The Disclosure and Use of Social and Environmental Information by Libyan Banks

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Abstract

There is increasing interest in social and environmental issues throughout the world, especially in developed countries, where governments, organizations, and society well recognise the impact of business activities on the environment and society. Consequently, companies have potentially no alternative but to behave in a responsible manner, socially and environmentally, and to prove this by disclosing information about their related conduct. In this regard, banks play two important roles: first, as providers of social and environmental information in much the same manner as nonfinancial companies; and second, as providers of finance, by encouraging—if not obliging—bank customers to consider society and the environment in their bank-financed projects. Banks fulfil the latter role by requiring social and environmental information from companies when making lending decisions.

Only a few Libyan studies have examined social and environmental issues in relation to economic activity, and these have generally revealed low levels of disclosure practice by organisations, including banks, in these areas. In addition, many changes have taken place in the Libyan economy and banking sector in recent years, including the establishment of a market exchange; decreased government participation in economic activities; and increased growth of the private sector that results, especially in the banking sector, with the entrance of foreign investors. These changes have placed a new emphasis on bank operations and the participation of banks in the Libyan economy. Thus, studying Libyan banks, in terms of their role in the environment and society, has attracted growing interest. As such, the core objective of this thesis has been to investigate the position of Libyan banks in relation to social and environmental issues and disclosure by considering their dual role as both providers and users of such information.

This thesis incorporates five related empirical studies relating to the interaction between the bank sector in Libya, and environment and society. These are (i) an assessment of the social and environmental disclosure practices of Libyan banks over the period 2005–10, (ii) an examination of the impact of bank characteristics and internal contextual factors (inter-organizational factors) on Libyan bank behaviour pertaining to the disclosure of social and environmental information (iii) an analysis of the impact of political, economic and cultural factors (intra-country) on these practices, (iv) an investigation of the role of this information in the making of lending decisions by
Libyan banks, and (v) an investigation of the connection between disclosing social and environmental information by banks and the use of similar information in lending decisions. In doing so, 17 Libyan banks were targeted, and 44 interviews were conducted.

In the first part, content analysis was used to measure the social and environmental information disclosed, in order to evaluate the quantity and quality of social and environmental disclosure of Libyan banks. The second empirical part of the thesis includes a model to examine the relationship between (i) Libyan bank characteristics and corporate governance, and (ii) the banks’ social and environmental disclosure practices. In addition, an interview instrument was used to investigate the managers’ attitudes to social and environmental disclosure. The third empirical part of the thesis investigated the possible impact of the political, economic, and cultural context in Libya on social and environmental disclosure practices. In addition to the interview instrument, a historiography approach was used to capture, as fully as possible, the influence of this context on disclosure. In the fourth empirical part of the thesis, an interview instrument and historiography were employed to evaluate the importance and use of social and environmental information in lending decisions by Libyan banks. In the final empirical part of the thesis, Pearson’s correlation coefficient was used to investigate whether there is a connection between the pattern of disclosure and use, a matter not previously investigated. Using a variety of methods to undertake the five empirical studies, incorporated in the thesis, is necessary. One-size-fits-all method is not applicable in this case, and each study of those five studies has to be conducted by implementing the most suitable method to that study. This triangulation (in addition to using theoretical triangulation as well) is used mainly for studying unexplored or less explored research problems, which is the case of this study. Such approach enhances the understanding of the phenomenon studied and increases the accuracy of the study results. Furthermore, with triangulation, the problem of small sample is solved.

The investigations revealed three main results. First, there was a low level of Corporate Social Environmental Disclosure (CSED) provided by Libyan banks over the period 2005–2010. Second, many factors were found to influence the performance of Libyan banks in regard to CSED practices. In fact, all three major factors (company characteristics, internal contextual factors and general contextual factors) influenced CSED practices of Libyan banks. The variables: size, public ownership, foreign nationals and non-executive managers on the board of directors, and listing on the Libyan stock market, as well as the attitude of accounting departments’ managers, influenced the level of CSED produced by Libyan banks. In regards to the use of social and environmental information in lending decisions, the attitude of credit departments’
managers did not differ much from that of accounting departments’ managers in ignoring the importance of such information to their decisions. However, the general contextual factors (such as legal system, regulations, political rights, civil liberties, economic development, and educational system and training programs) were the most influential, as they were the main cause of the negative impact of most other factors. Third, environmental and social information was not considered seriously by Libyan banks in terms of disclosure and use. Consequently, the dual role of banks in the issue of CSED was absent in the case of Libyan banks, and reforms need to be implemented in economic, educational and political systems in order to improve CSED practices.
Statement of Originality

This work has not previously been submitted for a degree or diploma in any university. To the best of my knowledge and belief, the thesis contains no material previously published or written by another person except where due reference is made in the thesis itself.

Omer M Elsakit

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Dedication

To my mother; you are the source of my happiness
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## List of Abbreviations

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<tr>
<td>CSED</td>
<td>Corporate social and environmental disclosure</td>
</tr>
<tr>
<td>GRI</td>
<td>Global Reporting Initiative</td>
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<tr>
<td>IFC</td>
<td>International Finance Corporation (member of World Bank Group)</td>
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Chapter 1. Introduction

1.1 Background

This thesis concerns corporate social and environmental disclosure (CSED), being “the provision of financial and nonfinancial information relating to an organization’s interaction with its physical and social environment” (Guthrie & Mathews, 1985, p. 78), to “discharge social accountability [to] all interested groups” (Gray et al., 1987, cited in Sutantoputra, 2009, p. 38). The classical objective of corporate behaviour, in terms of maximising profits or shareholder wealth, is no longer the only goal for many companies, especially in developed countries. Other goals, such as benefiting society and protecting the environment, have also become increasingly important.

