; Parker and Gould, 1999) and the private sector (Gibbins and Newton, 1994; Ahrens, 1996; Tornqvist, 1999; Ritchie and Richardson, 2000). The accountability literature has been based on economic and social theories (See Chapter 5, p 89, pp 96-99). Economically "driven" theories have been used to explain organisational accountability. The traditional Principal–Agent model has been perhaps the most commonly recognised theory of accountability in formal business organisations (e.g. Mayston, 1993; Laughlin, 1996; Broadbent et al, 1996). Economic theories to explain accountability focused most on formal and hierarchical forms of accountability (See Chapter 5, pp 93-7). Socially oriented theories – such as social construction theory (Berger and Luckmann, 1967), new institution theory (Edwards et al, 1995; Scott, 1995), Gidden's structuration theory (Roberts and Scapens, 1985), socio-psychological perspective (Carnaghan et al, 1996) and interpretive analysis (Boland, 1993; Sinclair, 1995; McSweeney, 1996) – have been used to illuminate and understand the accountability construction process. Using economic and social theories, different forms of accountability were described (See Chapter 5, pp 96-104). Hierarchical, lateral, formal, informal, managerial, public, political, professional and personal forms of accountability were identified (Roberts and Scapens, 1985; Roberts 1991, 1996; Sinclair, 1995; Willmott, 1996).

Disclosure and accountability studies have been criticised for being mainly (i) based on economic theories; (ii) focused on exploring and understanding disclosure and accountability in Western contexts; and (iii) normative with few empirical studies particularly in non-western contexts (See Chapter 3, pp 45-55; Chapter 4 pp 66-8; Chapter 5, pp 96-99). In addition to the lack of empirical disclosure and accountability studies in the socialist context and the dominance of neo-classical theories on these studies, there were also methodological and methodical criticisms to the current disclosure and accountability literature (Laughlin, 1990; Ryan et al, 1997). Disclosure studies have been more inclined toward functionalism and the use of nomothetic methods with the belief that reality exists independently of human action (e.g. Alford et al, 1993; Brown and Kim, 1993; Ahmed and Courtis, 1999; Street et al, 1999). The use of narratives in understanding accountability and accounting was limited (Llewellyn, 1999). The use of the interpretive approach of social inquiry and ideographic methods in understanding the accountability construction process and disclosure practices was argued for in order to enhance the current understanding of accounting, disclosure and accountability practices (e.g. Gibbins et al, 1990; Dent, 1991; Boland, 1993; Tilt, 1994).

Disclosure practices and accountability construction processes in non-competitive markets have been given little attention in the literature (Kantor et al, 1995; Abu-Nassar and Rutherford, 1996). To complement these studies, an empirical study (case based) of accountability and disclosure was conducted in the Libyan context. The interest was in observing and explaining how accountability was constructed and how disclosure was practised in the democratic socialist and Islamic context of Libya. Explaining disclosure and accountability practices in relation to the State and the public in such context contributed to the current debate around these practices. This was done through exploring the current literature to understand the meaning and the purpose of information disclosure, the users of information, the timing of releasing the information and the means through which information was disclosed (See Chapters 3 and 4). Different accountability forms were described (See Chapters 5). The study used Sinclair's (1995) accountability forms to explore whether these forms were identified and understood similarly in the Libyan context (See Chapter 9). In order to understand accountability construction, information disclosure was used as "a carrier of accountability" in the Libyan context.

The case study method was adopted to provide a wider understanding of disclosure and accountability practices (See Chapter 6, pp 131-4). This method was adopted as it might enable understanding the specific and the detail (Yin, 1989; Scapens, 1990; Stake, 1994, 1995). The Secretary of Industry and the National Trailers Company were chosen to provide two cases (See Chapters 7 and 8). Data were collected from the SI and the NTC in January-March 2000 by conducting semi-structured interviews and obtaining documentary materials and archival records. Furthermore, being in the research site allowed the researcher to collect data through observations and informal discussions. The data collected was then described and analysed (See Chapters 7, 8 and 9). The next section provides the study's main observations.

10.2- The study's main observations:

The contribution of this study lies in its empirical observations and theoretical propositions. These observations and propositions provide the basis for conducting future research and developing new theories. The study's main observations in relation to the SI-NTC disclosure and accountability practices are presented in the following sections. The SI's and the NTC's interviewees' rationales of these observations and the researcher's interpretations to these rationales are provided.

Disclosure practices:

This section presents the study's disclosure related observations. Explanations of these observations are also provided.

Disclosure aspects:

The analysis of the data collected showed that the purpose, the audience, the means and the timeliness of disclosure in the NTC's context were different from those of liberal market economies. These differences are summarised below and illustrated in Table 10.2.

(i) The purpose of disclosure:

In the SI-NTC context, information was provided to government agencies for managerial purposes and to meet legal, contractual, formal and informal requirements (See Chapter 9, pp 191-4). The information provided by the company to the SI was used by the latter in allocating foreign exchange, preparing the industrial sector plans and holding the company to account for any malpractice (See Chapter 7, pp 145-6, p 154). The emphasis was on financial, managerial and legal information. The purpose of disclosure in liberal market economies was oriented mainly to increase firms' market value and to meet, inter alia, public, legal and professional requirements (Cooke and Wallace, 1990; Dye, 1990; Skinner, 1994).

Table 10.2: Comparison of disclosure purpose, audience, means and timeliness.

Disclosure issue	The SI-NTC context	Liberal market economies*
Purpose	To provide government agencies with information and to meet legal requirements.	Increase firms' market value and to meet legal, professional and public requirements.
Audience	Particular publics (e.g. the company's Administration Board, the General Assembly, the Secretary of Industry, the Tax Office and the Public Control Office).	Stakeholders, shareholders, potential shareholders and the public.
Means	Formal and informal meetings and direct contacts.	Official written documents such as annual reports and securities filings, newspapers, media, and shareholders meetings.
Timeliness	Delay in providing information.	Provided relatively on a timely basis.

* Buzby (1974), AlHashim and Arpan (1992), Gibbins et al (1992), Alford et al (1993) and Carnaghan et al (1996).

(ii) Disclosure audiences:

In the Libyan practice, information users consisted of particular stakeholders – particular public - and disclosure was directed mainly towards the interests of these parties. The company's annual reports were submitted to a limited number of accounting information users which included the company's Administration Board and General Assembly, the Secretary of Industry, Calabrese, the Tax Office and the Public Control Office (See Chapters 8 and 9). The notion of providing information to a particular public upon request or by event was the disclosure pattern between the company and outside parties. Disclosing information to the public was not acknowledged in the SI-NTC context (See Chapter 8). The users of firm's information in liberal market economies were stakeholders with the focus on stockholders and potential stockholders in Anglo-Saxon countries and on creditors and employees in Germanic countries and Japan (AlHashim and Arpan, 1992; Carnaghan et al, 1996).

(iii) The means of disclosure:

In the Libyan practice, the medium of communicating the company's annual reports and other official documents was mainly through formal and informal meetings, direct contacts and collecting the information from the company. The information was provided upon request or by event through self-established ways of communication (mainly personal contacts and official meetings) and not through the publicly available media. The company provided the SI with the required information mainly within the SI's pre-designed information gathering forms. This led the company to focus on the minimum disclosure requirements by providing the SI and other parties with the information to meet legal requirements. In liberal market economies, information was provided to firms' stakeholders through different channels (Carnaghan et al, 1996). It was mainly disclosed through official written documents such as annual reports and securities filings, newspapers, media and shareholders meetings (Gibbins et al, 1992).

(iv) The timeliness of disclosure:

Information is essential in both liberal and socialist economies for decision making processes, but the delay in acquiring some information in the Libyan context negatively influenced its usefulness (See Chapter 7, pp 151-3). The Head of the SI's Performance and Following-up Division argued that companies' employees considered the timing of providing information to some extent as not of much importance (See Chapter 7, p 152). These perceptions contributed to the delay in providing information. Managers' unawareness of the importance of information to the SI for planning and control purposes, as many interviewees within the SI believed (See Chapter 7), was the main factor that led to both the delay in providing information and the low levels of disclosure in the Libyan context.

Levels of disclosure:

The study's evidence showed low levels of disclosure (See Chapters 8 and 9). Low levels of disclosure in the Libyan context were not due to the threat of entry, since the economic system (namely socialist) was different from that of liberal market countries, but to other factors. These factors included, in addition to both the purpose and the audience of information disclosure as discussed above, (i) the absence of a stock exchange market and (ii) the low levels of awareness of the importance of the information (See Chapters 8 and 9).

(i) The absence of a stock exchange market:

The common belief of managers in the company was that disclosing accounting information was mainly to help investors to value companies' shares and to influence companies' market value (See Chapter 8, pp 174-5). The company's Costing Department Manager and Finance Manager argued that disclosing the company's accounting information to the public was meaningless or not necessary in the absence of a stock exchange market in Libya (See Chapter 8, pp 174-7). This led to the practice of providing the company's information only to particulars.

(ii) The low levels of awareness of the importance of the information:
The Heads of the SI's Performance and Following-up Division and Budget Division believed that managers' awareness of the importance of information was low (See Chapter 7, p 152). The awareness issue was related to the timeliness of disclosure as discussed above and to the values and beliefs possessed by managers and individuals within or outside companies and organisations about the importance of information (See Chapter 7, p 152).

Perceptions about disclosure:
There were contrasting perceptions about information disclosure practices between some of the NTC's and the SI's interviewees. The company's Internal Auditor, Accounts Department Manager and two accountants believed that the information they sent to the SI was not always used by the latter in the decision making process. They argued that the SI rarely questioned or requested clarification about information sent by the company, suggesting a low level of examination exercised by superiors on the information they received (O'Loughlin, 1990). On the other hand, the SI's Performance and Following-up Division and Planning and Following-up Department Managers believed that companies did not provide their information to the SI regularly and on time. They ascribed this to managers' unawareness of the importance of information.

Annual reports:
The data collected showed that the company's annual reports did not include explanations of the methods and procedures applied for some of the annual reports' components - e.g. inventory valuation (The NTC's Annual Reports for 1993-1999). The company did not, in its annual reports, explain how and what method(s) had been used in determining depreciation expenses perhaps assuming that users of the company's annual reports knew that the company applied the methods and rates specified by the Libyan Tax Law. The company's annual reports included financial analyses, charts and comparisons with the previous three years. They were restricted purely to monetary

information and did not include narrative or explanatory information. The importance of this additional information to decision makers was emphasised in the accounting literature (Hendriksen, 1982). The company's mission statement, which was not provided with the company's annual reports, was sometimes provided with the company's budget and other leaflets. The company's Executive Manager believed that the company's mission was known to its shareholders (i.e. the Secretary of Industry and Calabrese) and therefore there was no need to provide it in each year's annual report (See Chapter 9, p 173). In addition, the president's letter did not exist.

Public and private disclosure:

The SI required companies to supply it monthly, quarterly and annually with reports about their production levels, costs, sales, etc. The NTC provided the SI with these reports monthly, quarterly and annually (See Chapter 8). There was a diversity of opinion on whether the company should make its accounting information public in the light of the absence of competition. The NTC's Commerce Manager and an accountant in the company's Accounts Department believed that the company's accounting information was secret and should not be disclosed. They believed in the company's right not to disclose its information, "the right of privacy." This was consistent with what Gray (1988) described as the secrecy dimension of accounting values (See Chapter 4, p 73). However, the company provided its information and accounts to its shareholders, watchdog bodies and to those who had the statutory power to hold the company to account. It was argued within the company that the public was not interested in the company's financial information (See Chapter 8). The company's Finance Manager believed that there were little justifications to make financial information available to the public (See Chapter 8, p 174).

The right-to-know and the need-to-know information:

In the SI-NTC context, information flowed on the basis of the "need-to-know" concept to make decisions or to execute routines within or outside the company. Although the need-to-know concept was based on having the right to require and receive information, the provision of information was based on meeting the needs and the requirements of a particular public. In the company's context, disclosure of accounting information followed mainly accountability routes, which meant that information was provided to the parties to which the company was legally accountable. In liberal market economies, the information disclosure was based to some extent on the right-to-know with the aim of making the market more efficient by fully reflecting the available information (e.g. Beaver, 1981; Watts and Zimmerman, 1986; Healy and Palepu, 1993; Stanton, 1997). Providing information on the need-to-know rather than the right-to-know basis contradicted the notion that public ownership involves the public's right to know about publicly held organisations (See proposition I, p 237). These organisations were assumed to be accountable to the public and therefore were obliged to provide the public with their information (Benston, 1982; Stanton, 1997).

The budget and foreign exchange:

The study's observations showed that the allocated foreign exchange played an important role in the NTC's planning and production processes (See Chapter 8, p 167, pp 181-2). The company needed foreign exchange to import production materials and spare parts. Future earnings and expectations, which were emphasised in liberal market economies (e.g. Penman, 1980; Trueman, 1986; Lev and Penman, 1990), were prepared in the company and submitted to the SI mainly for foreign exchange allocation purposes. This process changed recently due to foreign exchange shortages. According to the new process, the allocation of foreign exchange preceded the preparation of companies' budgets (See Chapter 8, pp 181-2). Upon the allocated foreign exchange, the company(ies) had to prepare its (their) budget within foreign exchange boundaries. The availability of foreign exchange determined to a great extent the company's planning and production processes. The company was not intended to make its budget and expectations available to other users. There was a belief in the company that the company's information users did not require the company's budget and expectations and therefore there was no need to disclose them.

Relations with Calabrese:

The observations showed that the company provided Calabrese with information mainly for the Administration Board and the General Assembly meetings purposes (See Chapter 8, p 186). Although the company was owned by the SI (owning 75 per cent of the capital) and Calabrese (owning 25 per cent of the capital), the study's observations did not find evidence of both the role and the influence of Calabrese on the company's day-to-day decisions. The influence of the Italian culture on the NTC's disclosure and accountability practices was marginal. This was due mainly to the company's ownership structure. The study did not find evidence of whether or the extent to which religion, personal relationships and socialism influenced the role of Calabrese in the

NTC. However, the NTC was accountable to Calabrese in the sense that it had to apply the article of association and to provide the latter with information to meet financial, legal and contractual accountability requirements. The focus was on legal and financial accountability forms (See Chapter 8, p 186).

Accountability structure:

The SI-NTC's hierarchical accountability structure was oriented to serve, in addition to internal purposes, legal requirements and particular audiences. Internal accountability relationships involved providing accounts to managers, departments and the like within the company and the SI. The company's external accountability relationships were oriented towards specific parties. These parties, which constituted an "organisational web" of accountability relationships, included the SI, Calabrese, the Secretary of Treasury, the Tax Office and the Public Control Office (See Figure 8.1, p 181; Figure 9.1, p 193). The influence of these parties on the company's decisions was acknowledged. The company's Executive Manager referred to outsiders' pressure on managers (See Chapter 8, p 184). Carnaghan et al (1996) argued that providing accounts to outside parties depended upon the pressure exerted by these parties and the accountability relationship. The study's observations showed that the enacted accountability structure was influenced by not only hierarchical/formal relationships, but also by the role of being a Socialist, Arabic and Islamic country in the process of accountability construction (See Chapter 9, pp 199-200). The influence of these elements on accountability will be explained later in the chapter.

Accountability construction process:

The SI-NTC accountability construction process was influenced by social and cultural aspects (See Chapter 7, p 157; Chapter 9, p 197, p 201). The Head of the SI's Performance and Following-up Division used a Father-Son metaphor to describe the SI-NTC accountability relationships and the influence of economic, social and cultural aspects on these relationships (See Chapter 7, p 161; Chapter 9, pp 207-9). Embedded in this metaphor were issues related to accountability, power, loyalty, family, gender and age (See Chapter 9, pp 207-8). The use of this metaphor illustrated the influence of social relationships (the social web) on the accountability process (See Figure 9.2, p 208). Accountability was constructed through the implementation of hierarchical/formal requirements and the implication of personal relationships. The influence of personal and social relationships - hereafter "the social web" - affected the formal accountability relationships and pushed them towards informal accountability relationships. Laws and rules that existed in the Libyan context governed these informal relationships and directed them toward formal relationships (See Chapter 9, pp 201-3). Accountability relationships were found to be governed by laws and rules (the formal aspect of accountability) and mediated by personal and social relationships (the informal aspect of accountability). The former reflected the organisational web of accountability whereas the latter reflected the social web of accountability. Formal forms of accountability were observed to influence and maintain informal accountability relations while the latter influenced formal accountability forms.

In the SI-NTC context, there were different control mechanisms positioned differently in the hierarchy. Within the company, there was the Internal Auditor and the Finance Controller. The relationships between the company's management levels and the Internal Auditor and the Finance Controller were both formal hierarchical and informal social relations. Outside the company, there was the company's Watchdog Committee and the Public Control Office as control mechanisms. The Secretary of Treasury, through the Tax Office (and its appointed Finance Controller to the company), was another control mechanism. Therefore, there were a number of control bodies (e.g. the Public Control Office, Finance Controller, the SI, etc.) which not only controlled the company's general strategy, and to some extent resources, but also intervened in its decisions. These bodies constituted the organisational web within which the SI and the NTC were enmeshed. Social and personal relationships – the social web – played an important role in the construction of the organisational web. Both the organisational web and the social web influenced the SI-NTC disclosure and accountability practices.

Although a number of accountability forms were identified within the company and between the company and outside parties in general and the SI in particular (See Chapter 9, pp 191-201), managerial, legal and financial accountability forms were the most emphasised (See Chapter 9, p 192). These forms affected the type of information the company provided to the SI and other information users. Managerial and financial were the most required and provided types of information.

Comparison with Sinclair's (1995) accountability forms:

Comparing the study's observations with Sinclair's accountability forms was justified in that both studies were conducted in public sector organisations. However, note that

Sinclair's study was conducted in the Australian service sector while this study was conducted in the Libyan service and industrial sectors. Table 10.3 summarises Sinclair's (1995) accountability forms as identified in the Australian public sector and those identified in the SI-NTC context. In comparison with Sinclair (1995), the study observed similarities and differences in the understanding of accountability forms (See Table 10.3).

Table 10.3: Sinclair's (1995) accountability forms in the SI-NTC context.

Accountability forms	This study	Sinclair's study
Managerial	Emphasis on superior-subordinates relationship and financial accountability. (pp 197-8)	Emphasis on superiors-subordinates relationship. (p 227)
Public	Was not identified to the general public but to a particular public instead. It was narrowed to accountability to the Secretary of Treasury, the Secretary of Industry, Calabrese and the Public Control Office. (pp 198-9) It was understood in terms of developing trained workforce, bringing new technologies and improving production techniques. (p 193)	"Public accountability is understood as a more informal but direct accountability to the public, interested community groups and individuals." (pp 225-6)
Political	Not identified directly nor emphasised by interviewees. It was embedded in the socialist ideology adopted in Libya. (p 199) Understood as being accountable to the SI, the General People's Committee, the General People's Congress and other watchdog bodies. (p 199)	"is understood not as a chain, but as a legitimating bulwark against interference by the minister in agency administration and as a brake on the agency straying into political affairs." (p 225)
Professional	Was not identified to a professional body nor to professional standards. The role of professional bodies was limited or non-existent. (pp 199-200)	Identified as "being the top professional in an agency dominated by a particular professional group, ... being a professional administrator ... and ... being a professional manager." (p 229)
Personal	Related to social relations, values and beliefs with the importance of religion (Islam) and individuals' relations to Allah. (pp 200-1)	Related to the humanist perspective of individuals. (pp 230-1)

(i) Managerial accountability:

Managerial accountability was related to superior-subordinates relations and to financial and legal accountability forms in the Libyan context. The company's accountability to the SI was limited to the extent of which resources and foreign exchange were available and allocated to the company (See Chapter 8). In the Australian context, managerial accountability, which was based on superior-subordinates relationships, was related to the "autonomy in return for accepting managerially defined controls and discipline" (Sinclair, 1995: 232). The NTC's autonomy was restricted by the available and allocated foreign exchange and by the SI's influence on the company's decisions (See Chapter 9, p 192, p 199).