This development in the business world is a function of many factors, including the increased awareness of society in respect of the positive and negative implications of corporate behaviour. Nowadays, companies are often required to disclose information on their interactions with the environment and society, and such disclosure is likely to have a real impact on the decisions that users of this information make in dealing with these companies. As a result, this kind of disclosure, its level and its quality, have been the subject of a considerable number of studies, which have comprehensively investigated the factors influencing disclosure and the motivations for managerial-related decisions, especially in terms of voluntary disclosure.

The need for corporations to be aware of, and take action on, their social and environmental responsibilities is well established, and organisations such as oil and chemical companies are increasingly under pressure to improve their performance in this regard. However, only recently attention has become focused on the important role that banks can play in being socially and environmentally responsible—specifically, through the decisions they make and the quality of the information they release to the public. What distinguishes banks from other industries is the dual role banks can play regarding corporate social and environmental disclosure. The first part of this dual role is to act as providers of both social and environmental information in their own right, in much the same manner as nonfinancial firms; the second part of the role relates to their behaviour as providers of finance through their lending: banks can encourage, if not oblige, bank customers to consider the environment and society as a condition of being granted a loan. That is, in the latter case, banks can exploit their position to ensure that
society and the environment are unharmed by the activities of their clients. In so doing, banks may require borrowing firms to provide information proving their commitment to society and the environment; that is, the provision and disclosure of corporate social and environmental information.

While bank practices regarding social and environmental concerns have seen considerable development in developed countries, banks in developing countries appear to lag behind. Profits often remain the dominant goal, and for banking firms—including those operating in Libya, a developing Arab country—the connection between their activities and any resultant damage to society and the environment is often unclear.

Few Libyan studies to date have investigated the social and environmental disclosure practices of Libyan companies, including banks, and the results have generally indicated low levels of these practices. Moreover, no study has focused exclusively on Libyan banks, in terms of their role in disseminating information relating to their potential impact on society and the environment, nor on how they use the information disclosed by potential customers in their lending decisions. In response, the study reported in this thesis was undertaken to investigate the case of Libyan banks from two key perspectives: first, the social and environmental disclosure practices of Libyan banks over the period 2005-2010, and second, whether Libyan banks consider the social and environmental information disclosed by prospective commercial and industrial borrowers in the process of their own lending decisions.

1.2 Context
Libya is an Arab country located in North Africa, and is mostly desert. Having limited areas suitable for living, and depending considerably on the oil and oil-related industries, the issue of the environment and society is very important. While it is well known that the activities of companies operating in different economic sectors have impacts on society and the environment, there is little evidence that Libyan companies take serious measures to ensure positive impacts and/or limit negative impacts on both the environment and society.

One mechanism suggested as a departure point from which to change this situation is the involvement of banks in social and environmental issues. This could be when banks begin playing a dual role—first, by conducting their operations in a socially responsible and environmentally friendly way; and second, as a finance provider with the ability to
encourage or oblige other companies in other nonbanking and nonfinancial sectors seeking loans to better care for the environment and society in their own businesses.

The problem with this suggestion is that the ability of the Libyan banking sector to play such a role seems doubtful. The efficiency of the sector is weak when compared with other Arab countries in the region, such as Egypt, and in other oil-producer countries, such as Saudi Arabia (Gait, 2009). Although there have been reforms in this sector, such as unifying the exchange rate, privatizing some state banks, and allowing foreign banks to operate in the Libyan market, the Libyan banking system is still “in need of structural reforms to reach at least the development of other Arabic banking systems” (Gait, 2009, p. 27).

One of reforms possible in this context is the involvement of banks in social and environmental concerns. Acting in a socially and environmentally responsible manner has become an important indicator of international banking system quality. As such, it is interesting to investigate the Libyan banking system in this regard, as there is no known study focused exclusively on the dual role of Libyan banks pertaining to social and environmental information and disclosure. The importance of this thesis is well represented in exploring the status of bank practices about social and environmental issues, and understanding the factors influencing such practices. As such, the general research problem addressed in this study is “What is the position of Libyan banks with respect to social and environmental disclosure?”

1.3 Motivation and Objectives

There is an increasing interest over the world in corporate social and environmental disclosure practice, and the potential role of banks. Nonetheless, for Libyan companies, these practices generally remain nascent, and the role of Libyan banks in this regard is unclear.

Many changes have occurred in Libyan economy, the financial sector and the Libyan banking industry during the period 2005–2010. This includes:

1. Issuance of the banking law No. 1 of 2005, which is considered as a genuine start of reforming monetary and banking policies in Libya.
2. Establishment of some new Libyan banks.
3. Giving permission to foreign banks to hold shares in domestic banks, and even establish banks with foreign capital
4. The Central bank started selling its shares in some of the public banks

5. Merging the vast majority of the regional banks into one bank and merging two public banks into the biggest bank in the banking sector.

6. A gradual decrease in government participation in economic activities. That is, implementation of privatization programs and the increased growth of the private sector more generally, and partially in the banking sector.

7. Establishment of market exchange

These events have mainly focused on the expected role, operations, and participation of banks in the Libyan economy, and at the same time, such events are claimed to be positively influential on CSED practices. Consequently, this makes the expected role of Libyan banks in environmental and societal issues both important and timely.