(ii) Public accountability:

The enforcement mechanisms of public accountability within the two cultures differed dramatically. The level of public accountability Sinclair (1995) identified in the Australian public sector was not identified in the Libyan context. Public accountability was emphasised in the Australian context (Sinclair, 1995) while it was narrowed down to accountability to a "particular public" in the Libyan context. The company's interviewees perceived their accountability not to the public but to customers, Calabrese, the SI, the Secretary of Treasury and the Public Control Office (See Chapter 9, pp 193-4). Public accountability was also understood in terms of developing trained workforce, bringing new technologies and improving production techniques (See Chapter 9, p 193).

(iii) Political accountability:

Although political accountability was not directly identified in the SI-NTC context, it was related to the socialist ideology adopted in the country with its emphasis on production rather than profit and market value (See Chapter 2). Political accountability was embedded in the company's relations with the SI and other government bodies, which made up the State's administrative and political bodies. This was different from what Sinclair described as political accountability in the Australian public sector. Political accountability in the Australian context was understood, "not as a chain" of accountability linking the public servant with electors through a number of buffers, "but as a legitimating bulwark against interference by the minister in agency administration and as a brake on the agency straying into political affairs" (Sinclair, 1995: 225).

(iv) Professional accountability:

Professional accountability did not appear to be given any significance by managers in the SI-NTC context. Although *Accounting* and *Engineering* professions were the most observed professions within the company, accountability to a professional body or to professional standards was not identified. Professionals within the company were more accountable to their managers and superiors and less (or not) accountable to their "ill-established" professions. In this respect, the research observations reinforced prior research studies' findings (Perera, 1989; Nobes and Parker, 1995) that countries with broad government ownership of businesses and socialist economies - as it is the case in Libya - were characterised by a weak accounting profession and statutory approach in regulating accounting profession. In Sinclair's study, professional accountability was given different expressions by Chief Executive Officers being understood as the leader of a group of professionals, a professional public sector administrator or representing an agency's professional values to government and community.

(v) Personal accountability:

The level of personal accountability observed in this study differed from that of Sinclair's where personal accountability was related to the humanist perspective of an individual. This study observed that personal accountability was about individuals' relations to Allah, which determined individuals' behaviour and relations with themselves and others (See Chapter 9, pp 200-1). Therefore, personal accountability included accountability to Allah.

Sinclair (1995) reported on accountability construction at the individual level in the Australian public sector context. Her observations did not include the influence of family/social and cultural aspects on the accountability construction process. In the Libyan context, Islam, social relations and personal contacts played a major role in the accountability construction process. The Islamic context within which this study was conducted highlighted the importance of the sacred values in the accountability process. Islamic values, which were central in the accountability process, shaped personal accountability. The significance of Islam in the SI-NTC accountability construction process will be explained later in the chapter.

10.3- Reflections on disclosure and accountability observations:

Webs of accountability:

The relationship between the company's disclosure practices and accountability construction processes suggested that information was provided mainly to those who constituted the "organisational web" within which accountability was constructed. The organisational web of accountability reflected the SI's and the NTC's accountability structures and legal procedures. It also reflected the SI's and the NTC's relationships with one another and with the Secretary of Treasury, the Tax Office, the Public Control Office and Calabrese. These structures and relationships, which were governed by rules and decrees, reflected the formal and hierarchical aspects of the organisational web. Therefore, the organisational web had two aspects, legal and structural. The legal aspect was related to the implementation of laws and rules in establishing and governing the SI and the NTC relationships between each other and with other organisations. This process involved the development and the application of formal procedures and relationships. The structural aspect of the organisational web was related to the process of establishing organisations and their structures. This involved organisations' structures and relationships with other organisations and the accountability relationships between these organisations. The implementation of rules and structures reflected the formal and hierarchical aspects of the accountability process. The focus here was on the accountability construction of artefacts. Accountability in the organisational web was based on authority and hierarchy. It was related to the implementation of rules and to the establishment of structures. Formal relationships characterised this web of accountability. However, the organisational web was constructed and construed by individuals (actors) within and outside the SI-NTC context. It did not exist objectively and independently of social actors. The social web, which influenced the enactment of the organisational web, contributed to the construction of accountability and disclosure practices. The process of providing information to a particular public in the Libyan context was influenced by the social web of personal contacts and relations within and outside the company (See Chapters 8 and 9).

Although rules and structures which governed the accountability and disclosure process reflected the hierarchical form of accountability, social and personal relationships influenced these processes. Previous studies concluded that personal and social connections played an important role in organisations in the Libyan context and the

Arabic world (Ali, 1996; Agnaia, 1997). The process of demanding and providing information in the SI-NTC context was influenced by social and personal relationships and connections. These relationships and connections played an important role in the SI's and the NTC's relationships with each other and with other organisations. The enactment of the organisational web which was governed by laws and formal relationships was mediated by personal and social relationships.

The importance of the social web was reflected in the Father-Son metaphor. The roles and functions of a father and a son are changeable whereas the structure of their relationships may be static over time. The adherence to family values and the role of other family members in the Father-Son relationships (See Figure 9.2, p 208) reflected the role of societal and organisational cultures and other organisations in the SI-NTC accountability and disclosure practices. The greater the role that personal and social relations had on accountability construction, the more information was made available and/or provided to particular audiences. The reliance on social networks and personal connections in demanding and obtaining information and accounts reflected the informal aspect of the social web. Networks comprise "a set of actors, either individuals or firms, connected for some purpose(s)" (Berry, 1996: 57). Berry (1996) referred to two aspects of networks, technical and social.[5] These aspects shared some of the organisational and the social webs' characteristics. Accountability in the social web was based on the establishment of social relationships and personal connections within and between the SI and the NTC. It reflected the social networks developed between individuals and organisations. The emphasis in establishing social networks was on issues related to identity and personal connections. Accountability in the social networks was based on social and cultural reasons. The identity of who demanded accounts and information was important. Accounts and information were provided to those to whom the SI and the NTC were accountable.

[5] Berry (1996) described three approaches to networks, intra-firm, inter-firm, and extra-firm. For more details on these approaches and the network literature, please refer to Berry (1996), Dennis (2000) and Ebers (1997).

The social web reflected the informal aspect of accountability where accounts were provided and demanded through, and influenced by, personal and social relationships. Personal relationships were developed between individuals within and between the SI, the NTC and other organisations. However, the existence of the social web may lead the formal requirements of laws and the informal aspects of social relationships to clash. In this respect, the social web influenced the construction and the structure of the organisational web. The broader cultural, social and Islamic contexts within which the SI and the NTC operated, together with their internal culture and structure, influenced the accountability and disclosure processes. The extent to which the organisational web influenced the social web is unclear and needs further exploration.

Although the organisational and the social webs were different, they complemented each other. The organisational web reflected the construction of accountability and disclosure artefacts whereas the social web reflected the social construction of accountability and disclosure. Thus, two elements of social construction were identified, social construction of artefacts and social construction of meanings (Crotty, 1998). Accountability relationships were produced and reproduced within and through the organisational and the social webs. Information disclosure practices were related to the accountability practices and thereby to these webs. Information was disclosed within the organisational web's boundaries and was mediated by the social web. The interaction between the structures and procedures of the organisational web and the interpretations and meanings of the social web may result in either (i) improving the levels of understanding the existed structures and procedures to organisational accountability, (ii) developing new structures and procedures, or (iii) maintaining the status quo.

The connectedness of accountability and disclosure:

Due to participants understanding and practising of disclosure to particulars, the need for public disclosure was not entirely comprehended in the Libyan context. This affected the accountability process since the company provided its information only to particulars to whom it was accountable. Public accountability in the sense of providing the public with information (Benston, 1982; Sinclair, 1995) was not evident in the socialist context of Libya and was replaced by managerial accountability and social relationships. The emphasis on accountability to government agencies rather than to the public implied less focus on efficiency and quality and more focus on managerial and financial accountability relationships. This was in contrast to what Parker and Gould

(1999) found in the UK where the government increased its focus on the efficiency and the quality of services through emphasising accountability to customers.

Evidence from the data collected highlighted the contextual nature of accountability relationships (Sinclair, 1995). In particular, it highlighted the relationship between the general social environment and organisational practices (e.g. Hofstede, 1984a; Morgan, 1986; Watson, 1994). Organisational practices of accountability reflected or were premised on the power relations existing in the society (Berry et al, 2000). They reflected the influence of both the organisational web and the social web in constructing and construing accountability and disclosure practices. Identifying the extent to which the organisational and the social webs depended upon each other and influenced accountability and disclosure practices was problematic due to the interpenetration between these webs. The importance of accountability procedures were varied and depended on to whom the account was provided. The company's accountability process was oriented to serve, in addition to internal purposes, legal requirements and particular audiences. The effect of narrowing down public accountability to "particular-public" accountability on disclosure was noticed through the emphasis given to providing information to the SI and watchdog bodies and not to the general public. This view was related to the argument that human actors do not know or perceive *the* world but know and perceive *their* world through the medium of culturally specific frames of reference (Smircich, 1983).

The influence of Islam, Arabic culture and socialism on accountability:

The study's observations showed that the Western understanding of accountability (See Chapter 5, pp 96-104) did not "travel" to the Libyan context (See Table 10.3). This was due to differences in economic, social and cultural aspects of the two settings. The organisational web and the social web influenced how accountability was constructed and construed in the SI-NTC context. The combination of Islamic values and Arabic culture (as elements of the social web) and socialist ideology (as an element of the organisational web) resulted in establishing personal values and beliefs that affected the accountability process. The study's observations provided evidence for the influence of (i) Islam, (ii) family/social/personal relationships (collectivism) and (iii) socialism on the SI-NTC accountability construction process (See Chapter 9, pp 198-206). Some of these observations are summarised in Table 10.4.

Table 10.4: The role of Islam, social and personal connections and socialism in accountability.

Aspects of accountability	The study's observations
Role of Islam in accountability.	Emphasised in individuals' relations with the self and with others. (pp 200-1) Primary to the economic reasons of accountability. Economic reasons of accountability follow and do not precede sacred reasons of accountability. (p 201, p 206)
Role of social and personal connections in accountability.	Emphasised in the company's/individual's relations with other organisations/ individuals. (pp 201-2) Reflected in the use of the Father-Son metaphor in describing the SI-NTC accountability relationships. (pp 207-9) Influenced the application of laws and formal rules. (p 201)
Role of socialism in accountability.	The influence of the socialist element on accountability was minimal. (p 199)

(i) The significance of Islam:

The distinction between sacred and secular values in the UK, New Zealand and Libya was different (Laughlin, 1990; Kluvers, 2001). Laughlin (1990) and Kluvers (2001), who studied accountability in religious organisations in the UK and New Zealand respectively, found a divide between the sacred and the secular. This study was conducted in the Libyan manufacturing public sector. Even though this study was not conducted in a religious organisation, the importance of sacred values was evident. The divide observed by Laughlin (1990) and Kluvers (2001) between the sacred and the secular was not observed in the Libyan context. Abdul-Rahman and Goddard (1998) and Lewis (2001) argued that in Islamic societies the secular was included within the sacred. Islam, which was embedded in people's actions and interactions, was related to seeing Islam as a way of life. The teachings of Islam and the implementations of Islamic values started from the period of childhood. The practice of Islam on day-to-day basis (such as praying five times a day) strengthened the influence of Islam on people's relationships with Allah, themselves and others. These relationships involved providing and demanding accounts.

The sacred in Western (e.g. Laughlin, 1990; Kluvers, 2001) and Islamic (Abdul-Rahman and Goddard, 1998; Lewis, 2001) contexts differed as it was related to different values and religious beliefs. The sacred in Laughlin's (1990) and Kluvers' (2001) studies was based on the Bible whereas in Abdul-Rahman and Goddard's (1998) and Lewis' (2001) studies was based on the Koran.

(ii) The significance of the family/social/personal relationships:

Collectivity, which gave the family/social/personal aspect this importance in the accountability process in the Libyan context, was based on two different aspects, the socialist aspect and the family/social/personal aspect. The socialist and the family/social/personal aspects of collectivity were reflected in the "construction" of the organisational web and the social web. The influence of family/social/personal values and connections on accountability was pronounced (See Chapter 9, pp 201-2). This was illustrated through the use of the Father-Son metaphor in describing the SI-NTC accountability relationships (See Chapter 9, pp 207-9). In a study on the Libyan industrial sector, Agnaia (1997) found that social relationships played an important role in shaping working relationships in Libya. In this study, the notion of the social web provided a wider understanding of the role of Islam and family/social/personal aspects on the accountability construction process. It explained both the influence of family/social/personal aspect on accountability construction and the connectedness of disclosure practices to the accountability process (See Table 10.1).

(iii) The significance of socialism:

The study's observations showed that the implementation of socialism in Libya influenced the company's disclosure and accountability practices and led to providing information mainly to the SI and Calabrese (See Chapter 8, pp 173-5). However, the influence of the socialist aspect of collectivity on disclosure and accountability was secondary to the influence of Islam and family/social/personal aspects. The minimal influence of socialism on disclosure and accountability was due mainly to the NTC's ownership structure (See Chapter 8, p 163). This was also due to the belief by some of the company's managers that privatising the company would improve the production process and reduce production costs (See Chapter 8, p 177). The study observed that public ownership of resources led to "private" control of information (See proposition I, p 237).

10.4- Theoretical propositions:

The relationship between information disclosure and firms' capital ownership structure in liberal market economies was described (Carnaghan et al, 1996). Information was provided mainly to the public with the focus on stockholders in Anglo-Saxon countries and on creditors and employees in Germany, Japan and Latin countries (AlHashim and Arpan, 1992; Carnaghan et al, 1996). Concentration of ownership provided core investors with both the incentive and the ability to monitor and control firms' management (Xu and Wang, 1999). Grossman and Hart (1980) showed that if a firm's ownership is widely dispersed, no shareholder has adequate incentives to monitor the management closely because the gain from a take-over for any individual shareholder is too small to cover the monitoring cost.

Although the society in general was the ultimate owner of publicly held organisations within the Libyan socialist context, information was not disclosed to the general public but it was provided to particular government agencies instead. The public's right to know information about companies was replaced by companies' *right* of privacy concept. Gray (1988) called the privacy concept the secrecy dimension of accounting values (See Chapter 4, p 73). Although, economic theories explained partially disclosure and accountability practices within the Libyan context, these theories were based on assumptions not applicable to the Libyan socialist economic context. The above discussion provides the basis for the following proposition.

Proposition I: The private ownership of companies' capital in liberal market economies and the existence of disclosure-related legislation lead to public disclosure. The public ownership of companies' capital in the socialist context of Libya lead to "private" disclosure.

The provision of information to a particular public and considering information as property of the company are to be explained using the notion of "information enclosure." Information enclosure refers to the practice of providing information to a particular public rather than to the general public. Information enclosure occurs often upon request, by event or to meet legal and accountability requirements (See Chapter 9, pp 198-9, p 207). Information enclosure differs from information disclosure in that the latter involves providing information to stakeholders which include the general public whereas the former involves providing information to a particular public.

Providing information to a particular public was similar to what Holland (1998) described as "private disclosure" in his study of 33 UK companies. Information enclosure contradicted the notion that public ownership involves the public's right to know about publicly held organisations. These organisations were assumed to be accountable to the public and therefore were obliged to provide the public with their information (Benston, 1982; Stanton, 1997). The provision of information to a particular public was related to the belief within the SI-NTC context that the public - i.e. the general public - was not interested in the company's information (See Chapter 7, pp 175-6). It was also related to the absence of a stock exchange market, the low level of awareness of the importance of information and the weakness of the accounting profession (See Chapter 9, pp 206-7). The private ownership of companies' capital in liberal market economies and the need for more efficient markets through the availability of information led governments to regulate disclosure practices however difficult that has been and is. The focus was on transparency and efficiency (Holland, 1988; Alford et al, 1993; Parker, 1995; Parker and Gould, 1999). In the Libyan Socialist and Islamic context, the State was both the owner of public enterprises and the regulator. Although the right to use resources from an Islamic perspective is not only for the benefit of individuals but more importantly is for the benefit of society at large (Lewis, 2001), the study observed that information was not provided to the public at large. Providing information to government agencies (representing the State) and not to the public was observed. The emphasis was on the SI-NTC accountability relationships rather than public accountability. Therefore, information was enclosed to particular public rather than disclosed to the general public.

The notion of information enclosure was related to both the organisational web and the social web of accountability relationships. The organisational web, through its legal and structural aspects, delineated the routes for providing information. Information was provided to meet the legal requirements of the organisational web structure which included the SI, the NTC, the Secretary of Treasury, the Tax Office and the Public Control Office. This process was influenced by the social web of accountability relationships within and between the SI and the NTC on one hand and between the SI and the NTC and other organisations on the other. Personal connections and relationships played an important role in the process of demanding and providing information (See Chapter 8, p 201). The organisational and the social webs were based on social and personal connections within the SI-NTC context and between the SI and the NTC on one hand and Calabrese, the Secretary of Treasury, the Tax Office and the Public Control Office on the other. Information was provided mainly to those who constituted the organisational web and had statutory power to hold the company to account. This provided an explanation for the company's enclosure practices. Being accountable to other organisations was the main reason for the company to provide its accounts to these organisations. The context within which the SI and the NTC operate, with its social and cultural elements, influenced the SI-NTC accountability process.

In the Libyan context, the idea that there would be a marked distinction between the sacred and the secular was not supported. Although Islam, family/social/personal and cultural aspects influenced the construction of accountability, the influence of Islam was pronounced. Seeing Allah as the absolute and eternal owner of everything is an essential belief in Islam. This belief shapes individuals' values which influence their actions and accountability relationships. Therefore, the ultimate accountability is to Allah (See Chapter 9, pp 200-1). In this respect, accounts were provided not only for economic reasons, but also for social and cultural reasons (See Chapter 9, p. 206). The social reasons included the role of the social web. The cultural reasons reflected the role of Islam and other values and beliefs in accountability. Although the economic reason of accountability explained part of the SI-NTC accountability relationship, the societal context within which these organisations operate affected the accountability process. This context included the teachings and values of Islam. This discussion is demonstrated in the following proposition.

Proposition II: In the Islamic context of Libya, sacred reasons of accountability precede and do not follow economic reasons of accountability, because the sacred is prior to everything.

This proposition is a speculative one which emerged from the study's observations and needs further exploration to understand how and the extent to which Islam influences organisations accountability. The importance of Islam was reflected in the belief that accountability to Allah is central to individuals' relationships with themselves and with others (Baydoun and Willett, 2000; Lewis, 2001). The practice of praying five times a day and the fear of Allah were but some examples of the connectedness of Islam to individuals within the SI-NTC context. This proposition is related to seeing Islam as a framework within which secular activities occur. Economic, political, religious and social affairs fall under the jurisdiction of the divine law of Islam (Lewis, 2001). Muslims see Islam as an all-embracing system containing political, legal, economic, social and socio-cultural subsystems. The notion of the social web of accountability provided a wider understanding of the role of Islam/personal/social aspects of accountability.

The study's observations showed that accountability was constructed through formal and informal routes. Formal construction of accountability was based mainly on legal and economic requirements. Economic reasons of accountability were related to the transfer of resources and the ownership structure. The SI's and the NTC's formal aspects of providing accounts included the provision of ex ante (budgets and resource allocation) and ex post (reports and financial statements) information. They were interpreted and enacted through the social web. The SI's and the NTC's informal means of providing ex ante and ex post information included meetings, conversations and discussions within the web of family/social/personal relationships. Therefore, accountability construction was related to both the organisational web within which the SI and the NTC were enmeshed and the social web through which interpretations and meanings were established. This provides the basis for the following proposition.

Proposition III: The role of the social web is primary to that of the organisational web in the construction of both "disclosure practices" and accountability in the Libyan context.

The primary importance given to the social web was due to the role of Islam and family and social relationships in the study's context. The importance of informal networks and relationships in the study's context was established. Although the establishment of formal rules affected the accountability process, the influence of social relationships and personal connections was primary. Formal rules reflected the construction process of artefacts whereas the social and personal aspects reflected the social construction of meanings. Personal and social relationships affected the formal aspect of demanding and providing information (See Chapter 9, p 202). The Father-Son metaphor reflected these effects and relationships. The metaphor illustrated the role and the importance of social relationships within and between the Father and the Son on one hand and other family members and relatives on the other (See Chapter 9, pp 207-9). Social networks affected not only the social construction of meanings but also the legal and the structural aspects of the organisational web. These networks were affected by the teachings of Islam with its emphasis on collectivity and social relationships. However, more research is needed to explore the extent to which Islam influences the construction of artefacts and the social construction of meanings in the context of organisations.

The issue underlined in the above discussion was not the existence of the organisational web and the social web. Rather, the issue was the interpenetration between the organisational web and the social web, which has not been explored in the accountability literature (Ahrens, 1996; Ritchie and Richardson, 2000; Coy et al, 2001). Although Ritchie and Richardson (2000) developed a model to explain managerial accountability in smaller businesses, they did not explain the role of the social web in the accountability process. The interdependency and the interpenetration between the organisational and the social webs in the SI-NTC context made identifying which web dominated, determined and preceded the other not an easy task. More research is needed to explore these issues and to understand the construction processes of the organisational web and the social web of accountability. This study explored the influence of both the organisational and the social webs on the SI-NTC accountability process. The influence of laws, values and beliefs, as cultural elements, on the temporal development of the organisational web and the social web was acknowledged (See Chapter 9, pp 201-3). From Scott's (1995) institutional theory perspective (See Chapter 9, pp 201-3), laws, values and beliefs influenced people's behaviour. These elements governed and enabled social action through which accountability was constructed. New institution theory highlighted the importance of the wider social and cultural environments within which organisations were rooted (Scott, 1995). In this respect, the organisational web was constructed through the implementation of laws, values and beliefs within the social web. The social web, which informed and shaped the organisational web, was the outcome of social action, i.e. socially constructed. The role of the social web in the SI-NTC accountability process characterised this study and provided a social dimension to it. However, Western/Euro-centric accountability theories did not explain the role of the social web in the SI-NTC accountability process. Hence, accountability theory is not universal and has to be constructed in its particular context. This context is to reflect culturally specific aspects (e.g. Islam in Libya) that influence the accountability process.

The above proposition could be developed further to reflect different relationships between the organisational web and the social web in other organisations. The organisational web and the social web may have similar influences on disclosure and accountability in other contexts. The possibility that the role of the organisational web is primary to that of the social web in disclosure and accountability is an emergent proposition developed from the above discussion. These extensions, which need further explorations, are based on the level of importance given to the organisational web, the social web or both in different contexts.

10.5- Conclusion:

The above discussion focused on the study's observations, which were based on the data collected from the SI and the NTC. The discussion was related to the study's knowledge problem of describing and understanding disclosure and accountability practices in the SI-NTC context. It was related to the theoretical argument that disclosure and accountability studies, which have been conducted mainly in liberal market economies, have been based on economic and social theories. The study's observations showed that the NTC's disclosure practices were oriented to serve a particular public. The notion of information enclosure was introduced to explain disclosure practices in the Libyan context. Information was provided to those to whom the company was accountable. The study's observations showed that the provision of information followed the accountability routes. Economic, social and cultural aspects influenced the SI-NTC's organisational and social webs of accountability relationships. The importance of the legal and the structural aspects of the organisational web and the construction of meanings and relationships in the social web were observed.

The discussion showed that Sinclair's (1995) forms of accountability were differently understood and observed in the SI-NTC context. This was due to differences, not only in the economic systems, but also in the social and cultural attributes of Libya and Australia. Sinclair's (1995) model, which was used in illuminating the accountability process in the Libyan context, has been extended to include social and theological aspects of accountability construction.

The study did not observe Laughlin's (1990) divide between the sacred and the secular in the Libyan context. This contrast was related to the context within which the two studies were conducted. Laughlin's (1990) study, which reported on accountability construction at the organisational level, was conducted in a Western religious organisation. This study was conducted in two non-religious organisations in the Islamic socialist context of Libya.

Islam, social relationships and the socialist aspect of Libyan economy were observed as important factors in the accountability process. The influence of the socialist element was observed to be minimal, the influence of the social relationships element was present and the influence of the Islamic construction of identity and accountability of a person (all persons) to Allah was pronounced. Thus, the explanation offered for accountability was related not only to economic but also to social and cultural reasons as well. This explanation encompassed values and beliefs that were related not only to secular but also to sacred activities.

10.6- Contribution to knowledge:

In the light of the study's observations, the following are the study's main contributions. These contributions are related to the study's objectives as to understand the SI-NTC disclosure and accountability practices.

(1) Methodologically and methodically, the study was reinforced by the importance of and the need to conduct field research - and in particular case-based research - in accounting (Laughlin, 1990; Scapens and Roberts, 1993; Otley and Berry, 1994; Humphrey and Scapens, 1996).

(2) The study contributed to the accountability literature which was considered to be richer on theoretical models and weaker on detailed case studies (Laughlin, 1990). The richness of the data collected reflected the advantage of adopting the case study method in conducting research.

(3) The study contributed to the limited studies on accountability and disclosure conducted on developing countries in general and within the Arab socialist context in

particular (See Chapters 3, 4 and 5). Although the generalisation of the study's observations was not the aim of this study, these observations provided a wider understanding of the influence of cultural, social and economic contexts on disclosure and accountability practices in Libyan and similar environment(s).

(4) Theoretically, tackling the issues of disclosure and accountability through the use of agency theory, from its social perspective (Armstrong, 1991), as a point of departure extended the current understanding of disclosure and accountability relationships. The observations of this study complemented previous studies in their attempt to theorise accountability and disclosure practices. The study contributed to knowledge by including accountability in the debate around disclosure practices.

(i) Current theories described and explained partially the study's observations. In this respect, the study's contribution was two-fold. The first was related to the practice of disseminating the company's information - information enclosure - and the second was related to the accountability construction process - accountability web (See Table 10.1). The study proposed a theory (information enclosure) to explain disclosure practices in the SI-NTC context in particular with the possibility of applying that to the Libyan public enterprises in general.

(ii) The role of accountability in information enclosure process was identified through the notion of the web of accountability. The organisational and the social webs of accountability within which the SI and the NTC were enmeshed illustrated the role of social and personal relationships in the accountability process (See proposition III, p 240).

(5) Empirically, this study reinforced the assertions of prior research studies which claimed that accounting practices, as socially and politically constructed phenomena, were to be seen from the cultural, economic, social and political contexts in which they exist (Gray, 1988; Perera, 1989).

(i) The empirical evidence suggested that social relationships and government bodies were the major factors that influenced the company's disclosure and accountability practices. This was illustrated by the use of the Father-Son metaphor to describe the SI-

NTC accountability relationships and the influence of social and cultural aspects on the accountability construction process (See Chapter 9).

(ii) The study reinforced prior studies' assertions that disclosure and accountability are continually being socially constructed (Sinclair, 1995; Carnaghan et al, 1996; Parker and Gould, 1999). The study provided evidence of the connectedness of disclosure and accountability practices. It showed that disclosure practices follow to some extent accountability routes.

(iii) The study was in contrast with Gray's (1988) assertions that collective societies apply uniform accounting practice (See Chapter 9). It asserted Hofstede's (1984a) societal dimensions and Gray's (1988) accounting value dimensions in the sense that secrecy and low levels of professionalism were expected in collective societies (See Chapter 9).

(iv) The study showed that professional accountability did not appear in the Libyan context. It also showed that personal accountability was about individuals' relations to Allah, which determined individuals' behaviour and relations with themselves and others. In this context, values and beliefs were seen as important factors in the process of providing and demanding accounts. These observations were different from those identified by Sinclair (1995) in the Australian public sector (See pp 227-30).

(v) In this respect, the study extended Sinclair's study and argued for an explanation to disclosure and accountability practices that took into consideration the role of values and beliefs in these practices (See Chapter 9). This explanation encompassed values and beliefs that were related not only to secular but also to sacred activities. The influence of sacred values was to some extent divorced from the study of disclosure and accountability in economically theorised studies. This study brought the sacred and the secular values together and explored their combined influence on disclosure and accountability processes.

(vi) The role of Islam and social relationships in the accountability construction process was identified. The significance of Islamic values and beliefs in the daily conduct was pronounced. Economic and legal reasons for accountability followed, and did not precede, the influence of Islam and social relations on accountability (See proposition

II, p 239). Although a theory about the form and content of the Islamic financial statements, which was based on full disclosure and social accountability, was provided (Baydoun and Willett, 2000), this theory did not explain how and to what extent Islam and social relations were reflected in and influenced the construction of organisational accountability. The NTC's enclosure practices did not support the criteria of full disclosure in Baydoun and Willett's (2000) Islamic corporate reports. In fact, the study's observations contradicted this theory and indicated that information was provided to particulars. This was due to the fact that although the company operated in an Islamic culture, it implemented Western accounting systems rather than Islamic principles.

10.7- Limitations of the study:

The study shortcomings are categorised into theoretical, empirical and methodological. Theoretically, although the study argued that liberal market economic theories did not explain and answer all aspects of accountability and disclosure practices, it used agency theory as its departure point. However, agency theory was used only as a tool to guide the research. The focus was on the social rather than the economic aspects of agency theory (Armstrong, 1991).

Empirically, the study focused only on two Libyan case studies in the manufacturing sector and did not include Calabrese. Including other Organisations and Institutions from the manufacturing sector and/or other sectors may have provided a wider and/or different understanding of disclosure and accountability practices in the Libyan context. Access, time and cost constraints and the amount of work involved prevented the researcher from expanding the research setting.

Methodologically and methodically, the adoption of the interpretive approach, the case study method and the use of interviews as the main method in collecting the data (See Chapter 6) led to the involvement of both the researcher and the researched in the process of reality construction to understand accountability and disclosure practices. Understanding how reality was constructed from participants' point of view was the aim of this interpretive approach to social inquiry (e.g. Hopper and Powell, 1985; Chua, 1986; Morgan, 1988). Related to this was the use of the case study method to understand the specific rather than to generalise the observations. In Stake's (1994: 245) terms, "The purpose of case study is not to represent the world, but to represent the case." Therefore, the study's observations are not to be generalised to other organisations. These limitations should be considered when interpreting the study's observations.

10.8- Recommendations:

Based upon the study's observations, some recommendations are made in relation to disclosure and accountability practices within the Libyan context. To improve the accounting profession status and disclosure practices, the Libyan accounting profession should develop and adopt accounting and auditing standards that are suitable for the country's environment. These standards will provide guidance for companies' accounting systems and disclosure policies and practices. Accounting practices are to be reflected in and reflect accounting education. Accounting education should be oriented to serve the peculiar problems the accounting profession faces. Efforts should be spent to co-ordinate between the State's and companies' objectives and the roles of both the accounting profession and the education process in the accounting development.

At the company's level, the need is to increase the awareness of the importance of information and disclosure through encouraging the company to publish its annual reports and to improve the understanding of the importance of this information to decision makers within and outside the company. The importance of the company's mission statement and president letter should be recognised. The quality and the timeliness of the information provided to information users should be improved. To this end, the company should provide more explanatory information in its annual reports about the methods used for inventory, depreciation and other items. The focus should be not only on quantifiable information but also on narratives. Narrative information are as important to decision makers as monetary information. The communication aspect of providing information to outsiders should be improved to provide information on a timely basis and to make the information more reliable. The importance of disclosing ex ante as well as ex post information should be recognised.

The company's accountability to the public, rather than emphasising its accountability to particulars, is to be emphasised. This will improve the level of information provided to the public and increase the level of accountability. To enhance accountability, the company's obligations to others should be defined. The bond of accountability is to be identified and the source of accountability is to be delineated. The clarity in defining accountability sources reduces the possibility for diffusing accountability. The role and the influence of the organisational web, the social web and Islam in the accountability process is to be considered.

At the Secretary of Industry level, the mechanism and the timing of allocating foreign exchange to companies should be improved. The SI's intervention in companies' decision making process should be minimised. Foreign exchange allocation and the SI's intervention in companies' affairs affect the accountability construction process. Therefore, defining both the SI's and companies' responsibilities and obligations, in the light of the allocated foreign exchange, improves the bond of accountability between these parties.

10.9- Further research:

The observations and the propositions of this study could be used to conduct further studies on other Libyan companies using the case study method. Patterns of disclosure and accountability that emerged in the study's context could be compared with those constructed in different contexts (See proposition I, p 237). This could be done either by replicating this study on other organisations or by adopting different research methods. Action research may provide richer/different understanding of organisational accountability and disclosure practices. Further research may explore the possibility that Libyan companies, which operate within collective society, are expected to be oriented more to internal disclosure and less to external disclosure. Exploring the extent to which the notion of information enclosure applies to other organisations is needed.

Another avenue of research is to construe accountability construction process in Libyan public organisations and to explore the extent to which these organisations as legal entities, rather than individuals, are held accountable for any misconduct or malpractice. The influence of professional groups and government agencies on organisations' accountability construction process is another way to explore and to enhance the current understanding of accountability and disclosure practices.

Although the study demonstrated the importance of culture in disclosure and accountability practices, further research is needed to illuminate the role and the influence of organisations' subculture and societal culture on disclosure and accountability practices. This may involve understanding how societal culture influences or related to organisations' disclosure and accountability practices.

With respect to the organisational web and the social web, this study has generated many questions. What kind of relationships do exist between the organisational web and the social web? Does the organisational web (the social web) dominate the social web (the organisational web)? What role does Islam play in the construction of the organisational and the social webs? How do these webs operate in other public and private organisations within the Libyan context and other contexts? A longitudinal study may be conducted to describe and observe how the organisational web influences, and is influenced by, the social web (See proposition III, p 240). The ways through which these webs were constructed is a potential area of research. The research may explore the social construction of artefacts and the social construction of meanings. Studying and analysing the social network of accountability in organisations would be a way to develop an understanding of the influence of the social web in the construction of accountability and disclosure.

Exploring how accountability is constructed and understood in other public and private organisations in different economic and culture settings is an area that needs further research. The role of religion in the accountability process in different economic and cultural settings may provide an understanding of the role of the sacred values in the accountability construction process in such contexts (See proposition II, p 239).

References:

Abdul-Rahman, A. and Goddard, A. (1998) An interpretive inquiry of accounting practices in religious organisations, *Financial Accountability and Management,* Vol. 14, No. 3, PP 183-201.

Abu-Baker, N. (1995) Use of an Accountability Framework as an Alternative Approach for Corporate Social Responsibility Reporting and Disclosure Practices in Jordan, Ph.D. Thesis, University of Dundee.

Abu-Nassar, M. and Rutherford, B. (1996) External users of financial reports in less developed countries: The case of Jordan, *British Accounting Review,* Vol. 28, PP 73-87.

Abusneina, M. (1992) Libyan industrial exports: Its present position and future prospects – a study of the Libyan industrial sector 1970-1989, *Journal of Economic Research,* National Academy of Scientific Research: The Economic Research Centre, Benghazi, Vol. 4, No. 1, PP 3-43.

African Development Report (1994) Development Research and Policy Department, African Development Bank, Abidjan.

Agnaia, A. (1997) Management training and development within its environment: The case of Libyan industrial companies, *Journal of European Industrial Training,* Vol. 21, No. 3, PP 117-23.

Agnaia, A. (1996) Assessment of management training needs and selection for training: The case of Libyan companies, *International Journal of Manpower,* Vol. 17, No. 3, PP 31-51.

Ahmed, K. and Courtis, J. (1999) Associations between corporate characteristics and disclosure levels in annual reports: A meta-analysis, *British Accounting Review,* Vol. 31, PP 35-61.

Ahmed, K. and Nicholls, D. (1994) The impact of non-financial company characteristics on mandatory disclosure compliance in developing countries: The case of Bangladesh, *The International Journal of Accounting,* Vol. 29, PP 62-77.

Ahrens, T. (1996) Financial and operational accountability: differing accounts of British and German managers, Chap. 8, In Munro, R. and Mouritsen, J. *Accountability: Power, ethos and the technologies of managing,* London: International Thomson Business Press, PP 149-63.

Akerlof, G. (1970) The market for "lemons": Quality uncertainty and the market mechanism, *Quarterly Journal of Economics,* Vol. 84, August, PP 488-500.

Ala-Elden, F. (1993) Harmonisation of accounting standards in the Arab World, *Arab Chartered Accountant,* PP 22-24.

Alford, A., Jones, J., Leftwich, R. and Zmijewski, M. (1993) The relative informativeness of accounting disclosures in different countries, *Journal of Accounting Research,* Vol. 31, Supplement, PP 183-223.

AlHashim, D. and Arpan, J. (1992) *International Dimensions of Accounting*, Boston: Pws-Kent Publishing Company.

Ali, A. (1996) Organisational development in the Arab World, *Journal of Management Development,* Vol. 15, No. 5, PP 4-21.

Al-Modahki, J. S. (1995) An Empirical Study of Accounting Disclosure Development in the Kingdom of Saudi Arabia, Ph.D. Thesis, University of Exeter.

Alter, S. (1992) *Information Systems: A Management Perspective*, Addison-Wesley Publishing Company, USA.

Alvesson, M. and Deetz, S. (2000) *Doing Critical Management Research*, London: Sage.

Anderson, T. (1992) Accounting earnings announcements and differential predisclosure information, *ABACUS,* Vol. 28, No. 2, PP 121-32.

Armstrong, P. (1991) Contradiction and social dynamics in the capitalist agency relationship, *Accounting, Organizations and Society*, Vol. 16, No. 1, PP 1-25.

Arya, A., Glover, J. and Sivaramakrishnan, K. (1997) The interaction between decision and control problems and the value of information, *The Accounting Review,* Vol. 72, No. 4, PP 561-74.

Awasthi, V. N., Chow, C. W. and Wu, A. (1998) Performance measure and resource expenditure choices in a teamwork environment: The effects of national culture, *Management Accounting Research*, Vol. 9, PP 119-38.

Ayubi, N. (1992) Withered socialism or whether socialism? The radical Arab States as populist-corporatist regimes, *Third World Quarterly*, Vol. 13, March, PP 89-107.

Baiman, S. (1990) Agency research in managerial accounting: A second look, *Accounting, Organizations and Society*, Vol. 15, No. 4, PP 341-71.