However, there is a noticeable lack of research into the role of Libyan banks with regard to social and environmental issues. Therefore, there is a need to consider this matter and investigate whether bank activities are both socially responsible and friendly to the environment, and whether there are factors influencing the attitudes of these banks in this respect. This is the purpose of this thesis. More specifically, the motivations for this thesis are as follows.

First, compared with developed countries, developing countries have attracted relatively few studies of environmental and social disclosure. This provides an opportunity to enrich the literature in this respect. Moreover, Libya is a very different country, even with respect to other developing countries, due to its unique political, economic, and social circumstances. For instance, Ahmad (2004, p. 63) stated, “Libya has unique political and economic systems which are not found in any other countries even in other Arab or developing countries”. Thus, it is of interest to study the case of Libyan banks in regard to environmental and social disclosure to enhance international comparison with other developing and developed countries.

Second, this thesis will provide useful insights in understanding the attitudes of Libyan banks to social and environmental issues, and consequently to help enhance the performance of the Libyan banking sector in this internationally important field. Third, this thesis will feed into the ongoing reform process currently implemented in the Libyan banking system. It is logical that banking policies need to be framed to reflect successful policies implemented in more-developed countries, and maintain consistency with some key concerns in international banking, including the role of banks as
providers and users of corporate social and environmental information. This thesis then builds a bridge between the realities of the Libyan situation and the practical lessons from global experience.

Consistent with these motivations, the thesis has the following objectives. First, to examine the attitudes of Libyan banks to the process of social and environmental disclosure. This includes analysing the level of social and environmental disclosure of Libyan banks, and its quality, and any trends over the period covered by this study (2005–10). (The years after 2010 were excluded due to unavailability of the annual reports, the dramatic changes in the political, economic and social situation in the country, as well as the instability since 2011). Second, to examine the impact of key factors, including banks’ characteristics, corporate governance, and managerial attitudes to the issue of corporate social and environmental disclosure (CSED) and impact of general contextual factors. Third, to explore the attitudes of Libyan banks to the incorporation of social and environmental information in lending decisions. Finally, to consider any connection between the behaviour of Libyan banks as both producers of social and environmental information and as potential users of such information in lending decisions.

1.4 Questions

There is an extensive research in developed countries on the social and environmental disclosure practices of companies. In addition, many studies have considered these in relation to bank practices, while others have focused on the incorporation of social and environmental information in lending and other bank decisions. Nevertheless, to our best knowledge, no study has investigated the dual role of banks as a producer and user of corporate social and environmental information, in either a developed or a developing context. This is addressed in this study by responding to three main questions, which are: (1) What is the position of Libyan banks in relation to the production of social and environmental information? (2) What is the position of Libyan banks in relation to the use of social and environmental information, disclosed by companies, in the lending decisions? (3) Is there a connection between the production and use of social and environmental information by Libyan banks?

The first question concerns the position of Libyan banks as a producer of CSED. From this question, the following three sub-questions are formulated: (1) What was the level and nature of social and environmental disclosure (CSED) of Libyan banks over the period 2005–10? Responding to this question entails addressing the following questions
as well: (A) Did Libyan banks disclose social and environmental information over the period 2005–10? (B) Did the importance of CSED of Libyan banks increase over the period 2005–2010? (C) What was the nature of the social and environmental disclosure made by Libyan banks (monetary, descriptive, and quantitative)? (D) Did Libyan banks disclose negative information? Why/why not? (2) What are the factors affecting the level of CSED of Libyan banks? Answering this question entails addressing the following questions as well: (A) Did the following factors: size, profitability, ownership structure, listing on stock market, the proportion of non-executive directors and the proportion of foreign nationals on the boards of directors of Libyan banks influence the production of CSED by Libyan banks over the period 2005-2010? (B) What is the managers’ attitude to the issue of CSED? And what are the factors affecting this attitude? (3) Do political factors (legal system, regulations, political rights and civil liberties), economic factors (degree of economic development), and cultural factors (education) influence CSED practices of Libyan banks?

The second research question focuses on Libyan banks as users of CSED in their lending decisions. From this question, the following three sub-questions are extracted: (1) Do Libyan banks use environmental information (as disclosed by companies seeking loans) in their lending decisions? (2) Do Libyan banks use social information (disclosed by companies seeking loans) in their lending decisions? (3) What are the factors affecting the issue of using environmental and social information (disclosed by companies seeking loans) in lending decisions of Libyan banks? The third and final research question is whether there is a connection between the roles of Libyan banks as producers of CSED and as users of such disclosure in their lending decisions.

1.5 Structure

The structure of the remainder of the thesis is as follows. Chapter 2: *The Banking Sector in Libya* first introduces Libya, including its geographic location, resources, population, and culture. This chapter also illustrates the structure of the Libyan banking system with a special focus on commercial banks, and discusses in detail the historical development of the Libyan banking system in the context of the political, economic, and social environment.

Chapter 3: *Empirical Literature Review* discusses CSED practices with a focus on environmental disclosure and reflects on a number of pertinent issues, including the increase of CSED practices and the weakness of some practices, international initiatives in the field of CSED, and the channels used in providing CSED. This chapter also
details the factors influencing CSED practices, including bank characteristics and both internal and general contextual factors. The chapter then moves to the other side of the issue, by addressing the role of the bank as a user of social and environmental information in its lending decisions, and the nature of the relationship between the production and use of CSED by banks. This chapter also discusses CSED practices in Libya and the resulting research gap.