Baiman, S. (1982) Agency research in managerial accounting: A survey, *Journal of Accounting Literature*, Spring, Vol. 1, PP 154-210.

Bait El-Mal, M., Smith, C. and Taylor, M. (1973) The development of accounting in Libya, *The International Journal of Accounting, Education and Research,* Vol. 8, No. 2, PP 83-101.

Bait El-Mal, M. M., Thaw, K., Bozrida, M., Eshtawi, E., Bait El-Mal, M. A., and Badi, M. (1988) A survey and an evaluation of the accounting standards applied in Libya, unpublished study, The Economic Research Centre, Benghazi, Libya.

Bamber, L. and Cheon, Y. (1998) Discretionary management earnings forecast disclosures: Antecedents and outcomes associated with forecast venue and forecast specificity choices, *Journal of Accounting Research*, Vol. 36, No. 2, PP 167-90.

Baydoun, N. and Willett, R. (2000) Islamic corporate reports, *ABACUS,* Vol. 36, No. 1, PP 71-90.

Baydoun, N. and Willett, R. (1995) Cultural relevance of Western accounting systems to developing countries, *ABACUS*, Vol. 31, No. 1, PP 67-92.

Bearman, P. J. (1986) *Qadhafi's Libya,* London: Zed Books.

Beaver, W. H. (1981) *Financial Reporting: An Accounting Revolution,* New Jersey: Prentice Hall.

Beaver, W. H. (1978) Current trends in corporate disclosure, *The Journal of Accountancy*, January, PP 44-52.

Bedford, N. M. (1973) *Extensions in Accounting Disclosure*, New Jersey: Prentice-Hall.

Belkaoui, A. (1985) *International Accounting: Issues and Solutions*, London: Quorum Books.

Belkaoui, A. (1981) *Accounting Theory*, London: Harcourt Brace Jovanovich Inc.

Bengharbia, S. (1989) Auditing and profession ethics in Libya, *Journal of Economic Research*, National Institute for Scientific Research: The Economic Research Centre, Benghazi, Vol. 1, No. 1, PP 118-26.

Benston, G. J. (1982) Accounting and corporate accountability, *Accounting Organizations and Society*, Vol., 7, No. 2, PP 87-105.

Benston, G. J. (1976) *Corporate Financial Disclosure in the UK and the USA*, Westmead: Saxon House.

Berger, P. and Luckmann, T. (1967) *The Social Construction of Reality*, London: Allen Lane.

Berry, A. (1996) Control in networks, Published in Proceedings of Third Management Control Symposium, Imperial College, London.

Berry, A. (1983) Management control and methodology, Chap. 3, In Lowe, T. and Machin, J., *New Perspectives in Management Control*, London: Macmillan Press Ltd, PP 45-58.

Berry, T., Othata, O. and Saleh, M. (2000) Towards a critical understanding of organisational accountability: An institutional and social construction perspective, Paper presented at the Management Control Association workshop, University of Lancaster, September.

Bird, R. and Locke, S. (1981) Financial accounting reports: A market model of disclosure, *Journal of Business Finance and Accounting*, Vol. 8, No. 1, PP 27-44.

Bloom, R. and Naciri, M. (1989) Accounting standard setting and culture: A comparative analysis of the United States, Canada, England, West Germany, Australia, New Zealand, Sweden, Japan, and Switzerland, *The International Journal of Accounting,* Vol. 24, No. 1, PP 70-97.

Boland, R. (1993) Accounting and the interpretive act, *Accounting, Organizations and Society,* Vol. 18, Nos. 2/3, PP 125-46.

Botosan, C. (1997) Disclosure level and the cost of equity capital, *The Accounting Review*, Vol. 72, No. 3, PP 323-49.

Bovens, M. (1998) *The Quest for Responsibility: Accountability and Citizenship in Complex Organisations*, Cambridge: Cambridge University Press.

Brewer, P. (1998) National culture and activity-based costing systems: a note, *Management Accounting Research*, Vol. 9, PP 241-60.

Briston, R. (1978) The evolution of accounting in developing countries, *The International Journal of Accounting, Education and Research,* Fall, PP 105-20.

Broadbent, J., Jacobs, K. and Laughlin, R. (1999) Comparing schools in the UK and New Zealand: Individualising and socialising accountabilities and some implications for management control, *Management Accounting Research,* Vol. 10, PP 339-61.

Broadbent, J., Dietrich, M. and Laughlin, R. (1996) The development of Principal-Agent contracting and accountability relationships in the public sector: Conceptual and cultural problems, *Critical Perspectives on Accounting*, Vol. 7, PP 259-84.

Brown, L. and Kim, K. (1993) The association between nonearnings disclosures by small firms and positive abnormal returns, *The Accounting Review,* Vol. 68, No. 3, PP 668-80.

Bryman, A. (1993) *Quantity and Quality in Social Research*, London: Routledge.

Buhr, N. (1998) Environmental performance, legislation and annual report disclosure: The case of acid rain and Falconbridge, *Accounting, Auditing and Accountability Journal*, Vol. 11, No. 2, PP 163-90.

Burch, J. G. and Grudnitski, G. (1989) *Information Systems: Theory and Practice*, 5th ed., Toronto: John Wiley & Sons.

Burns, J. and Scapens, R. (2000) Conceptualising management accounting change: An institutional framework, *Management Accounting Research*, Vol. 11, PP 3-25.

Burrell, G. and Morgan G. (1979) *Sociological Paradigms and Organisational Analysis*, Aldershot: Gower.

Bushman, R. M., Gigler, F. and Indjejikian, R. J. (1996) A model of two-tiered financial reporting, *Journal of Accounting Research,* Vol. 34, Supplement, PP 51-74.

Buzby, S. (1975) Company size, listed versus unlisted stocks, and the extent of financial disclosure, *Journal of Accounting Research,* Spring, PP 16-37.

Buzby, S. (1974) The nature of adequate disclosure, *Journal of Accountancy,* Vol. 137, No. 4, April, PP 38-47.

Buzied, M. M. (1998) Enterprise Accounting and its Context of Operation: The Case of Libya, Ph.D. Thesis, University of Durham.

Carnaghan, C., Gibbins, M. and Ikaheimo, S. (1996) Managed financial disclosure: the interplay between accountability pressures, Chap. 9, In Munro, R. and Mouritsen, J. *Accountability: Power, ethos and the technologies of managing*, London: International Thomson Business Press, PP 164-81.

Choi, F. and Mueller, G. (1992) *International Accounting,* London: Prentice Hall.

Chow, C., Haddad, K. and Hirst, M. (1996) An experimental market's investigation of discretionary financial disclosure, *ABACUS*, Vol. 32, No. 2, PP 133-52.

Chua, W. F. (1986) Radical development in accounting thought, *The Accounting Review*, Vol. LXI, No. 4, PP 601-32.

Cooke, T. E. (1992) The impact of size, stock market listing and industry type on disclosure in the annual reports of Japanese listed corporations, *Accounting and Business Research*, Vol. 22, No. 87, PP 229-37.

Cooke, T. E. (1991) An assessment of voluntary disclosure in the annual reports of Japanese corporations, *The International Journal of Accounting*, Vol. 26, No. 3, PP 174-89.

Cooke, T. E. (1989) Disclosure in the corporate annual reports of Swedish companies, *Accounting and Business Research*, Vol. 19, No. 74, Spring, PP 113-24.

Cooke, T. E. and Wallace, R. (1990) Financial disclosure regulation and its environment: A review and further analysis, *Journal of Accounting and Public Policy*, Vol. 9, PP 79-110.

Cooper, K. and Keim, G. (1983) The economic rationale for the nature and extent of corporate financial disclosure regulation: A critical assessment, *Journal of Accounting and Public Policy,* Vol. 2, PP 189-205.

Coy, D., Fischer, M. and Gordon, T. (2001) Public accountability: A new paradigm for College and University annual reports, *Critical Perspectives on Accounting*, Vol. 12, PP 1-31.

Coy, D., Dixon, K., Buchanan, J. and Tower, G. (1997) Recipients of public sector annual reports: Theory and an empirical study compared, *British Accounting Review*, Vol. 29, PP 103-27.

Crotty, M. (1998) *The Foundations of Social Research,* London: Sage.

Darrough, M. (1995) Discussion of disclosure of predecision information in a Duopoly, *Contemporary Accounting Research*, Vol. 11, No. 2, PP 861-72.

Darrough, M. (1993) Disclosure policy and competition: Cournot vs. Bertrand, *The Accounting Review*, Vol. 66, No. 3, PP 534-61.

Darrough, M. N. and Stoughton, N. M., (1990) Financial disclosure policy in an entry game, *Journal of Accounting and Economic*, Vol. 12, PP 219-43.

Demski, J. S. (1974) Choice among financial reporting alternatives, *The Accounting Review*, Vol. 49, No. 2, PP 221-32.

Demski, J. and Feltham, G. (1994) Market response to financial reports, *Journal of Accounting and Economics,* Vol. 17, PP 3-40.

Dennis, C. (2000) Networking for marketing advantage, *Management Decision,* Vol. 38, No. 4, PP 287-92.

Dent, J. (1991) Accounting and organisational cultures: A field study of the emergence of a new organisational reality, *Accounting, Organizations and Society,* Vol. 16, No. 8, PP 705-32.

DiMaggio, P. and Powell, W. (1983) The iron cage revisited: Institutional isomorphism and collective rationality in organisational fields, *American Sociological Review,* Vol. 48, April, PP 147-60.

Dye, R. (1990) Mandatory versus voluntary disclosure: The cases of financial and real externalities, *The Accounting Review*, Vol. 65, No. 1, PP 1-24.

Dye, R. (1986) Proprietary and nonproprietary disclosures, *Journal of Business,* Vol. 59, No. 2, PP 331-66.

Dye, R. (1985) Disclosure of nonproprietary information, *Journal of Accounting Research,* Vol. 23, No. 1, PP 123-145.

Dye, R. and Sridhar, S. (1995) Industry-wide disclosure dynamics, *Journal of Accounting Research*, Vol. 33, No. 1, PP 157-74.

Earnhart, D. (1999) Multiple penalty mechanisms in a Principal-Agent model under different institutional arrangements, *Journal of Comparative Economics*, Vol. 27, PP 168-89.

Ebers, M. (1997) *The Formation of Inter-Organisational Networks,* New York: Oxford University Press.

Edwards, P., Ezzamel, M., Robson, K. and Taylor, M. (1995) The development of local management of schools: Budgets, accountability and educational impact, *Financial Accountability and Management,* Vol. 11, No. 4, PP 297-315.

Eisenhardt, K. (1989) Building theories from case study research, *Academy of Management Review*, Vol. 14, No. 4, PP 532-50.

Elmaihub, S. (1981) The role of the public sector in development strategy: The case of Libya, Paper presented at the symposium on African perspectives on the new international economic order sponsored by the United Nations University in co-operation with Addis Ababa University.

El-Sharif, Y. (1980) An empirical investigation of Libyan professional accounting services, *Dirasat in Economics and Business,* Vol. XVI, Nos. 1/2, PP 3-11, Garyounis University, Libya, (the English part).

Emmanuel, C., Garrod, N., McCallum, C. and Rennie, E. (1999) The impact of SSAP 25 and the 10% materiality rule on segment disclosure in the UK, *British Accounting Review,* Vol. 31, PP 127-49.

Enthoven, A. (1991) Accounting in developing countries, Chap. 12, In Nobes, C. and Parker, R., *Comparative* International *Accounting,* 3rd ed., New York: Prentice Hall, PP 254-76.

Enthoven, A. (1980) The accountant in the Third World, *The Journal of Accountancy*, March, PP 76-78.

Enthoven, A. (1977) *Accountancy Systems in Third World Economies,* Amsterdam: North-Holland.

Fechner, H. and Kilgore, A. (1994) The influence of cultural factors on accounting practice, *The International Journal of Accounting,* Vol. 29, PP 265-77.

Feltham, G. (1972) Information evaluation, *Studies in Accounting Research*, No. 5, American Accounting Association.

Firth, M. (1979) The impact of size, stock market listing and auditors on voluntary disclosure in corporate annual reports, *Accounting and Business Research,* Autumn, PP 273-80.

Foley, B. (1991) *Capital Markets*, London: Macmillan.

Frank, W. (1979) An empirical analysis of international accounting principles, *Journal of Accounting Research*, Vol. 17, No. 2, P 593.

Frankel, R., McNichols, M. and Wilson, G. P. (1995) Discretionary disclosure and external financing, *The Accounting Review*, Vol. 70, No. 1, PP 135-50.

Frantz, P. and Walker, M. (1997) Information disclosure to employees and rational expectations: A Game-theoretical perspective, *Journal of Business Finance and Accounting*, Vol. 24, Nos. 9/10, PP 1421-31.

Frost, C. and Pownall, G. (1994) Accounting disclosure practices in the United States and the United Kingdom, *Journal of Accounting Research,* Vol. 32, No. 1, PP 75-102.

Gaa, J. (1986) User primacy in corporate financial reporting: A social contract approach, *The Accounting Review,* Vol. LXI, No. 3, PP 435-54.

Gadamer, H. (1975) *Truth and Method*, Sheed and Ward.

Garfinkel, H. (1967) *Studies in Ethnomethodology*, New Jersey: Prentice-Hall.

Ghartey, J. (1990) Political accountability and development in the Third World, *The International Journal of Public Sector Management,* Vol. 3, No. 2, PP 39-53.

Ghauri, P., Gronhaug, K. and Kristianslund, I. (1995) *Research Methods in Business Studies*, London: Prentice Hall.

Gibbins, M. and Newton, J. D. (1994) An empirical exploration of complex accountability in public accounting, *Journal of Accounting Research*, Vol. 32, No. 2, Autumn, PP 165-86.

Gibbins, M., Richardson, A. J. and Waterhouse, J. (1992) *The Management of Financial Disclosure: Theory and Perspectives*, Vancouver: The Canadian General Accountant's Research Foundation.

Gibbins, M., Richardson, A. and Waterhouse, J. (1990) The management of corporate financial disclosure: Opportunism, ritualism, policies, and processes, *Journal of Accounting Research,* Vol. 28, No. 1, PP 121-43.

Giddens, A. (1979) *General Problems in Social Theory,* London: Macmillan.

Gigler, F. (1994) Self-enforcing voluntary disclosures, *Journal of Accounting Research,* Vol. 32, No. 2, PP 224-40.

Gilbert, N. (1993) *Researching Social Life,* London: Sage.

Glaser, B. G. and Strauss, A. L. (1967) *The Discovery of Grounded Theory: Strategies for Qualitative Research,* New York: Aldine Publishing Company.

Glynn, J. and Perkins, D. (1997) Control and accountability in the NHS market: A practical proposition or logical impossibility, *International Journal of Public Sector Management,* Vol. 10, Nos. 1/2, PP 62-75.

Goddard, A. and Powell, J. (1992) Accountability and accounting: Using naturalistic methodology to enhance organisational control: a case study, *Discussion Papers in Accounting and Management Science,* July, No. 92-46, PP 2-28.

Gray, R. (1992) Accounting and environmentalism: An exploration of the challenge of gently accounting for accountability, transparency and sustainability, *Accounting, Organizations and Society,* Vol. 17, No. 5, PP 399-425.

Gray, S. (1988) Towards a theory of cultural influence on the development of accounting systems internationally, *ABACUS*, Vol. 24, No. 1, PP 1-15.

Gray, A. and Jenkins, W. (1993) Codes of accountability in the New Public Sector, *Accounting, Auditing and Accountability Journal,* Vol. 6, No. 3, PP 52-67.

Gray, A. and Jenkins, W. (1985) *Administrative Politics in British Government*, Sussex: Wheatsheaf Books.

Gray, R., Owen, D. and Maunders, K. (1987) *Corporate Social Reporting: Accounting and Accountability,* London: Prentice Hall.

Grossman, S. J. (1981) The informational role of warranties and private disclosure about product quality, *Journal of Law and Economics*, Vol. 24, PP 461-83.

Grossman, S. and Hart, O. (1980) Disclosure laws and takeover bids, *The Journal of Finance*, Vol. 35, No. 2, PP 323-46.

Habermas, J. (1978) *Knowledge and Human Interests*, Heineman Educational Books Ltd.

Hagigi, M. and Williams, P. (1993) Accounting, economic and environmental influences on financial reporting practices in Third World countries: The case of Morocco, *Research in Third World Accounting,* Vol. 2, PP 67-84.

Harmon, M. and Mayer, R. (1986) *Organisation Theory for Public Administration,* Boston: Little, Brown.

Harrison, G. and McKinnon, J. (1986) Culture and accounting change: A new perspective on corporate reporting regulation and accounting policy formulation, *Accounting, Organizations and Society,* Vol. 11, No. 3, PP 233-52.

Hartley, J. (1994) Case studies in organisational research, Chap. 12, In Cassell, C. and Symon, G., *Qualitative Methods in Organisational Research,* London: Sage, PP 208-29.

Healy, P. and Palepu, K. (1993) The effect of firms' financial disclosure strategies on stock prices, *Accounting Horizons*, Vol. 7, No. 1, PP 1-11.

Hendriksen, E. S. (1982) *Accounting Theory*, 4th ed., Homewood: Richard D. Irwin, Inc.

Hessler, R. (1992) *Social Research Methods*, New York: West Publishing Company.

Higgins, B. (1968) *Economic development: Principles, problems and policies*, 2nd ed., London: Constable.

Hill, C. and Jones, T. (1992) Stakeholders-Agency Theory, *Journal of Management Studies,* March, Vol. 29, No. 2, PP 131-54.

Hines, R. (1991) The FASB's conceptual framework, financial accounting and the maintenance of the social world, *Accounting, Organizations and Society*, Vol. 16, No. 4, PP 313-31.

Hofstede, G. (1991) *Culture and Organisations: Software of the Mind*, London: McGraw-Hill.

Hofstede, G. (1984a) *Culture's Consequences: International Differences in Work-Related Values*, London: Sage.

Hofstede, G. (1984b) Cultural dimensions in management and planning, *Asia Pacific Journal of Management,* January, PP 81-99.

Hofstede, G. (1983) The cultural relativity of organisational practices and theories, *Journal of International Business Studies,* Vol. 14, No. 2, PP 75-90.

Hofstede, G. (1980-1981) Culture and organisations, *International Studies of Management and Organisation,* Vol. 10, No. 4, PP 15-41.

Hofstede, G. (1980) *Culture's Consequences: International Differences in Work-Related Values*, London: Sage.

Holland, J. (1998) Private disclosure and financial reporting, *Accounting and Business Research,* Vol. 28, No. 4, PP 255-69.

Holzer, H. and Chandler, J. (1981) A systems approach to accounting in developing countries, *Management International Review*, Vol. 21, No. 4, PP 23-32.

Hopper, T. and Powell, A. (1985) Making sense of research into the organisational and social aspects of management accounting: A review of its underlying assumptions, *Journal of Management Studies*, Vol. 22, No. 5, PP 429-65.

Hossain, M., Tan, L. and Adams, M. (1994) Voluntary disclosure in an emerging capital market: Some empirical evidence from companies listed on the Kuala Lumpur stock exchange, *The International Journal of Accounting,* Vol. 29, PP 334-51.

Hove, M. (1986) Accounting practices in developing countries: Colonialism's legacy of inappropriate technologies, *Journal of Accounting, Education and Research,* Vol. 22, PP 81-100.

Humphrey, C. and Scapens, R. (1996) Theories and case studies of organisational accounting practices: Limitation or liberation? *Accounting, Auditing and Accountability Journal,* Vol. 9, No. 4, PP 86-106.