Chapter 4: *The Theoretical Framework of Social and Environmental Disclosure* elaborates on the topic of social and environmental accounting and its historical development. This leads to discussing the production of this kind of accounting information. Lastly, the chapter discusses the theories applied in this study. The discussion will be on perspectives of these theories and their justification for behaviour of companies in regard to social and environmental disclosure.

Chapter 5: *Research Methodology* provides details on empirical research design and methodology applied in conducting the research. It explains the basic research design and the quantitative and qualitative approaches implemented in gathering and analysing the data and using triangulation for the purpose of credibility. The chapter also discusses the development of research questions and the use of content and statistical analysis, historiography, and interviews.

Chapter 6: *Empirical Results: Content and Regression Analysis* discusses the results using the content analysis in determining the amount and nature of social and environmental information disclosed in the annual reports of Libyan banks. This chapter also considers the factors affecting the level of CSED in Libyan banks and reports the result of the statistical analysis of the relationship between the dependent variable (CSED) and a group of factors representing corporate governance and bank characteristics.

Chapter 7: *Managers’ Attitudes to CSED and the Impact of General Contextual Factors* provides an analysis of interviews conducted with accounting managers and two other groups of directors. It reports on the attitudes of those managers to the issue of releasing social and environmental information, and the factors affecting such attitudes. The chapter also examines further the impact of general contextual factors (political, economic, and social) on CSED practice in Libya.

Chapter 8: *Empirical Results: Manager Attitudes to Using CSED and the Connection Between Disclosing and Using CSED* reports on the analysis of interviews conducted with credit managers and another group of directors and examines in detail the factors
affecting the issue of use of CSED in lending decisions. The chapter also reports on the results of investigating the connection between both attitudes; and providing and using CSED.

Chapter 9: Conclusion presents a summary of the study and its results and highlights the theoretical and empirical contributions of the thesis. This chapter also outlines the main limitations of the thesis and, as a final contribution to the field, provides some directions for future research in light of the thesis results.
Chapter 2. The Banking Sector in Libya

2.1. Introduction

Banks, as a key component of the financial sector, play an important role in the process of economic development and its success in every nation around the world. The association between economic growth and financial intermediation has long been a focus of interest to academics, economists, and policy makers alike. In less developed countries, the role of the banking system seems even more obvious as banks are the dominant players in these financial sectors in these countries and are the key source of finance for economic activities (Kumati, 2008). In terms of Libya, researchers (e.g. (Habara, 2009; Husien, 2007) believe that this is particularly applicable to the Libyan environment. Husein, while subscribing to the view that the Libyan banking sector is similar to its peers in other developing countries, argues that it is “…more crucial to the economy because it represents the backbone of the Libyan financial system, being the only source of finance and the only financial institution that can provide loans and credit in Libya” (Husien 2007, p. 107).

This chapter is primarily devoted to providing information on the Libyan banking system. Following this introduction, Section 2.2 provides some basic information on Libya, Section 2.3 presents a brief overview of the components of Libyan banking system and Section 2.4 discusses in detail the development of the banking industry in Libya within the political and economic contexts of the country. The chapter concludes with Section 2.5, which provides overall comments and observations.

2.2. A brief introduction to Libya

Libya, officially the State of Libya, is located in North Africa, and bordered by six countries: Egypt to the east; Tunisia and Algeria to the west; and Sudan, Chad and Niger in the south. It thus occupies a strategic location as it represents the gateway of Africa to southern Europe. Libya is the fourth-largest African country and fifteenth-largest in the world. It covers approximately 1,759,540 square kilometres. Most of the land area (more than 90%) is arid desert or semi-desert, and arable land accounts for only about 0.99% of the country’s total land area. Libya is also “one of the driest countries in the world” (Wheida & Verhoeven, 2007). Nonetheless, Libya is a resource
rich country because of its substantial oil and natural gas reserves. Moreover, it has the longest coastline (1770 kilometres) among those African countries bordering the Mediterranean.

Libya’s population in 2012 was estimated to be 6,733,620 ("World population review," 2014). The majority of the population lives along the coast, in the major cities such as Tripoli (the capital city) and Benghazi. The vast majority of Libyans are Arabs or Berbers, with the Islamic religion and the Arabic language being the defining characteristics of Libyan culture. In 2010, life expectancy within the country was 80.0 years overall (79.7 years for males and 81.9 years for females) ("World population review," 2014).

2.3. Structure of Libyan banking system

The Libyan banking sector consists of the Central Bank of Libya, commercial banks, and specialized banks. The following subsections provide a brief overview of these three banking systems.

2.3.1 Central Bank of Libya

Central banks have a vital role to play when it comes to financial issues. Generally, the central bank is the main tool in implementing the financial and monitory policies of the state or country. Thus, it sets roles and guidelines for banks to ensure that banking activities are serving both bank goals and state interests at large.

In Libya, the responsibilities and tasks of the Central Bank are determined in the fifth article of the Law No (1) 2005 ("Banking Law No. 1 of 2005," , p. 2), namely:

1. Issue the Libyan currency and maintain its stability within Libya and abroad.
2. Manage the government’s reserves of gold and foreign exchange.
3. Regulate monetary policy and supervise currency conversion transactions within Libya and abroad.
4. Regulate credit and banking policy and supervise its implementation within the framework of the government’s general policy.
5. Achieve the goals of economic policy in terms of stabilizing the general level of prices and maintaining the soundness of the banking system.
6. Manage the liquidity of the national economy.
7. Regulate and supervise the foreign exchange market.
8. Provide advice to the government on matters related to general economic policy.
These different responsibilities reflect the vital role of the Central Bank of Libya, as evidenced in the increase in its assets during the period 2005–10, as illustrated in the following table.

Table 2.1: Assets of Central Bank of Libya (Million L.D)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total assets</th>
<th>Annual change</th>
<th>Percent change</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>36216.8</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2005</td>
<td>58416.9</td>
<td>24200.1</td>
<td>61</td>
</tr>
<tr>
<td>2006</td>
<td>83682.1</td>
<td>25265.2</td>
<td>43</td>
</tr>
<tr>
<td>2007</td>
<td>106404.9</td>
<td>22722.8</td>
<td>27</td>
</tr>
<tr>
<td>2008</td>
<td>126395.0</td>
<td>19990.1</td>
<td>19</td>
</tr>
<tr>
<td>2009</td>
<td>136280.6</td>
<td>9885.6</td>
<td>8</td>
</tr>
<tr>
<td>2010</td>
<td>144744.8</td>
<td>8464.2</td>
<td>6</td>
</tr>
</tbody>
</table>

Source: Central Bank of Libya (CBL) annual reports of the above years.

2.3.2 Commercial and specialized banks

Commercial banks are considered the most important financial institutions in Libya (Habara, 2009). There are two main types: private commercial banks and state-owned commercial banks. The aim of these banks is to accomplish commercial goals, although the level of concentration on these goals may differ and vary between these private and public organisations. Private banks generally appear to have more freedom when concerned with profitability. By the end of 2010 there were 15 commercial banks operating in Libya. The second section of Article 65 in the Law No (1) 2005 ("Banking Law No. 1 of 2005,", p. 23) stipulates that the activities of these banks include the following:

1. The cashing of cheques made out to and by customers.
2. Services relating to documentary credits, documents for collection, and letters of credit.
3. Issuance and management of instruments of payment, including monetary drawings, financial transfers, payment and credit cards, traveller’s cheques, etc.
4. Sale and purchase transactions involving monetary market instruments and capital market instruments to the credit of the bank or its customers.
5. The purchase and sale of debt, with or without the right of recourse.
6. Lease financing operations.
7. Foreign exchange transactions in spot and forward exchange markets.
8. The management, coverage, distribution, and transaction of banknote issues.
9. The provision of investment and other services for investment portfolios, and the provision of investment trustee services, including the management and investment of funds for a third party.
10. Management and safekeeping of securities and valuables.
11. Provision of trustee or financial investor services.

12. Any other banking activities approved by the Central Bank of Libya.

The period 2005–10 witnessed an increase in the assets of these banks, which reflects the increasing importance of the role of commercial banks in the Libyan economy. Table 2.2 provides further supporting statistics.

Table 2.2: Assets of Libya’s commercial banks (2005–2010) (Million L.D)

<table>
<thead>
<tr>
<th>Date</th>
<th>Total assets</th>
<th>Annual change</th>
<th>Percent change</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>15407.5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2005</td>
<td>18524.9</td>
<td>3117.4</td>
<td>20</td>
</tr>
<tr>
<td>2006</td>
<td>23011.7</td>
<td>4486.8</td>
<td>24</td>
</tr>
<tr>
<td>2007</td>
<td>31185.2</td>
<td>8173.5</td>
<td>26</td>
</tr>
<tr>
<td>2008</td>
<td>50230.0</td>
<td>19044.8</td>
<td>61</td>
</tr>
<tr>
<td>2009</td>
<td>58767.8</td>
<td>8537.8</td>
<td>17</td>
</tr>
<tr>
<td>2010</td>
<td>65352.4</td>
<td>6584.6</td>
<td>11</td>
</tr>
</tbody>
</table>

Source: Central Bank of Libya (CBL), Financial and Monetary Statistics (2000–10)

A number of specialized banks have also been established exclusively to support and finance specific sectors such as agriculture, housing and industrial activities, and for other specific purposes. At the end of 2010, four specialized banks were in operation (see Table 2.3).

Table 2.3: Assets of Libya’s specialized banks (2005–2010) (Million L.D)

<table>
<thead>
<tr>
<th>Date</th>
<th>Total assets</th>
<th>Annual change</th>
<th>Percent change</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>4198.5</td>
<td>2676.6</td>
<td>64</td>
</tr>
<tr>
<td>2005</td>
<td>6875.1</td>
<td>2295.0</td>
<td>33</td>
</tr>
<tr>
<td>2006</td>
<td>9170.1</td>
<td>2463.7</td>
<td>27</td>
</tr>
<tr>
<td>2007</td>
<td>11633.8</td>
<td>1555.6</td>
<td>13</td>
</tr>
<tr>
<td>2008</td>
<td>13189.4</td>
<td>217.9</td>
<td>2</td>
</tr>
</tbody>
</table>

Source: Central Bank of Libya, Financial and Monetary Statistics (2000–10)

2.4. Historical development of Libyan banks

The benefit of studying the history of the Libyan banking system is to gain a better understanding of “…its role in the Libyan economy and how it is evaluated” (Husien, 2007, p. 108). Understanding this aspect is also likely to cast light on the underlying reasons behind the attitudes of banking management to different issues, including social and environmental concerns.

The history of banking activities in Libya can be traced back to the late 18th century—specifically, 1868. Since then, the banking industry in Libya has experienced many
fundamental changes (Alwaddan, 2005; Husien, 2007; Kumati, 2008). This is the result of many social, economic, and political events and circumstances occurring during that period. Thus, the political, economic and social environment cannot be ignored when financial development is being studied (Husien, 2007); clearly, this includes the banking system. As such, in the following sections, the development of the banking sector in Libya will be broken down into several stages, based on significant events that have had an impact on its development.