Hussey, J. and Hussey, R. (1997) *Business Research,* London: MacMillan Business.

Ibrahim, M. and Kim, J. (1994) User-groups consensus on financial disclosure preferences: The case of Egypt, *Advances in International Accounting*, Vol. 7, PP 61-71.

Ijiri, Y. (1983) On the accountability-based conceptual framework of accounting, *Journal of Accounting and Public Policy,* Vol. 2, No. 2, PP 75-81.

Inchausti, B. (1997) The influence of company characteristics and accounting regulation on information disclosed by Spanish firms, *The European Accounting Review*, Vol. 6, No. 1, PP 45-68.

Information and Documentation Centre (1998) *Information Bulletin*, Vol. 4, Musrata: Libya.

Information and Documentation Centre (1996) *Information Bulletin*, December, Musrata: Libya.

Jackson, P. M. (1982) *The Political Economy of Bureaucracy,* Oxford: Philip Allan.

Jaggi, B. (1975) The impact of the cultural environment on financial disclosures, *International Journal of Accounting,* Spring, PP 75-84.

Jaggi, B. and Low, P. Y. (2000) Impact of culture, market forces, and legal system on financial disclosures, *The International Journal of Accounting,* Vol. 35, No. 4, PP 495-519.

Jaruga, A. (1990) Accounting functions in socialist countries, *British Accounting Review,* Vol. 22, PP 51-77.

Jensen, M. and Meckling, W. (1976) Theory of the firm: Managerial behaviour, agency costs, and ownership structure, *Journal of Financial Economics*, Vol. 3, PP 305-60.

Johnson, P. and Duberley, J. (2000) *Understanding Management Research*, London: Sage.

Jones, T. and Dugdale, D. (1995) Manufacturing accountability, Chap. 19, In Berry, A., Broadbent, J. and Otley, D., *Management Control: Theories, Issues and Practices,* London: Macmillan, PP 299-323.

Jones, C. and Sefiane, S. (1992) The use of accounting data in operational decision making in Algeria, *Accounting Auditing and Accountability Journal*, Vol. 5, No. 4, PP 71-83.

Jonsson, S. (1996) Decoupling hierarchy and accountability: An examination of trust and reputation, Chap. 6, In Munro, R. and Mouritsen, J. *Accountability: Power, ethos and the technologies of managing,* London: International Thomson Business Press, PP 103-17.

Jorgensen, D. (1989) Participant Observation: A methodology for human studies, London: Sage.

Jung, W. and Kwon, Y. (1988) Disclosure when the market is unsure of information endowment of managers, *Journal of Accounting Research*, Vol. 26, No. 1, PP 146-53.

Kantor, J., Roberts, C. and Salter, S. (1995) Financial reporting practices in selected Arab countries: An empirical study of Egypt, Saudi Arabia, and the United Arab Emirates, *International Studies of Management and Organisation,* Vol. 25, No. 3, PP 31-

Karake, Z. (1992) *Information Technology and Management Control: An Agency Theory Perspective*, London: Praeger.

Keane, S. M. (1980) *The Efficient Market Hypothesis*, Gee & Co limited.

Khanna, M., Quimio, W. R. and Bojilova, D. (1998) Toxics release information: A policy tool for environmental protection, *Journal of Environmental Economics and Management*, Vol. 36, No. 3, PP 243-66.

Kilani, A. K. (1998) The current and the future of financial performance reports in Libya, *Journal of Economic Research,* National Academy of Scientific Research: The Economic Research Centre, Benghazi, Vol. 9, Nos. 1/2, PP 203-31.

Kilani, A. K. (1988) The Evolution and Status of Accounting in Libya, Ph.D. Thesis, Hull University.

King, N. (1994) The qualitative research interview, Chap. 2, In Cassell, C. and Symon, G., Qualitative *Methods in Organisational Research: A Practical Guide,* London: Sage, PP 14-36.

King, R. and Wallin, D. (1991) Voluntary disclosures when seller's level of information is unknown, *Journal of Accounting Research,* Vol. 29, No. 1, PP 96-108.

Kirschenheiter, M. (1997) Information quality and correlated signals, *Journal of Accounting Research*, Vol. 35, No. 1, PP 43-59.

Kluvers, R. (2001) Budgeting in Catholic parishes: An exploratory study, *Financial Accountability & Management,* Vol. 17, No. 1, PP 41-58.

Laughlin, R. (1996) Principals and higher principals: Accounting for accountability in the caring professions, Chap. 12, In Munro, R. and Mouritsen, J. *Accountability: Power, ethos and the technologies of managing,* London: International Thomson Business Press, PP 225-44.

Laughlin, R. (1995) Empirical research in accounting: Alternative approaches and a case for "middle-range" thinking, *Accounting, Auditing and Accountability Journal*, Vol. 8, No. 1, PP 63-87.

Laughlin, R. (1990) A model of financial accountability and the Church of England, *Financial Accountability and Management*, Vol. 6, No. 2, PP 93-114.

Laughlin, R. (1988) Accounting in its social context: An analysis of the accounting systems of the Church of England, *Accounting, Auditing and Accountability Journal,* Vol. 1, No. 2, PP 19-42.

Laughlin, R., Broadbent, J. and Shearn, D. (1992) Recent financial and accountability changes in General Practice: An unhealthy intrusion into medical autonomy, *Financial Accountability and Management,* Vol. 8, No. 2, PP 129-48.

Laughlin, R. and Lowe, T. (1990) A critical analysis of accounting thought: Prognosis and prospects for understanding and changing accounting systems design, Chap. 2, In Cooper, D. and Hopper, T., *Critical Accounts*, London: Macmillan, PP 15-43.

Lev, B. (1988) Toward a theory of equitable and efficient accounting policy, *The Accounting Review,* Vol. LXIII, No. 1, PP 1-22.

Lev, B. and Penman, S. (1990) Voluntary forecast disclosure, nondisclosure, and stock prices, *Journal of Accounting Research*, Vol. 28, No. 1, PP 49-76.

Lewis, M. (2001) Islam and accounting, *Accounting Forum*, Vol. 25, No. 2, PP 103-27.

Li, Y., Richardson, G. and Thornton, D. (1997) Corporate disclosure of environmental liability information: Theory and evidence, *Contemporary Accounting Research,* Vol. 14, No. 3, PP 435-74.

Llewellyn, S. (1999) Narratives in accounting and management research, *Accounting, Auditing and Accountability Journal,* Vol. 12, No. 2, PP 220-36.

Lukka, K. and Kasanen, E. (1995) The problem of generalisability: Anecdotes and evidence in accounting research, *Accounting, Auditing and Accountability Journal,* Vol. 8, No. 5, PP 71-90.

Macintosh, J. (1999) The issues, effects and consequences of the Berle-Dodd debate, 1931-1932, *Accounting, Organizations and Society,* Vol. 24, No. 2, PP 139-53.

Macintosh, N. B. (1994) *Management Accounting and Control Systems*, Chichester: John Wiley and Sons Ltd.

Mayston, D. (1993) Principals, agents and the economics of accountability in the new public sector, *Accounting, Auditing and Accountability Journal*, Vol. 6, No. 3, PP 68-96.

McKinnon, J. and Dalimunthe, L. (1993) Voluntary disclosure of segment information by Australian diversified companies, *Accounting and Finance,* Vol. 33, No. 1, PP 33-51.

McNally, G., Eng, L. and Hasseldine, C. (1982) Corporate financial reporting in New Zealand: An analysis of user preferences, corporate characteristics and disclosure practices for discretionary information, *Accounting and Business Research*, Vol. 13, Winter, PP 11-20.

McSweeney, B. (1996) The arrival of an accountability: Explaining the imposition of management by accounting, Chap. 11, In Munro, R. and Mouritsen, J. *Accountability: Power, ethos and the technologies of managing,* London: International Thomson Business Press, PP 201-24.

Merino, B. D. and Neimark, M. D. (1982) Disclosure regulation and public policy: A sociohistorical reappraisal, *Journal of Accounting and Public Policy,* Vol. 1, PP 33-57.

Miles, M. and Huberman, A. (1994) *Qualitative Data Analysis,* London: Sage.

Milgrom, P. (1981) Good news and bad news: Representation theorems and application, *The Bell Journal of Economics*, Vol. 12, PP 380-91.

Mirghani, M. (1982) A framework for a linkage between Microaccounting and Macroaccounting for purposes of development planning in developing countries, *International Journal of Accounting,* Vol. 18, No. 1, PP 57-68.

Morgan, G. (1988) Accounting as reality construction: Towards a new epistemology for accounting practice, *Accounting, Organizations and Society*, Vol. 13, No. 5, PP 477-85.

Morgan, G. (1986) *Images of Organisation,* London: Sage.

Morgan, G. and Smircich, L. (1980) The case for qualitative research, *Academy of Management Review,* Vol. 5, No. 4, PP 491-500.

Morris, R. (1987) Signalling, agency theory and accounting policy choice, *Accounting and Business Research*, Vol. 18, No. 69, PP 47-56.

Mueller, G. (1968) Accounting Principles Generally Accepted in the United States versus those generally accepted elsewhere, *The International Journal of Accounting, Education and Research*, Spring, PP 91-103.

Mueller, G. (1967) *International Accounting*, New York: Macmillan.

Mulgan, R. (2000) Accountability: An ever-expanding concept? *Public Administration,* Vol. 78, No. 3, PP 555-73.

Munro, R. (1996) Alignment and identity work: The study of accounts and accountability, Chap. 1, In Munro, R. and Mouritsen, J. *Accountability: Power, ethos and the technologies of managing,* London: International Thomson Business Press, PP 1-19.

Munro, R. and Mouritsen, J. (1996) *Accountability: Power, ethos and the technologies of managing,* London: International Thomson Business Press.

Nagarajan, N. and Sridhar, S. (1996) Corporate responses to segment disclosure requirements, *Journal of Accounting and Economics*, Vol. 21, No. 2, PP 253-75.

Nair, R. D. and Frank, W. G. (1980) The impact of disclosure and measurement practices on international classifications, *The Accounting Review*, Vol. LV, No. 3, PP 426-50.

Ngangan, K. (1997) A study of consensus among users of corporate annual reports in developing countries: Implications for the design of appropriate disclosure policies by enterprises in the Emerging Nations, *Entrepreneurship, Innovation, and Change*, Vol. 6, No. 2, PP 127-43

Nobes, C. (1995) International classification of financial reporting, Chap. 1, In Nobes, C. and Parker, R., *Comparative International Accounting,* 4th ed., London: Prentice Hall, PP 3-21.

Nobes, C. (1992) *International classification of financial reporting*, 2nd ed., London: Routledge.

Nobes, C. (1983) A judgmental international classification of financial reporting practices, *Journal of Business Finance and Accounting,* Vol. 10, No. 1, PP 1-19.

Nobes, C. and Parker, R. (1995) Introduction, and causes of differences, Chap. 1, In Nobes, C. and Parker, R., *Comparative International Accounting,* 4th ed., London: Prentice Hall, PP 3-21.

O'Loughlin, M. (1990) What is bureaucratic accountability and how can we measure it? *Administration and Society,* Vol. 22, No. 3, PP 275-302.

Otley, D. and Berry, A. (1994) Case study research in management accounting and control, *Management Accounting Research,* Vol. 5, PP 45-65.

Ouibrahim, N. and Scapens, R. (1989) Accounting and financial control in a Socialist Enterprise: A case study from Algeria, *Accounting Auditing and Accountability Journal*, Vol. 2, No. 2, PP 7-28.

Owusu-Ansah, S. (1998) The impact of corporate attributes on the extent of mandatory disclosure and reporting by listed companies in Zimbabwe, *The International Journal of Accounting*, Vol. 33, No. 5, PP 605-31.

Page, M. (1991) The ASB's objective for financial reports should be to enhance good stewardship, *Accountancy,* October, P 31.

Panozzo, F. (1996) Accountability and identity: Accounting and the democratic organisation, Chap. 10, In Munro, R. and Mouritsen, J. *Accountability: Power, ethos and the technologies of managing,* London: International Thomson Business Press, PP 182-95.

Parker, R. (1995) Regulation financial reporting in the United Kingdom, the United States, Australia and Canada, Chap. 6, In Nobes, C. and Parker, R., *Comparative International Accounting,* 4th ed., London: Prentice Hall, PP 99-116.

Parker, L. and Gould, G. (1999) Changing public sector accountability: critiquing new directions, *Accounting Forum,* Vol. 23, No. 2, June, PP 109-35.

Penman, S. (1980) An empirical investigation of the voluntary disclosure of corporate earnings forecasts, *Journal of Accounting Research*, Vol. 18, No. 1, PP 132-61.

Penno, M. (1997) Information quality and voluntarily disclosure, *The Accounting Review,* Vol. 72, No. 2, PP 275-84.

Perera, M. (1989) Accounting in developing countries: A case for localised uniformity, *British Accounting Review,* Vol. 21, PP 141-57.

Perera, M. (1975) Accounting and its environment in Sri Lanka, *ABACUS*, Vol. 11, No. 1, PP 68-96.

Perera, M. and Mathews, M. (1990) The cultural relativity of accounting and international patterns of social accounting, *Advances in International Accounting,* Vol. 3, PP 215-51.

Pope, P. and Peel, D. (1981) Information disclosure to employees and rational expectations, *Journal of Business Finance and Accounting*, Vol. 8, No. 1, PP 139-46.

Powell, W. and DiMaggio, P. (1991) *The New Institutionalism in Organisational Analysis,* Chicago: The University of Chicago Press.

Prakash, P. and Rappaport, A. (1977) Information inductance and its significance for accounting, *Accounting, Organizations and Society,* Vol. 2, No. 1, PP 29-38.

Raffournier, B. (1995) The determinants of voluntary financial disclosure by Swiss listed companies, *The European Accounting Review*, Vol. 4, No. 2, PP 261-80.

Riahi-Belkaoui, A. (2000) *Accounting Theory*, 4th ed., London: Business Press.

Riahi-Belkaoui, A. (1997a) *The Nature and Determinants of Disclosure Adequacy: An International Perspective*, London: Quorum Books.

Riahi-Belkaoui, A. (1997b) *Research Perspectives in Accounting*, London: Quorum Books.

Ritchie, J. and Richardson, S. (2000) Smaller business governance: Exploring accountability and enterprise from the margins, *Management Accounting Research,* Vol. 11, PP 451-74.

Roberts, J. (1996) From discipline to dialogue: Individualising and socialising forms of accountability, Chap. 3, In Munro, R. and Mouritsen, J. *Accountability: Power, ethos and the technologies of managing,* London: International Thomson Business Press, PP 40-61.

Roberts, J. (1991) The possibilities of accountability, *Accounting, Organizations and Society,* Vol. 16, No. 4, PP 355-68.

Roberts, J. and Scapens, R. (1985) Accounting systems and systems of accountability – understanding accounting practices in their organisational contexts, *Accounting, Organizations and Society*, Vol. 10, No. 4, PP 443-56.

Rockness, J., Schlachter, P. and Rockness, H. (1986) Hazardous waste disposal, corporate disclosure, and financial performance in the chemical industry, *Advances in Public Interest Accounting*, Vol. 1, PP 167-91.

Romzek, B. S. and Dubnick, M. J. (1987) Accountability in the public sector: Lessons from the Challenger tragedy, *Public Administration Review*, Vol. 47, May/June, PP 227-38.

Rosenfield, P. (1974) Stewardship, Chap. 2, In Cramer, J. and Sorter, G., *Objectives of Financial Statements,* AICPA, Vol. 2, PP 123-40.

Rowlinson, M. (1997) *Organisations and Institutions*, London: Macmillan Business.

Ruland, W., Tung, S. and George, N. (1990) Factors associated with the disclosure of managers' forecasts, *The Accounting Review,* Vol. 65, No. 3, PP 710-21.

Ryan, B., Scapens, R. and Theobald, M. (1997) *Research Method and Methodology in Finance and Accounting,* London: Academic Press.

Salamon, G. and Dhaliwal, D. (1980) Company size and financial disclosure requirements with evidence from the segmental reporting issue, *Journal of Business Finance and Accounting,* Vol. 7, No. 4, PP 555-68.

Samuels, J. (1990) Accounting for development: An alternative approach, In Wallace, R., Samuels, J. and Briston, R., *Research in Third World Accounting*, London: JAI Press, PP 67-86.

Samuels, J. and Piper, A. (1985) *International Accounting: A Survey,* London: Croom Hell.

Saunders, M., Lewis, P. and Thornhill, A. (1997) *Research Methods for Business Students*, London: Pitman Publishing

Scapens, R. (1991) *Management Accounting: A Review of Recent Developments*, 2nd ed., London: Macmillan Press.

Scapens, R. (1990) Researching management accounting practice: The role of case study methods, *British Accounting Review*, Vol. 22, PP 259-81.

Scapens, R. (1984) Management accounting – A survey paper, Chap. 2, In Scapens, R., Otley, D. and Lister, R., *Management Accounting Orgaizational Theory and Capital Budgeting*, London: Macmillan Press, PP 15-95.

Scapens, R. and Roberts, J. (1993) Accounting and control: A case study of resistance to accounting change, *Management Accounting Research,* Vol. 4, PP 1-32.

Scott, T. W. (1994) Incentives and disincentives for financial disclosure: Voluntary disclosure of defined benefit pension plan information by Canadian firms, *The Accounting Review*, Vol. 69, No. 1, PP 26-43.

Scott, W. R. (1995) *Institutions and Organisations: Theory and Research,* London: Sage.

Scott, W. R. (1987) The adolescence of institutional theory, *Administrative Science Quarterly,* Vol. 32, PP 493-511.

Securities and Exchange Commission (1977) Report of Advisory Committee on corporate disclosure to the Securities and Exchange Commission, Government Printing Office.

Seidler, L. (1967) International accounting – the ultimate theory course, *The Accounting Review,* October, PP 775-81.

Selway, M. (2000) Over the hump, *Accountancy*, April, Vol. 125, PP 68-69.

Shamia, A. (1991) The Libyan exports and its role in the economy, *Journal of Economic Research,* National Academy of Scientific Research: The Economic Research Centre, Benghazi, Vol. 3, No. 2, PP 135-59.

Silverman, D. (1993) *Interpreting Qualitative Data,* London: Sage.

Simon, H. A. (1976) *Administrative Behaviour*, 3rd ed., New York: The Free Press.

Sinclair, A. (1995) The chameleon of accountability: Forms and discourses, *Accounting, Organizations and Society,* Vol. 20, Nos. 2/3, PP 219-37.

Singhvi, S. and Desai, H. (1971) An empirical analysis of the quality of corporate financial disclosure, *The Accounting Review,* Vol. 46, No. 1, PP 129-38.

Skinner, D. (1994) Why firms voluntarily disclose bad news, *Journal of Accounting Research*, Vol. 32, No. 1, PP 38-60.

Smircich, L. (1983) Studying organisations as cultures, Chap. 10, In Morgan, G., *Beyond Method: Strategies for Social Research,* London: Sage, PP 160-88.

Stake, R. (1995) *The Art of Case Study Research,* London: Sage.

Stake, R. (1994) Case studies, Chap. 14, In Denzin, N. and Lincoln, Y., *Handbook of Qualitative Research,* London: Sage, PP 236-47.

Stanton, P. (1997) Users' rights to published accounting information: Nature, justification and implications, *Accounting, Auditing and Accountability Journal,* Vol. 10, No. 5, PP 684-701.