2.4.1. The First Stage: Prior to 1952

During this period no national government existed. Libya has suffered through its long history from a number of periods of foreign domination, including rule by the Greeks, the Romans, the Phoenicians, the Ottomans, the Italians, the British and the French. Banking activities commenced in the second era of Ottoman rule, which began in 1835. During this first stage, Libyan—as well as Arabic—banks were completely absent from the Libyan economy (Hanibich, 2009). This historical stage can be divided into three periods, according to the type of colonization or administration that ruled the country at the time.

2.4.1.1 The period 1835–1911

Following the collapse of Karmanli family rule in 1835, Libya fell under the control of the Ottoman Empire for a second time. This continued until 1911. During this time and subsequently, including the period of Italian occupation, the Libyan economy depended on animal breeding, handicrafts and agriculture, with a special focus on agriculture and trade (Alwaddan, 2005). Therefore, attention turned to financing the agricultural sector with the first agricultural bank in Libya being founded in 1868 in Benghazi, followed by another in Tripoli in 1901. With the increasing importance of an economic system depending mainly on agriculture, other branches of Ottoman banks were subsequently opened in Tripoli and Benghazi in 1906 and 1911, respectively, in addition to branches in other cities in Libya.

The role of the Ottomani Agriculture Bank, through its branches, was limited and did not impact significantly on the Libyan economy (Aspaqh, 2011). Thus, there was room for other foreign banks—particularly Italian banks—to become involved in Libya’s economic activities. In 1907, the Roma Bank (Banco Di Roma) opened a branch in Tripoli, and later on opened another two branches in Benghazi and Derna (Alwaddan, 2005), as well as several commercial agencies in other Libyan cities (Gabgub, 2009). The bank provided loans for activities such as agriculture, light industry, shipping and
mineral projects. This focus by Italian banks on the Libyan market was not solely for commercial reasons. In fact, the main goal of the Italian banking activities in Libya was preparation for the Italian occupation of Libya (Alwaddan, 2005; Aspaqh, 2011; Gabgub, 2009; Husien, 2007). Wright (1982, cited in Alwaddan, 2005, p. 14) stated, “Italian diplomacy spent 30 years, on and off, preparing international opinion for the eventual occupation of Turkey's remaining north African possessions”. Italian banks played a key role on the ground towards achieving this goal by collecting colonial information, purchasing lands, and financing Italian immigrants to help them settle in Libya (Alwaddan, 2005; Husien, 2007). These efforts largely succeeded: Italy occupied Libya in 1911, and the activities of banks demonstrated that they could be used to serve political ends, and be an effective tool in achieving non-commercial aims.

2.4.1.2 The period 1911–1942

Italian colonialism in Libya began in October 1911 and continued until Italy’s defeat in the World War II by the Allies in 1942. Generally, during this period, other Italian banks (namely the Bank of Napoli, the Bank of Italy and the Bank of Sicily) also opened branches in Tripoli in 1912 and 1913 (Aspaqh, 2011; Husien, 2007). In addition to that, the Savings Tripoli Fund, Saving Burka Fund and Tripoli Bank were established as local banks (Aspaqh, 2011) and later on, in 1935, the first two banks merged as the Libyan Savings Fund. The monetary system of Libya and the Libyan banking sector were integrated into the Italian system and became literally an essential part of it (Alwaddan, 2005; Husien, 2007).

The Libyan economy continued its reliance on agriculture, in addition to handcrafts and animal breeding (Joffé & McLachlan, 1982, Cited in Alwaddan, 2005, p. 11). The economic conditions experienced little change when the Italians focused on various infrastructure projects such as roads, ports and public buildings in order to support the agricultural sector—the dominant sector in the economy (Alwaddan, 2005).

2.4.1.3 The period 1942–1951

Following the defeat of Italy in World War II, Tripoli and Burka came under the control of a British military administration, while French military administration controlled the third part of the country, namely Fezzan. Italian banks closed and, as a result, the monetary and banking sector of Libya, which was closely associated with the Italian system, broke down (Alwaddan, 2005; Wright, 1982). The Libyan economy, which continued to rely on the agricultural sector, encountered a severe recession, the deficit in trade balance increased and the government reached a point where it became unable to
cover its administration costs (Alwaddan, 2005). Unstable economic conditions continued during this period and Libya become one of the poorest countries in the world (Habara, 2009); thus, international aid was vital to the country and its people.

In UNESCO’s Report of the Mission to Libya (which was prepared in 1952 and considered the economic and social development of Libya) B. Higgins (1952, p. 11) stated that “the Libyan national income per capita is only 30 to 35 dollars per year. Moreover, even the present abysmally low average standard of living is possible only because of foreign aid”. He later described the condition of the Libyan economy by stating:

> 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….If Libya can be brought to a stage of sustained growth, there is hope for every country in the world (Higgins, 1968, p. 819).

In a list prepared by a United Nations subcommittee of urgent services required, the banking system was considered one of the most urgent needs for Libya in order to change the economic conditions (Alwaddan, 2005). However, British organizations dominated financial activities for a long time. The British military administration controlled Libyan financial and monetary activities through branches of Barclays Bank established in Tripoli and Benghazi in 1943 (Gabgub, 2009). Barclays Bank, in addition to providing its banking services, took over the responsibility of issuing currency in Libya (Gabgub, 2009), and was the only bank operating in the Libyan market until the beginning of 1951 (Baej, 2013). Based on Regulation No. 1211, which was issued in 1950, the Italian banks (Bank of Rome, Bank of Napoli and Bank of Sicily) resumed their activities in Libya in 1951 (Hanibich, 2009).