Stewart, J. (1984) The role of information in public accountability, Chap. 2, In Hopwood, A. and Tomkins, C., *Issues in Public Sector Accounting*, Oxford: Philip Allan, PP 13-34.

Street, D., Gray, S. and Bryant, S. (1999) Acceptance and observance of International Accounting Standards: An empirical study of companies claiming to comply with IASs, *The International Journal of Accounting*, Vol. 34, No. 1, PP 11-48.

Surma, J. and Vondra, A. (1992) Accounting for environmental costs: A hazardous subject, *Journal of Accountancy,* Vol. 173, No. 3, PP 51-55.

Taim, A. and Saleh, F. (1988) *The Present-Day Arabic Political Systems: Part II,* Benghazi: Garyounis University Press.

Tetlock, P. (1985) Accountability: The neglected social context of judgement and choice, *Research in Organisational Behaviour,* Vol. 7, PP 297-332.

The Act No. 5 of 1997 of Foreign Capitals Investment Encouragement.

The Act No. 11 of 1996 of the Public Control Office.

The American Institute of Certified Public Accountants (1994) Improving business reporting – A customer focus (The Jenkins Report).

The Commercial Act No. 65 of 1970.

The Economist Intelligence Unit (1997-1998) *Country Profile: Libya*, London.

The Libyan Income Tax Law No. 64 of 1973.

The Secretary of Planning (1998) Economical and Social Development Achievements in 28 years, Tripoli, Libya.

The Secretary of Planning (1997) Economic and Social Indicators (1962-1996), Tripoli, Libya.

The Secretary of Planning, The (1981-1985) Economic and Social Transformation Plan.

The Secretary of Industry (1999 & 2000) Companies' meeting reports for 1999 and 2000.

The Secretary of Industry (1999) The Industrial Guide to the Industry and Minerals Sector, One Media and Publicity.

The Secretary of Industry (1999) Industrial projects available for investment in Great Jamahiriya.

The Secretary of Industry (1999) The industrial sector production report for 1999.

Thynne, I. and Goldring, J. (1987) *Accountability and Control: Government Officials and the Exercise of Power,* Melbourne: The Law Book Company Limited.

Tiessen, P. and Waterhouse, J. (1983) Towards a descriptive theory of management accounting, *Accounting, Organizations and Society*, Vol. 8, Nos. 1/2, PP 251-67.

Tilt, C. A. (1994) The influence of external pressure groups on corporate social disclosure, *Accounting, Auditing & Accountability Journal*, Vol.7, No. 4, PP 47-72.

Tinker, A., Merino, B. and Neimark, M. (1982) The normative origins of positive theories: Ideology and accounting thought, *Accounting, Organizations and Society,* Vol. 7, No. 2, PP 167-200.

Toms, J. (1998) The supply of and demand for accounting information in an unregulated market: Examples from the Lancashire cotton Mills, 1855-1914, *Accounting, Organizations and Society,* Vol. 23, No. 2, PP 217-38.

Tornqvist, U. (1999) An empirical study of accountability: Delegation of responsibility and external disclosure in some Swedish companies, *The European Accounting Review*, Vol. 8, No. 1, PP 139-56.

Trueman, B. (1986) Why managers voluntarily release earnings forecasts?, *Journal of Accounting and Economics*, Vol. 8, PP 53-71.

Vandewalle, D. (1998) *Libya Since Independence: Oil and State-Building*, London: Cornell University Press.

Verrecchia, R. (1990) Information quality and discretionary disclosure, *Journal of Accounting and Economics*, Vol.12, PP 365-80.

Verrecchia, R. (1983) Discretionary disclosure, *Journal of Accounting and Economics*, Vol. 5, No. 5, PP 179-94.

Wagenhofer, A. (1990) Voluntary disclosure with a strategic opponent, *Journal of Accounting and Economics*, Vol. 12, PP 341-63.

Wallace, R. (1990) Survival strategies of a global organisation: The case of the International Accounting Standards, *Accounting Horizons,* Vol. 4, June, PP 1-22.

Wallace, R. (1988) Intranational and International consensus on the importance of disclosure items in financial reports: A Nigerian case study, *British Accounting Review*, Vol. 20, PP 223-65.

Wallace, R. (1987) Disclosure of Accounting Information in Developing Countries: A Case Study of Nigeria, Ph.D. Thesis, University of Exeter.

Wallace, R., Naser, K. and Mora, A. (1994) The relationship between the comprehensiveness of corporate annual reports and firm characteristics in Spain, *Accounting and Business Research*, Vol. 25, No. 97, PP 41-53.

Watson, T. (1994) *In Search of Management: Culture, Chaos and Control in Managerial Work,* London: Routledge.

Watts, R. L. (1977) Corporate financial statements, a product of the market and political processes, *Australian Journal of Management*, Vol. 2, April, PP 53-75.

Watts, R. L. and Zimmerman, J. L. (1986) *Positive Accounting Theory*, New Jersey: Prentice-Hall.

Willmott, H. (1996) Thinking accountability: Accounting for the disciplined production of self, Chap. 2, In Munro, R. and Mouritsen, J. *Accountability: Power, ethos and the technologies of managing,* London: International Thomson Business Press, PP 23-39.

Wright, J. (1981) *Libya: A Modern History,* London: Croom Helm.

Wright, M. (1994) Accounting, truth and communication: The case of a bank failure, *Critical Perspectives on Accounting,* Vol. 5, PP 361-88.

Wrong, D. H. (1979) *Power: Its forms, bases and uses*, Oxford: Basil Blackwell.

Xu, X. and Wang, Y. (1999) Ownership structure and corporate governance in Chinese stock companies, *China Economic Review,* Vol. 10, PP 75-98.

Yin, R. (1989) *Case Study Research*, London: Sage.

Zarzeski, M. T. (1996) Spontaneous harmonisation effects of culture and market forces on accounting disclosure practices, *Accounting Horizons*, Vol. 10, March, PP 18-38.

LIST OF APPENDICES

Appendices to Chapter Two

Appendix 2.1: **Gross Domestic Product in Libya by sector in the period 1962-1996 (%).**

Sector/year	**62**	**63**	**64**	**65**	**66**	**67**	**68**	**69**	**70**	**71**	**72**	**73**	**74**	**75**	**76**	**77**	**78**	**79**
Agriculture, Forest & Fish	9.6	6.4	4.6	5.1	4.3	4.1	3.1	3.1	2.6	2.1	2.5	2.7	1.7	2.3	2.1	1.6	2.2	1.9
Oil & Natural Gas	24.4	42.3	53.7	54.9	56.1	53.8	60.5	61.7	63.1	58.2	52.5	51.9	62.9	53.4	57.7	58.4	51.1	59.8
Mining & Quarrying	0.4	0.3	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.5	0.5	0.5	0.4	0.5	0.5	0.5	0.6	0.6
Manufacturing Industry	5.8	4.2	3.2	2.6	2.3	2.2	1.9	1.7	1.7	1.5	1.8	2.0	1.5	1.8	1.9	2.2	2.7	2.4
Electric & Water	0.6	0.5	0.4	0.4	0.4	0.4	0.4	0.5	0.5	0.5	0.5	0.5	0.3	0.5	0.5	0.5	0.6	0.5
Construction	6.6	5.4	5.9	7.1	7.1	8.9	8.3	7.1	6.8	7.4	10.4	12.0	9.9	11.8	10.8	10.7	12.4	9.6
Trade, Restaurant & Hotels	9.1	7.1	5.5	5.1	5.2	4.8	4.2	4.0	3.7	4.8	5.5	5.7	4.9	6.1	5.5	5.2	6.2	5.0
Transport & Communication	5.5	4.8	4.1	3.8	3.9	4.2	3.7	3.3	3.4	5.5	5.7	5.9	4.1	4.8	4.1	3.9	4.6	3.8
Banks & Insurance	1.1	0.9	0.7	0.7	0.7	0.7	0.6	0.6	1.0	1.8	2.1	2.4	1.9	2.7	2.5	2.6	3.2	2.6
Housing	18.9	13.1	9.2	7.4	6.9	7.2	5.5	5.7	4.6	4.3	4.4	3.9	2.9	3.6	3.0	2.8	3.1	2.5
Public Services (Except Education & Health)	10.0	8.3	7.1	7.5	7.8	8.4	7.2	7.2	7.6	8.5	8.5	7.2	5.5	7.0	6.2	6.4	7.5	6.7
Education Services	3.2	3.0	2.6	2.6	2.6	2.6	2.4	2.9	3.1	2.9	3.5	3.3	2.5	3.3	3.1	3.1	3.4	2.7
Health Services	1.4	1.1	0.9	0.9	1.0	1.0	1.0	1.1	1.2	1.4	1.5	1.5	1.0	1.4	1.4	1.4	1.7	1.3
Other Services	3.4	2.6	1.9	1.7	1.6	1.5	1.1	1.0	0.6	0.6	0.6	0.5	0.5	0.8	0.7	0.7	0.7	0.6
	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100

Continue...

…continue…**Gross Domestic Product in Libya by sector in the period 1962-1996 (%).**

Sector/year	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96
Agriculture, Forest & Fish	2.2	3.1	3.2	3.6	4.1	4.4	5.7	6.9	6.5	5.9	5.1	5.5	5.5	5.8	6.1	6.4	6.6
Oil & Natural Gas	61.8	50.0	47.4	44.9	41.1	44.6	35.6	28.8	24.7	27.0	35.4	33.0	28.3	27.1	25.8	25.3	24.0
Mining & Quarrying	0.5	0.6	0.7	0.8	0.7	0.6	0.9	1.2	1.4	1.4	1.4	1.3	1.4	1.5	1.7	1.5	1.8
Manufacturing Industry	2.0	2.9	3.0	3.9	4.6	5.4	5.3	7.1	7.3	6.7	7.1	6.7	7.8	8.3	8.8	9.3	9.4
Electric & Water	0.5	0.6	0.8	0.9	1.2	1.4	1.7	2.0	2.0	2.4	2.0	2.2	1.9	1.9	1.9	2.0	2.0
Construction	10.4	11.3	13.2	12.0	11.1	8.6	7.3	6.9	6.2	6.4	5.9	4.0	5.2	5.2	6.1	5.6	6.8
Trade, Restaurant & Hotels	4.9	7.4	6.6	5.7	5.5	7.3	9.4	11.1	11.7	11.0	10.2	10.4	10.6	10.8	11.1	11.2	11.4
Transport & Communication	4.0	5.6	5.2	5.4	5.9	6.0	7.2	9.3	9.5	8.4	8.3	8.3	8.5	8.8	8.5	8.7	8.7
Banks & Insurance	2.3	3.4	2.9	3.7	3.6	3.2	6.1	5.5	4.4	4.4	3.7	3.0	2.7	2.7	2.7	2.7	2.7
Housing	2.0	2.5	2.5	2.8	3.1	3.1	3.7	4.5	4.6	4.2	3.9	3.7	3.8	3.8	3.8	3.7	3.6
Public Services (Except Education & Health)	5.7	7.4	8.4	8.8	10.5	6.3	6.7	6.0	7.8	8.3	7.0	9.2	12.9	12.7	12.3	12.2	11.4
Education Services	2.2	3.1	3.9	4.8	5.4	5.5	6.3	5.8	8.3	8.3	5.5	7.3	6.2	6.1	5.9	5.8	5.5
Health Services	1.1	1.5	1.5	1.9	2.2	2.4	2.7	2.8	3.3	3.4	2.3	3.1	2.5	2.5	2.4	2.3	2.2
Other Services	0.4	0.6	0.7	0.8	1.0	1.2	1.5	2.0	2.2	2.1	2.2	2.4	2.6	2.8	2.9	3.3	3.9
	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100

Source: The Secretary of Planning (1997) Economic and Social Indicators (1962-1996), Tripoli, Libya, pp 42-48.

Appendix 2.2: Per capita income in Libya in the period 1962-1997.

Year	LD	Year	LD	Year	LD
1962	107	1974	1576	1986	1848
1963	156	1975	1416	1987	1507
1964	234	1976	1730	1988	1524
1965	304	1977	1962	1989	1644
1966	379	1978	1870	1990	1713
1967	430	1979	2487	1991	1786
1968	595	1980	**3318**	1992	1773
1969	654	1981	2562	1993	1842
1970	656	1982	2444	1994	2034
1971	776	1983	2205	1995	2205
1972	823	1984	2143	1996	2347
1973	970	1985	2170	1997*	2426

Source: The Secretary of Planning (1997) Economic and Social Indicators (1962-1996), Tripoli, Libya, pp 50-2.
** The Secretary of Planning (1998) Economical and Social Development Achievements in 28 years, Tripoli, Libya, p 14.*

Appendix 2.3: Five-year Plan 1963-1968 and Additional Year 1969 (LDM).

Sector	O.A.	%	F.V.	%	A.E.	%
Agriculture and Forestry	29.3	17.3	63.0	10.1	65.4	11.9
Industry	**6.9**	**4.1**	**32.6**	**5.2**	**28.5**	**5.2**
National Economy	2.9	1.1	5.5	0.9	4.3	0.8
Communications	27.5	16.2	118.6	19.0	91.6	16.6
Public Works	38.7	26.6	82.2	13.1	-	-
Education	22.4	13.1	59.9	9.6	47.6	8.6
Health	12.5	7.4	24.3	3.9	16.5	3.0
Labour & Social Affairs	8.7	5.1	29.7	3.0	20.2	3.7
News & Guidance	2.6	1.5	10.4	1.7	6.6	1.2
Public Administration	6.4	3.8	0.8	0.1	46.3	8.4
Planning & Development	11.4	6.7	9.7	1.5	5.0	0.9
Housing	-	-	109.3	17.5	192.2	29.4
Interior	-	-	52.3	8.4	-	-
Electricity	-	-	25.3	5.0	56.8	10.3
Other	-	-	1.7	0.3	10.3	-
Total	169.1	100	625.3	100	551.0	100

Original Allocation (O.A.), Final Version (F.V.), and Actual Expenditure (A.E.).

Appendix 2.4: Socio-Economic Development Plan 1973-1975.

Sector	1973-1975	
	LD M	%
Agriculture, Forest & Fish	327.8	16.6
Oil & Natural Gas	48.9	2.5
Mining & Quarrying	**2.9**	**0.2**
Manufacturing Industry	**231.6**	**11.8**
Electricity & Water	257.4	13.1
Construction	6.2	0.3
Wholesale & Retail Trade	1.0	0.1
Transport & Communication	253.8	12.9
Banks & Insurance	0.4	0.0
Housing	361.3	18.4
Public Services (Except Education & Health)	186.7	9.5
Education Services	192.1	9.8
Health Services	71.0	3.6
Other Services	0.0	0.0
Reserve	23.9	1.2
Total	1965.0	100

Source: Ministry of Planning Three-Year Socio-Economic Development Plan (1973-1975), p 90.

Appendix 2.5: Socio-Economic Development Plan 1976-1980.

Sector	1976-1980	
	LD M	%
Agriculture and agrarian reform	**445.3**	**6.2**
Integrated agricultural developments	**781.3**	**10.9**
Industry and mineral resources	1089.7	15.2
Oil & Gas	648.2	9.0
Electricity	543.6	7.6
Transport & Communication	632.1	8.8
Education	470.4	6.6
Health	171.4	2.4
Manpower	41.8	0.6
Social Security	43.2	0.6
Housing	794.2	11.1
Economy	32.7	0.5
Sport, Information & Culture	91.3	1.3
Municipalities	552.7	7.7
Planning	56.7	0.8
Reserve	325.3	4.5
Nutrition & Sea Wealth	41.4	0.6
Marine Transport	373.5	5.2
Security Services	35.0	0.5
Total	7170.0	100

Source: Bearman (1986: 193).

Appendix 2.6: Revised Socio-Economic Development Plan 1976-1980.

Sector	1976-1980	
	LD M	%
Agriculture, Forest & Fish	1030.1	14.4
Oil & Natural Gas	41.0	0.6
Mining & Quarrying	**9.0**	**0.1**
Manufacturing Industry	**1515.4**	**21.1**
Electricity & Water	706.7	9.9
Construction	7.0	0.1
Wholesale & Retail Trade	32.9	0.4
Transport & Communication	1197.8	16.7
Housing	887.5	12.4
Public Services (Except Education & Health)	760.1	10.6
Education Services	513.0	7.2
Health Services	145.2	2.0
Reserve	325.3	4.5
Total	7171.0	100

Source: Ministry of Planning, Socio-Economic Transformation Plan (1973-1975), p 90.

Appendix 2.7: Socio-Economic Development Plan 1981-1985.

Sector	1981-1985	
	LD M	%
Agriculture & Land Reclamation	3100	18.2
Light Industry	**1200**	**7.0**
Heavy Industry	**2730**	**16.1**
Oil & Gas	200	1.2
Electricity	2000	11.8
Education	1000	5.9
Information & Culture	150	0.9
Labour Force	150	0.9
Health	560	3.3
Social Security	130	0.8
Sport	100	0.6
Housing	1700	10.0
Public Utilities	1300	7.6
Transport & Communication	2100	12.3
Economy	500	2.9
Planning	80	0.5
Sub-total	17000	100.0
Projects Reserves	1500	
Total	18500	

Source: The Secretary of Planning, The (1981-1985) Economic and Social Transformation Plan, p 52.

Appendix 2.8: Three-year Programme 1994-1996.

Sector	Allocation (LDM)	Actual investment (LDM)	Percentage of actual expenditure of each sector to total (%)	Percentage of actual investment to allocation (%)
Agriculture	158	49.130	3.4	31
Industry	**94.700**	**132.8**	**9.1**	**140**
Energy	332	371.5	25.6	111
Education	289	127.900	8.8	44
Media & Culture	12	5	0.3	41.6
Health & Social Security	205	87.9	6.1	42.8
Transport	194	66.050	4.6	34
Planning	17.900	10.800	0.7	60
Economic	6	1.975	0.1	33
Sea Resources	25.600	15.850	1.1	62
Justice & General Security	12.300	6.200	0.4	50.4
Administration Centres	240	271.911	18.7	113
Human Resource	32	32.000	2.2	100
Housing & Public Utilities	297.450	140.400	9.7	47
Tourist	3	2.400	0.2	80
Animal Resources	11	8.250	0.6	75
Man-Mad River	100	20	1.4	20
Finance	5	0	0.0	00
Previous Commitments	100	33	2.3	33
Reserve & Maintenance	264.350	67.500	4.7	25
Total	2400	1450.566	100	60.44

Source: The Secretary of Planning, The (1981-1985) Economic and Social Transformation Plan, p 52; and the Secretary of Planning, Economic and Trade (1997) The Follow Up Report of Implementation of the Three-Year Programme (1994-1996).

Appendices to Chapter Six

Appendix 6.1: The pilot study.

Pilot study plan:

A pilot study was carried out in order to understand how and explain why Libyan State Owned Companies disclose their financial information. The primarly aim of the pilot study was to explore Libyan State Owned Companies' disclosure policies and practices and managers' attitudes about these policies and practices. The pilot study also aimed at identifying the main accounting information users and their perceptions about the information provided by Libyan State Owned Companies. Therefore, two groups were to be considered, information producers and information users. A number of State Owned Companies was to be visited and data was to be collected by means of unstructured interviewes with employees within the Finance and Accounting departments. A number of governmental organisations and insitiutions was to be visited. Interviewees' perceptions about the usefulness, timeliness, quantity and quality of the information disclosed were to be explored. In addition to the Secretary of Industry, there were other information users that required and used companies financial information. These included the Seratery of Treasury, the Seratery of Economy and Planning, the Public Control Office and the Tax Office. Interviews were to be conducted with officials in these and other insititutions and questions were to be raised about the quality, quantity and timeliness of the information provided by Libyan State Owned Companies.

Collecting pilot study data: (February 1999)

Four publicly held companies (the Arabic Soft Drinks Company, the National Trialers Company, the Electronic Company and the Tobacco and Match Company) were visisted and unstructured interviewes were conducted with employees within the Finance and Accounting Departments. The issue of accounting information disclosure policies and practices was explored. Questions about companies' relationships with their stakeholders were raised. Data was also collected from the Secretary of Industry. Unstructured interviewes were held with officials in the Companies Department in the Secratery of Industry. These interviews focused on issues related to the type of information required and whether companies provided these information. Interviewees' perceptions about companies' disclosure policies and practices were explored. In addition to the Secretary of Industry, interviews were conducted with officials in the Seratery of Treasury, the Seratery of Economy and Planning, the Public Control Office and the Tax Office. Questions were raised about the quality, quantity and timeliness of the information provided by Libyan State Owned Companies to these insititutions.

Pilot study report:

In the following sections, I will describe the data collected from four Libyan State Owned Companies; the Arabic Soft Drinks Company, the National Trailers Company, the Electronic Company and the Tobacco and Match Company. A description of each interview and the main points related to each company's disclosure polices and practices will be given next.

First: The Tobacco and Match Company:

Introduction:

The company was fully owned by the government with a capital of 36 million Libyan Dinars. The company started its activities in 1972. It followed the British accounting system. The company had two plants located in Tripoli, tobacco plant and match plant. The company was self-financed and had not received loans or funds from banks or the government.

The company's annual financial reports were prepared and compared with the previous two or three years. The reports were audited and reviewed by external auditors who may require some explanations about and adjustments to some items. I was able to obtain the company's 1996 annual report. This included the balance sheet and profit and loss account. In 1996, the company gained losses. The unavailability of the raw materials and the shortages in foreign exchange were seen as the main reasons behind these losses.

The interview:
I interviewed the company's Finance Manager, Finance Control Manager, the Internal Auditor and an accountant. The interviewees believed that the company's financial information is secret. Financial reports were not made available to employees unless its part of their work. Customers, from the interviewees' point of view, were not interested in knowing the company's financial information as much as they were interested in the availability and the quality of the products. The company's products were cheaper than foreign products available in the market. This led the company to be unable to meet the market demands. However, the interviewees believed that the company's products were enough for the local market but they blamed what they called 'the black market' for the shortage in supplying the market with the required products. The company prepared different reports about sales, production, cost, etc. for the internal use or for decision-makers outside the company. However, the Secretary of Industry requested periodic sales and production reports.

The company did not consider the cost of preparing and disseminating information. The interviewees believed that disclosing information upon request is less expensive and generates fewer problems. They believed that disclosing information generates a request for more information and details about some items. For this reason and others the company did not disclose its information. The interviewees believed that the public is not interested in knowing the company's financial information but their main concern is the product. The main reason given to that was that the public does not hold shares in the company. The company's Finance Control Manager had a different view about the publication of financial information. He believed that State Owned Companies should disclose all its accounting information to different parties. Nevertheless, the company provided its financial information to limited accounting information users.

The Public Control Office (PCO) demanded the company's annual reports. Explanations about some items in the reports and any delays in handing in the reports were required. The Secretary of Treasury requested financial information from the company directly but did not interfere or give instructions to the company. It demanded information about taxes and tariffs. Some expenses such as festival expenses were paid upon permission from the Secretary of Industry and classified as general expenses.

The company's long trade history with the same suppliers resulted in building a trustful relationship between the company and suppliers. For this reason and because the company deals with suppliers through foreign banks which guarantee payments, the company did not usually supply suppliers with its annual reports.

Conclusion:

There were different views on whether the company should publish its annual reports to the public. The interviewees' belief that investors were the main users of financial information in a capitalist economy was behind the interviewees' reluctant for publishing financial information. The interviewees believed that disclosure upon request generates fewer problems and genders less cost. The absence of competition was referred to as reason for not disclosing the company's financial information. The company's annual reports were submitted to a limited number of accounting information users.

Second: The National Trailers Company (NTC):

Introduction:

The NTC was a joint company where the State, represented by the Secretary of Industry, owned 75 per cent of the capital and an Italian company, Calabrese, owned 25 per cent of the capital. The company started its activities in 1983 with a capital of 7.5 million Libyan Dinars. It was managed by a committee consisted of six Libyans and two Italians. The company imported 80 per cent of the material used in the production process from Italy. The company produced different kinds of trailers.

I had obtained the company's 1997 annual report, the 1998's production and sales report and the 1999 budget. The 1997 annual report was analysed and compared with the 1994, 1995 and 1996 reports. The 1998 report compared the 1997 with the 1998 actual production and sales figures. It also compared the 1998 actual and planned figures.

The interview:

I interviewed the Finance Manager and the Internal Auditor. The interviewees stated that different information users requested different information. The company's financial reports were reported to the Secretary of Industry (SI) on monthly and quarterly basis. These reports contained information about production, sales, expenses, inventory, purchases, etc. The company's budget was compared with the actual figures each three months. Unfavourable variances were analysed and necessary steps to correct them were usually taken.

The interviewees believed that there was no need to disclose financial information in the absence of competition. They believed that there were no restrictions on supplying financial information users with the information available to the company. In general, the company did not intend to disclose and publish its financial information unless it was requested.

Conclusion:

The company compared the current financial reports with the previous financial reports. The company analysed some of its financial reports' items (e.g. inventory). These analyses were used as indicators to the company and other financial information users in making their decisions. The company prepared its financial reports enclosed with detailed reports, analyses and graphics to explain the company's financial position to information users. The interviewees believed that the level of disclosure in the company's reports was satisfactory.

Third: The Electronic Company:

Introduction:

The Electronic Company started its activities in 1988 with a capital of 10 million Libyan Dinars. The company produced TVs, VCRs, Radios, computers, etc in four plants located in different parts of the country. About 80 per cent of the material used in the production process was imported from different countries. The company's products were sold to the public through specific channels. The availability of foreign exchange was emphasised by interviewees as the main constraint on the production process.

The interview:

I interviewed the Head of Accounts and Budget Department for half an hour. The company was preparing its annual reports at the time which made it difficult to interview the Internal Auditor and the Finance Controller Manager. The company's financial reports were submitted to the SI, the Tax Office, the Public Control Office, the company's departments, etc. The interviewee stated that the company's Administration Board discussed the feasibility of publishing the company's financial reports and any financial information. He believed that there was no need to inform employees about the company's financial status. However, the interviewee argued that the company's financial reports were available to everybody has permission from the top management. He believed that there was not problem from publishing the financial reports to the public.

Conclusion:

The company prepared detailed reports in addition to the financial reports. These reports were used within the company and by other information users who request them (e.g. SI). The company was considered by the SI as one of the companies who prepared and provided the SI with its annual reports and other information soon after the fiscal year ends. The company's annual reports were prepared on time and submitted to the information users who requested them. Interviewees had a positive attitude about the company's level of disclosure.

Fourth: The Arabic Soft Drinks Company:

Introduction:

The Arabic Soft Drinks Company started its activities in 1979. The company had five plants that produced different kinds of soft drinks. The major reports the company prepares were the balance sheet and the profit and loss account. The company suffered from a delay in preparing and providing the users with its annual reports. One of the reasons behind that was accountants shortages.

The interview:

I interviewed an accountant and the company's Finance Manager. The latter requested an official consent from the company's manager to allow him to be interviewed. The interviewees explained that the annual financial reports were requested by and submitted to the SI, the Tax Office, the Public Control Office and the company's departments. In the absence of competition, the interviewees believed that publishing the company's financial reports is not necessary. No comparisons between current and previous years' financial reports were made. Additional information was enclosed with the financial reports to explain some numbers in the financial reports. At the time of the pilot study, some of the company's annual reports were ready, others were under investigation by the Public Control Office, and the rest were to be modified upon the Public Control Office requirements and instructions.

Conclusion:

The company suffered from a delay in preparing and providing its financial information. The interviewees believed that this situation will change in the future. The company did not carry out any comparisons since it had failed to prepare its annual reports on time. The company achieved only 27 per cent of its production level in 1996. This was due to the unavailability of the raw materials, spare parts, machines defaults, power problems, etc. The interviewees believed that in the absence of competition, the publication of the company's financial reports is not necessary.

In addition to the above four companies, data were collected from other government orgnisations and institutions. The following is a summary of the data collected from the Secretary of Industry, the Secretary of Economy and Planning and the Tax Office.

The Secretary of Industry:

The SI prepared a Production Plan for the whole country and the funds required to fund the production process. The Companies Department in the SI required companies' financial and production reports to compare them with the plan. Companies' production levels were determined upon the SI's targets, companies' production ability, the market demand and the foreign exchange available and allocated to each company.

I interviewed one of the Company's Department team who believed that in the absence of competition and stock exchange market, there was no need to publish companies' financial information. He added that customers were not interested in knowing whether a company had gained profits or losses but they were interested in the availability of the products. The SI required, among other things, companies' production, sales and employment reports every three months and their plans for the next fiscal year.

The Secretary of Economy and Planning:

The National Accounts Department in the Secretary of Economy and Planning requested companies' financial reports through the Secretary of Industry. It used this information in the planning process and in determining the Gross Domestic Product and other economic indicators. The Secretary of Economy and Planning analysed the financial reports to obtain some indexes related to the production, sales, cost, etc.

The Tax Office:

Companies were required to provide the Tax Office with justifications about some items in their annual reports according to the Libyan Income Tax Law. I interviewed an accountant in the Tax Office's Companies Department. I started the interview with a question about how companies' taxes were determined. The interviewee described three methods: depending on the companies' financial reports, making some adjustments on the financial reports or determining the tax arbitrary upon the Office's experience. The interviewee believed that the level of explanations in companies' financial reports is satisfied. He argued that many companies do not submit their reports within the period stated by the law.

In addition to the above, I interviewed the Finance Control Manager in the Companies Department within the Public Control Office and an independent auditor. The Finance Control Manager in the Public Control Office mentioned that companies to some extent used the International Accounting Standards. He believed that each country needs standards that are appropriate to its environment and culture. The auditor I interviewed believed that there was no legal nor professional requirements for companies to disclose and publish their financial information. The auditor used the International Accounting

Standards in the auditng process due to the absence of Libyan Accounting Standards. The auditor prepared and audited the financial reports of local and foreign companies operating in Libya. He stated that foreign companies disclosed and published their financial reports in their home country. The interviewee believed that the International Accounting Standards were suitable for Libya.

Pilot study conjectures and implications:

Disclosure upon request and the delay in providing information were the main conjectures observed in the above mentioned interviews. The role of accountability in the process of providing information was realised. The roel of Islam in work-related relationships was observed. These conjetures led to the following three main points. The first is related to the research ontological and epistemological assumptions and their implications on the research methdology and method. The second point is related to the accountability relationship between the Secratery of Industry and companies supervised by the former and the willingness of the Ntaional Trailers Company to take part in any further research. These points led to consider the Secratery of Industry and the Ntaional Trailers Company as potential participants in this study. The third implication of the above conjectures is introducing accountability as another dimension to the study.

Appendix 6.2: The NTC's data collection permission.

January 2000

The Executive Manager
The National Trailers Company
Tripoli-Libya

Dear Sir,

I am a lecturer at the Department of Accounting, Garyounis University – Benghazi. I am currently a PhD student at Sheffield Hallam University, UK.

I am writing to you to ask for permission to gain access and collect data from your company for my PhD research project. The research aim is to understand accounting information disclosure policies and practices and accountability construction process within Libyan companies and between companies and the Secretary of Industry.

To achieve the above aim, the National Trailers Company is chosen as a case study. The choice of your company is based on the data collected during our visit to the company as part of a pilot study in February 1999.

I would be grateful if you allow me to conduct some interviews, distribute a number of questionnaires and have access to the company's documents relevant to my research. The data collected will be treated confidentially and used only for academic purposes.

Thank you for your co-operation and best wishes to you.

Yours faithfully.

The researcher

Mustafa M. Saleh

Appendix 6.3: The NTC questionnaire.

The answers to the following questions range from strongly agree to strongly disagree. Please note that:

1= Strongly disagree. 2= Disagree. 3= Neither. 4= Agree. 5= Strongly agree.

1- The reasons for providing accounting (or other) information to other departments in the company are

	Strongly Agree 1	2	3	4	Strongly Disagree 5
• Agreeing with the procedure	☐	☐	☐	☐	☐
• Professional requirements	☐	☐	☐	☐	☐
• Managerial & financial requirements	☐	☐	☐	☐	☐
• Obligations to the public	☐	☐	☐	☐	☐
• Obligations to government agencies	☐	☐	☐	☐	☐
• Others (please specify)	☐	☐	☐	☐	☐

2- The reasons for providing accounting (or other) information to the Secretary of Industry are

• Agreeing with the procedure	☐	☐	☐	☐	☐
• Professional requirements	☐	☐	☐	☐	☐
• Managerial & financial requirements	☐	☐	☐	☐	☐
• Obligations to the public	☐	☐	☐	☐	☐
• Obligations to government agencies	☐	☐	☐	☐	☐
• Others (please specify)	☐	☐	☐	☐	☐

3- The reasons for providing accounting (or other) information to other users (e.g. the Public Control Office, the General Assembly, the Tax Office, etc.) are

• Agreeing with the procedure	☐	☐	☐	☐	☐
• Professional requirements	☐	☐	☐	☐	☐
• Managerial & financial requirements	☐	☐	☐	☐	☐
• Obligations to the public	☐	☐	☐	☐	☐
• Obligations to government agencies	☐	☐	☐	☐	☐
• Others (please specify)	☐	☐	☐	☐	☐

4- The relationship between you and your superiors within the company is influenced by

• Personal relationships	☐	☐	☐	☐	☐
• Professional requirements	☐	☐	☐	☐	☐
• Managerial & financial requirements	☐	☐	☐	☐	☐
• Obligations to the public	☐	☐	☐	☐	☐
• Obligations to government agencies	☐	☐	☐	☐	☐
• Others (please specify)	☐	☐	☐	☐	☐

5- To whom do you feel accountable

	1	2	3	4	5
• My superiors	☐	☐	☐	☐	☐
• The Secretary of Industry	☐	☐	☐	☐	☐
• Other Secretaries	☐	☐	☐	☐	☐
• The community	☐	☐	☐	☐	☐
• The Public Control Office	☐	☐	☐	☐	☐
• The customer	☐	☐	☐	☐	☐
• The public	☐	☐	☐	☐	☐
• The Italian partner	☐	☐	☐	☐	☐

- Others (please specify) ____________________

6- Do you see yourself accountable for implementing government programmes and policies in relation to the industrial sector

Strongly Disagree	1	2	3	4	5	Strongly Agree
	☐	☐	☐	☐	☐	

7- Do you see yourself accountable for implementing the company's programmes and policies

Strongly Disagree	1	2	3	4	5	Strongly Agree
	☐	☐	☐	☐	☐	

8- Please write below any further information you would like to add.

____

____

____

____

____

Thank you again for your co-operation

The researcher

Mustafa M. Saleh

Appendix 6.4: The NTC interview schedule.

The following is an outline of the main interview questions for the NTC setting:

- Can you describe the accounting system in your company?
- Can you put me through the process of recording and communicating accounting information in your company?
- To whom does your company provide its financial information?
- Who are the main users of your financial information?
- For what purposes do users use the information?
- How do you understand the concept of accounting information disclosure?
- What type of information do outsiders require most? (accounting and non-accounting information)
- How often do you provide this information?
- How do you describe your company's relationship with the SI?
- What type of information does the SI usually require?
- How reasonable do you think the SI's requirements are?
- How do you describe your company's current disclosure practices?
- How would you like to see your company's disclosure practices in the future?
- What is the role of laws in accounting information disclosure?
- What information do you consider appropriate to the SI and other users? Do you provide them with this information?
- What channels do you use to provide information to the SI and other parties?
- What role does the Italian partner play in shaping the company's policy?
- Does the Italian partner require different types of information from what you provide the SI? Do you provide that?
- Is there any difference in the time scale of providing this information?
- What are your responsibilities?
- How do you understand your responsibilities?
- To whom are you accountable (within or outside the company)?
- Are there any penalties for not providing information to the SI and/or other parties?
- How do you see the present accounting systems and practices in your company in particular and in Libya in general?
- What are the main purposes, from your point of view, of preparing your company's accounting reports?
- How do you see the usefulness, relevant, reliability, timeliness and availability of your company's information to internal users and to the SI?
- How do you see the differences in disclosing accounting information under socialist and market economies?
- Does the company encourage group thinking and teamwork?

Appendix 6.5: The SI's data collection permission.

January 2000

The Production Deputy
The Secretary of Industry
Sirt-Libya

Dear Sir,

I am a lecturer at the Department of Accounting, Garyounis University – Benghazi. I am currently a PhD student at Sheffield Hallam University, UK.

I am writing to you to ask for permission to gain access and collect data from the Secretary of Industry for my PhD research project. The research aim is to understand accounting information disclosure policies and practices and accountability construction process within Libyan companies and between companies and the Secretary of Industry.

To achieve the above aim, the Secretary of Industry is chosen as a case study. The choice is based on the data collected during our visit to the Secretary as part of a pilot study in February 1999.

I would be grateful if you allow me to conduct some interviews and have access to the Secretary of Industry's documents relevant to my research. The data collected will be treated confidentially and used only for academic purposes.

Thank you for your co-operation and best wishes to you.

Yours faithfully.

The researcher

Mustafa M. Saleh

Appendix 6.6: The SI interview schedule.

The main interview questions to participants from the SI include the following:

- What are the SI's main purposes of using companies' information?
- Can you describe the process through which companies' information is used to achieve these purposes?
- What type of information do you usually require companies to provide?
- How do you describe your department's relationship with companies?
- What are your responsibilities and how do you understand them?
- To whom and for what are you accountable?
- What role does the SI play in shaping companies' policies?
- What role does companies' information play in planning?
- How do you see the usefulness, relevant, reliability, timeliness and availability of companies' information?
- How do you understand the concept of accounting information disclosure?
- How do you describe companies' current disclosure practices?
- How would you like to see your companies' disclosure practices in the future?
- What is the relationship between you and the Italian partner in the NTC?
- How do you see the present accounting systems and practices in Libyan companies in general?
- What are the main purposes, from your point of view, of preparing companies' accounting reports?
- How do you see the differences in disclosing accounting information under socialist and market economies?

Appendix 6.7: Fieldwork plan.

To understand how disclosure is practised and accountability is constructed within the SI-NTC context, empirical data is to be collected from the SI, the NTC and other organisations and institutions (i.e. the Tax Office, the Public Control Office). Primary data will be collected from the NTC and the SI using three methods: questionnaires, interviews, and documentary analysis.

I will interview the NTC's Executive Manager, the Accounts Manager, the Finance Manager, the Production Manager, and the Internal Auditor. Others may be considered during the fieldwork. In the SI setting, officials within the Companies Department and the Budgets Department will be interviewed. A copy of the interviews main issues will be handed to the interviewees. Permission to tape-record the interviews will be requested. The interviewer will keep an open mind to any themes and issues that may develop through the interviews. Moreover, documents will be collected and analysed. The following table summarises the main data sources and data collection method(s).