What remained absent from the field of banking activities were Libyan banks. Consequently, Libyan individuals lacked banking skills, related experience and education (Kumati, 2008). Politically, on 24 December 1951, Libya gained independence as the United Kingdom of Libya. An international commission was then constituted and given some responsibilities of a central bank (Kumati, 2008).
2.4.2. The Second Stage: 1952–1962

After the independence of Libya, the weak condition of the Libyan economy continued, and Libya became more dependent on international aid and revenue received from renting Libyan land for British and American military bases (Alwaddan, 2005). The discovery of oil in 1958 changed Libya’s economy in a dramatic way. The oil sector became the dominant sector in the economy, and Libya turned from one of the poorest countries in the world to one of the richest nations in its region (Alwaddan, 2005). It can be said that Libya, after joining the Organization of Petroleum Exporting Countries (OPEC) in June 1961, started to move from its reliance on international aid to relying largely on international markets. Subsequently, it can be claimed that in some way these events have had an indirect negative impact on the Libyan economy and the banking sector.

The year 1952 witnessed the establishment in Libya of two banks; namely, the Arab Bank and the British Bank of the Middle East. Licenses were also granted to the Bank of Egypt, the Tunisian–Algerian Real Estate Bank (a French company), the Bank of America and the Morgan Guaranty Bank (Hanibich, 2009). The Libyan Currency Committee was established in February 1952 and, in 1955, law No. 30 was issued to establish the National Bank of Libya (replacing the Commission), which commenced its activities later in April 1956 (Hanibich, 2009). The National Bank of Libya encountered some obstacles resulting from its very limited powers. The law allowed it to practise normal banking activities, but did not give it the authority to supervise, control or organize the activities of the commercial banks (which were all foreign banks), or to collect banking information needed for setting banking and monetary policies (Hanibich, 2009). Thus, its role was consultative more than executive (Aspaqb, 2011). Banking legislation No 4, issued on 20 November 1958, gave more authority to the bank, but not to the extent that it could control and direct the activities of foreign banks. These banks continued focusing exclusively on achieving quick profits by financing commercial activities, and ignoring other activities such as industrial and agricultural (Hanibich, 2009). By the beginning of 1959, the National Bank of Libya started promoting the idea of “Libyanising” the banking sector but this did not receive a positive response from foreign banks (Hanibich, 2009). Based on a law issued on 19 July 1955, the National Agriculture Bank was the first Libyan specialized bank, founded to finance and support the agricultural sector and its related activities (Hanibich, 2009).
2.4.3. The Third Stage: 1963–1969

Gabgub (2009) considers this period as one of the most important phases in both the Libyan economy and Libyan banking system. Two important events distinguish this period: the commencement of national economic and social development plans, and the establishment of Libyan commercial banks.

Economically, this period witnessed a dramatic increase in Libyan revenues from US$86.698 million in 1962 to US$1205.904 million in 1969. This was obviously because of the increasing contribution of oil revenue to the Libyan economy, from just 7.6% in 1962 to 77.4% in 1969 (Alwaddan, 2005). Thus, the first national economic and social development plan developed, covering the years from 1963 to 1968 (extended later to include 1969), and focused on improving living standards and public services, such as transportation and electricity (Alwaddan, 2005). A considerable proportion of actual expenditure was directed to housing, transport, communication, agriculture and electricity, and this in turn led to a noticeable improvement in living standards and per capita income (Alwaddan, 2005). There is no doubt that there needed to be a major role for banks in such economic and social development plans. However, there was a problem in the banking sector at that time.

Alwaddan (2005) and Husien (2007) pointed out that the Libyan National Bank was unable to force foreign banks to comply with the national interest policies that the bank was designed to achieve and, as a result, Banking Law No. 4 was issued in 1963. Hanibich (2009) views this law as the major influence on the subsequent participation of Libyan banks in banking activities. Until 1963, the banking sector in Libya included only the National Bank of Libya and 10 foreign banks (Husien, 2007). The law changed the name of the National Bank of Libya to the Bank of Libya, and gave it extensive authority (e.g., the authority to inspect the operating banks and impose penalties). This was a significant step towards establishing a genuine central bank (Husien, 2007). The bank also adopted a policy of Libyanisation in the banking sector; it refused to give permission to foreign banks to open new branches, and made the Libyanisation of foreign banks a precondition for entry of new foreign banks. Alwaddan (2005) has argued that the reason behind the Libyanisation policy was to promote the local banking sector, as foreign banks were seen to be putting their own interests above Libyan national interests. Husien (2007, p. 110-111) agreed with this viewpoint, and even went further to state that the changes, brought by the new law, were designed to diminish the role of the foreign banks in the country “… since the foreign banks were designed to
provide short-term credit for commerce where risk was limited and the profit margin was relatively high”. In the opinion of Gabgub (2009), this position taken by foreign banks obstructed efforts in accomplishing Libyan economic objectives.