Primary data sources	Data collection methods	Secondary data
The NTC: Finance Manager, Accounts Manager, Internal Auditor, the Executive Manager, etc. **The SI:** Companies department, Budgets department, etc.	Interviews, questionnaires and documentary analysis	Other organisations and institutions, the literature, general statistics and reports, informal meetings.

The main issues in the company's interview:
- The company's past, current and future disclosure policies and practices.
- The content of disclosures (profit and loss, financial position, plants and products, responsibilities, etc.).
- The relationship with information users (accountability).
- The role of regulations in providing information.
- Socialism and competition (perceptions).

The main issues in the SI's interview:
- Information needs.
- The role of financial information in planning.
- The relationships with companies.
- The quantity, quality and timeliness of information provided by companies.

Fieldwork timetable: (Jan. - Feb. 2000)
The data will be collected in the period January-February 2000 as follows:

- Three weeks in the NTC.
- Two weeks in the SI.
- One week between the Public Control Office and the Tax Office.
- One week for collecting data from other sources.

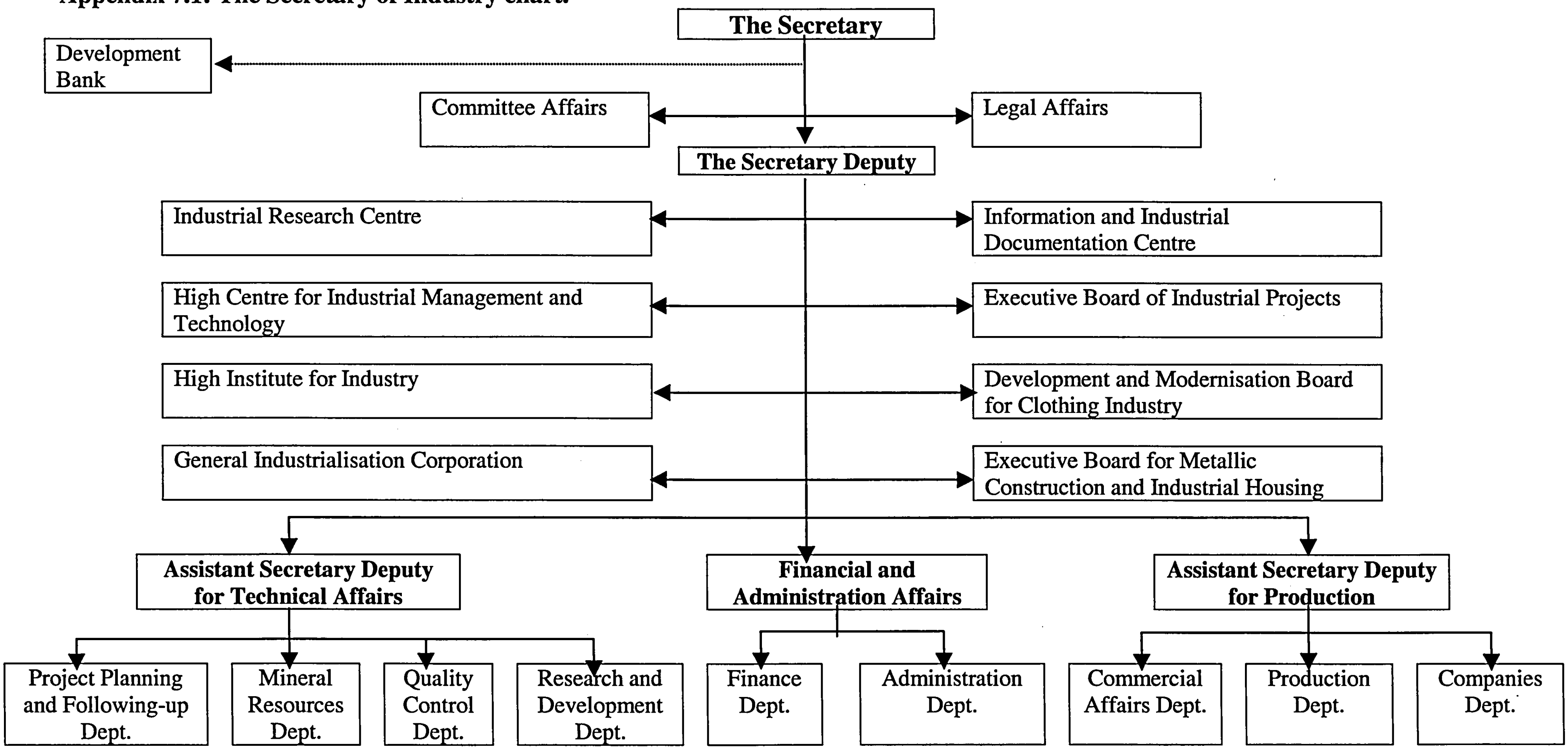
However, the above plan is flexible and change may be introduced as the data collection progresses.

The interview analysis:

The data collected will be analysed by looking for words and concepts related to disclosure and accountability (such as disclosure, accountability, secrecy, instructions, etc.). Patterns and themes that emerge will be categorised and used to develop an understanding of disclosure and accountability practices within the research setting.

Appendices to Chapter Seven

Appendix 7.1: The Secretary of Industry chart.



Appendix 7.2: The transformational budget and actual expenditures for the industrial sector from 1970 to 1996: (The amounts are in millions of Libyan Dinars).

Year	Budget	Expenditures
1970	21.8	15.0
1971	32.1	29.0
1972	68.1	65.1
1973	79.7	62.5
1974	110.9	107.0
1975	129.9	100.0
1976	199.4	165.5
1977	194.0	160.7
1978	225.3	157.1
1979	203.4	210.2
1980	614.9	583.2
1981	727.1	435.3
1982	475.9	356.4
1983	494.9	230.2

Year	Budget	Expenditures
1984	415.4	514.1
1985	254.2	260.6
1986	270.0	201.3
1987	273.5	158.7
1988	224.8	112.8
1989	140.0	95.9
1990	139.0	35.9
1991	267.0	9.4
1992	170.0	20.2
1993	63.7	11.6
1994	50.7	35.5
1995	24.0	26.0
1996	20.0	71.3

Source: The Secretary of Planning (1997) Economic and Social Indicators (1962-1996), Tripoli, Libya, PP 22-8.

Appendix 7.3: Purchasing order and item balance card.

Name of the company: **Purchasing Order** Reference No.:
The requested department: Date:

Item No.	Description	Measurement unit	Quantity	Estimated price per unit	Amount required

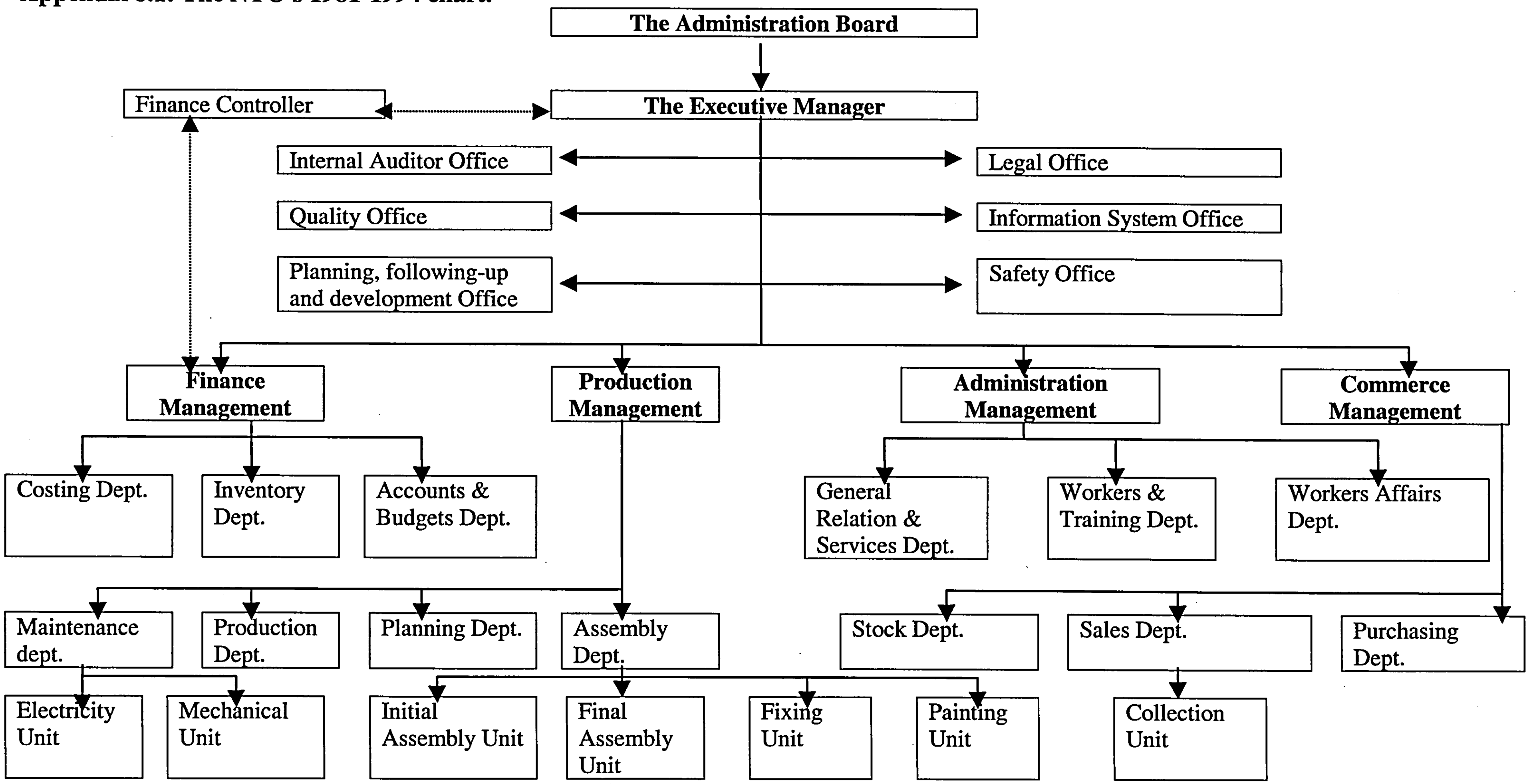
Payment method

Name of the company: **Item Balance Card** Minimum balance:
Measurement unit: Maximum balance:
Store No.: Item No.:

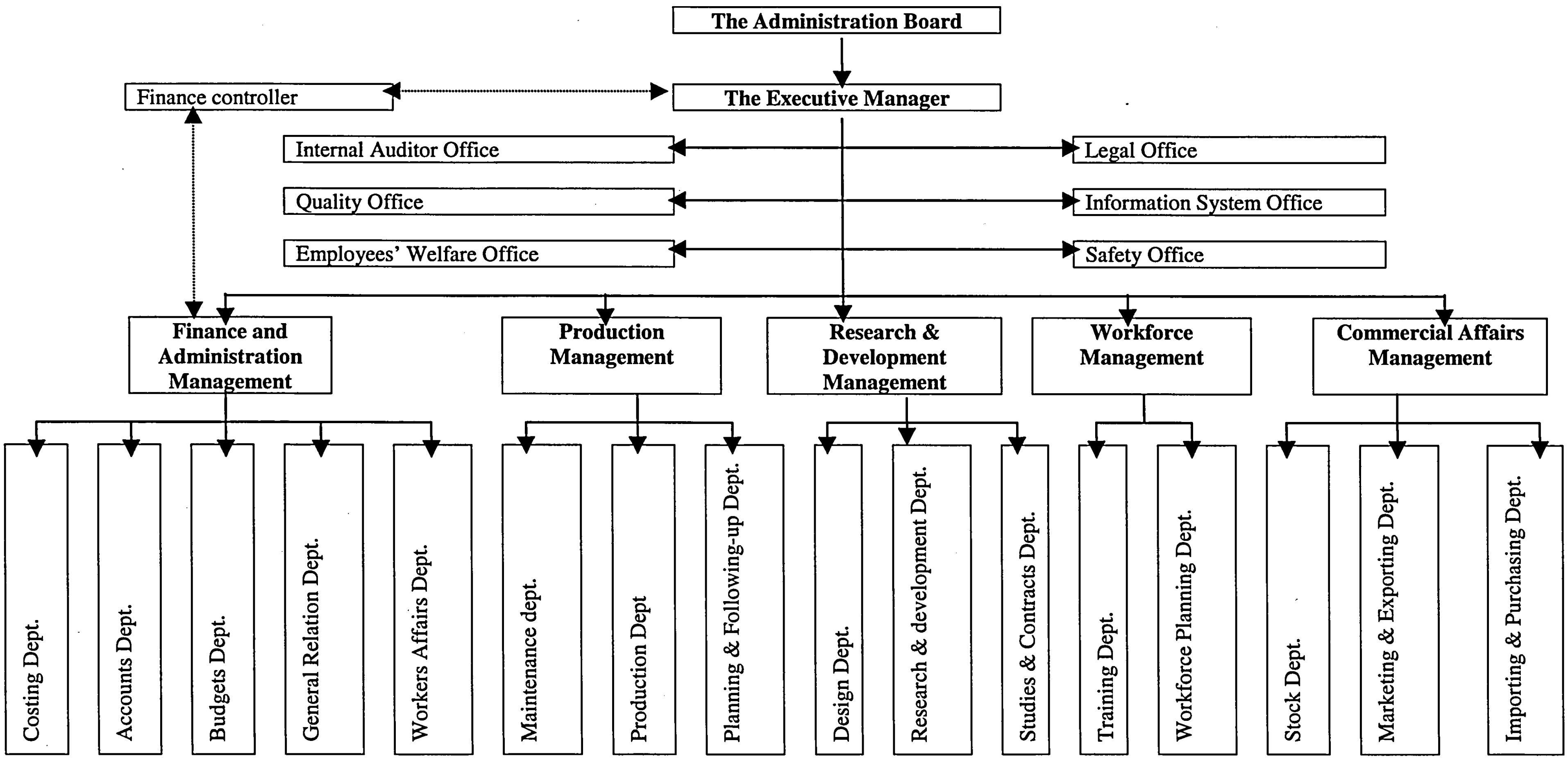
Date	Document No.	In			Out			Balance			comments
		Quantity	Price per unit	Amount	Quantity	Price per unit	Amount	Quantity	Price per unit	Amount	

Appendices to Chapter Eight

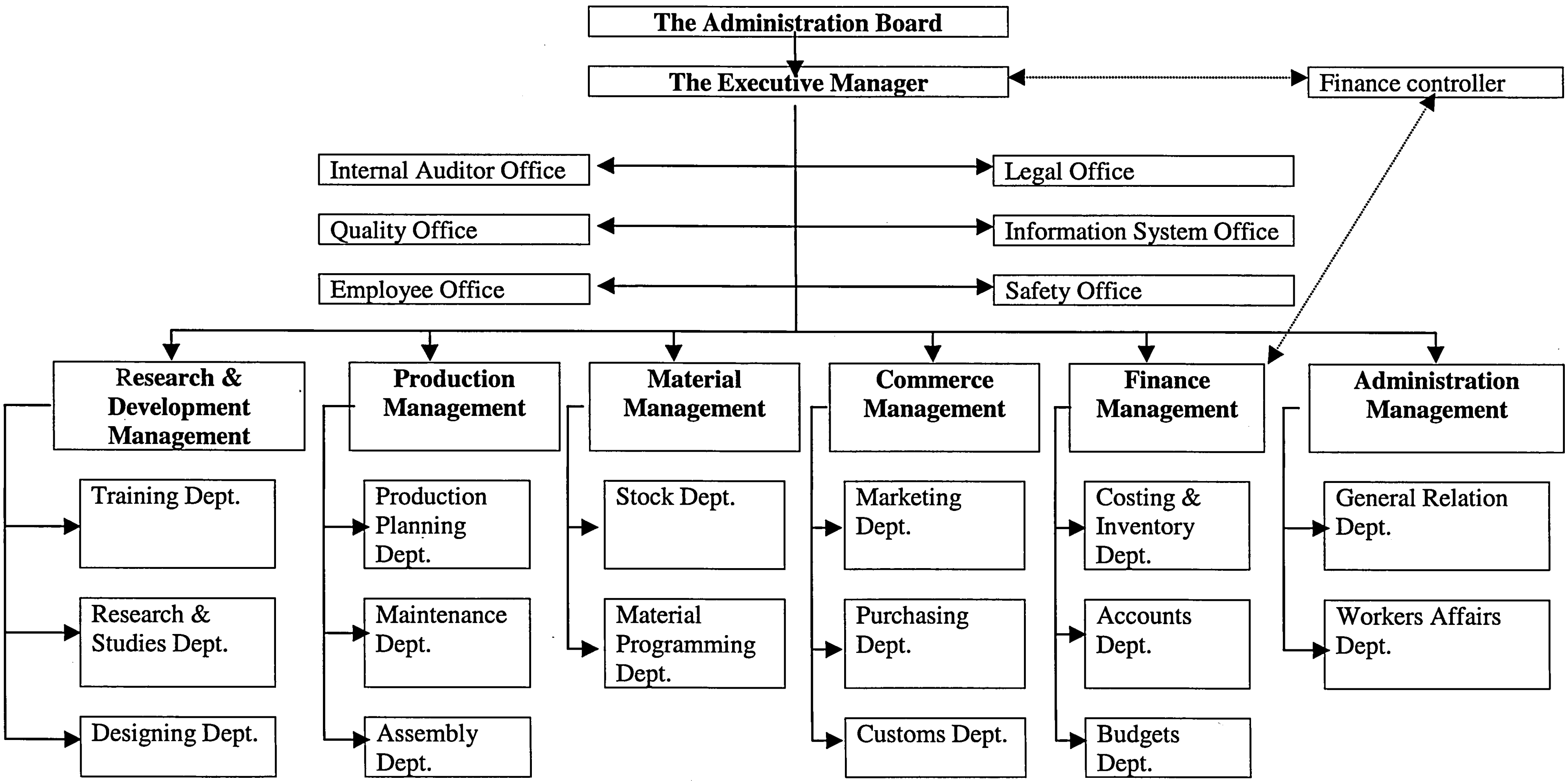
Appendix 8.1: The NTC's 1981-1994 chart.



Appendix 8.2: The NTC's 1995-1997 chart.



Appendix 8.3: The NTC's 1998-2000 chart.



Appendix 8.4: Production, sales and foreign exchange reports.

Name of the company:

Production during December 1999
(The amount is in LD'000')

The Secretary of Industry
Information and Industrial Documentation Centre

Form No. 1-1-1

Plant and Production	Measurement unit	Maximum capacity		Production				Achieved ratio		Achieved production for the same month in the previous year	
				Targets		Achieved		To capacity	To target		
		Quantity	Amount	Quantity	Amount	Quantity	Amount			Quantity	Amount
Total											

The Executive Manager

Name of the company:

Sales during December 1999
(The amount is in LD'000')

The Secretary of Industry
Information and Industrial Documentation Centre

Form No. 1-1-3

Plant and product type	Measurement unit	Direct sales		Distribution branches		Public bodies	
		Quantity	Amount	Quantity	Amount	Quantity	Amount
Total							

The Executive Manager

cont.

Name of the company:

Foreign exchange for December 1999
(The amount is in $'000')

The Secretary of Industry
Information and Industrial Documentation Centre

Form No. 1-1-5

Budget			Executed amount					Funds account awaiting banks approval for execution	
Suggested by the company	Initially allocated	Allocated	Material	Machines	Technical support	Spare parts	Training	Amount	Date of applying

The Executive Manager