However, four foreign banks—namely the branches of the Arab Bank, the Bank of Napoli, the Bank of Rome and Barclays Bank—rejected the Libyanisation policy (Hanibich, 2009). Nevertheless, the Libyan Real Estate Industrial Bank was established on 7 September 1965 to finance industrial and estate investments, and the following five commercial banks were founded, with 51% of the capital of each owned by the Bank of Libya (Hanibich, 2009, p. 109):

1. The Commercial Bank: founded on 16 June 1964 (later merged with the Eastern Bank).
2. Sahara Bank: founded on 11 July 1964 (later merged with the branch of the Bank of Sicily, and with the Bank of America participating as a new shareholder).

On 1 September 1969, Muammar Al Gaddafi—along with a group of officers calling themselves the Revolutionary Command Council (RCC)—led a military coup, taking over power and proclaiming Libya a republic. They came with a different ideology in terms of the economy and politics. For instance, Libya’s economy during the period 1951 to 1969 had been mainly capitalist, where the private sector was encouraged and intervention by government limited (Husien, 2007); however, after the coup, the goals of Arab unity, socialism and freedom were emphasized and, subsequently, the Libyan economy moved toward socialism. This radical conversion affected all later aspects of Libyan life: socially, politically, economically, as well as the performance of the banking sector. Aspaqh (2011) pointed out that one of the most important events after 1969 was the requirement that banking sector objectives be consistent with the general policy of the new political system. As such, the banking sector was seen by this new system as “a primary objective of its general program of Libyanisation and nationalization” (Alwaddan, 2005, p. 46).

Before the RCC made its first decision regarding the banking industry, a Libyan private bank called Al Kafela had already been established. The bank started its activities at the
beginning of November 1969 (Hanibich, 2009). A few days later, the RCC completed the Libyanisation process for branches of foreign banks, which had earlier rejected this policy. The council issued an edict on 13 November 1969 converting (according to the second article of the decision) these branches into stock companies, with no less than 51% of their shares to be owned by the Libyan government. As a result, the names of these branches changed as follows (Sharkasi, 2011):

- Barclays Bank became Gumhouria Bank
- Bank of Rome became Umma Bank
- Arab Bank became Al-Orouba Bank
- Bank of Napoli became Al-Esteqlal Bank

Moreover, according to this decision, the majority of the board of directors of foreign banks operating in Libya had to be Libyans (Fakhri et al., 2009). This appeared to reflect the low level of trust in the new political system, and in foreign banks and their role in developing the Libyan economy.

Based on the above, this period is distinguished by implementation of both national economic and social development plans, and the Libyanisation policy. This policy was formulated and executed as a reaction to the conflict between the interests of both foreign banks and the Libyan state.


This period of 23 years witnessed fundamental political and economic changes. In a political sense the RCC “sought to transform Libya into an independent Republic, free from what was perceived to be the various foreign influences whose presence were permitted under the old monarchy” (Hajjar, 1980, p. 184). Moreover, the military bases of Britain and America in Libya were closed in March and June 1970, respectively. In the same year, the property of Jews and Italians in Libya was confiscated (Hajjar, 1980). This included the shareholdings of the Italian banks in the Umma Bank, the Al-Esteqlal Bank and the Sahara Bank (Hanibich, 2009).

In 1976, Al Gaddafi published the first chapter of his book The Green Book. In this chapter (which was followed by another two concerning economic and social issues), all existing political systems (with particular mention of capitalism and communism) were claimed to be flawed and undemocratic. Al Gaddafi presented what he called “direct democracy”, which is based on the rule of people—all people; not parties, nor other kinds of political systems. Theoretically, under this system people rule themselves
through their periodic assembly in the so-called Basic People's Congresses, where they discuss all national social, economic and political matters, and make related decisions. These decisions are implemented by executive bodies, which in turn are chosen and headed by managers appointed by the people themselves. In such a unique system, Al Gaddafi held no official or executive position; rather, he was viewed as a theoretician and leader of the revolution. On 1 March 1979 he relinquished all official titles except that of “Leader of the Revolution” (Hajjar, 1980, p. 187).

In the second chapter of The Green Book, both capitalist and socialist systems were criticized and seen as unfair for the workers and biased (instead) towards the interests of either companies or the state. In this chapter, workers in the existing economic systems are claimed to be modern kinds of slaves in as much as they are given wages in return for their efforts in the production process. The chapter raised the slogan of “partners not wage earners”, and called for a different kind of economic institution in which management was chosen by the workers and revenue divided in a fair way (between workers, raw materials and the machines used in the production process). In this chapter, profit was not considered the main goal of management, but was seen as an exploitative phenomenon.

The following year saw the implementation of The Green Book, or what is called by its author The Third Universal Theory. Habara (2009, p. 94) stated that “most legislations adjusted to become compatible with the concepts of The Green Book”. On 2 March 1977 Al Gaddafi proclaimed the beginning of the era of the people’s rule. The name of the country accordingly changed to become The Socialist People's Libyan Arab Jamahiriya, and all other types of known political systems implemented worldwide became prohibited.

This type of system had fundamental implications on the Libyan economy, which became an oriented economy. Habara (2009) argued that the dominance of the public sector on economic activities is a key feature of The Green Book. As such, the public sector started to grow and expand at the expense of the private sector. The share of the latter sector investment to GDP decreased from 9.3% (out of 18.8% fixed investment) in 1970 to 1.3% (out of 13.8%) in 1990 (Husien, 2007). The researcher attributed the sharp decrease from 1975 to the political ideology which prevailed at that time. In fact, the private sector was almost totally abolished in 1979 in favour of the public sector, and the government started controlling almost all economic activities. The absolute
dominance of the public sector over the economic sector lasted until 1989 (Alwaddin, 2005).

Regarding the national economic and social development during this period, there were four plans. Some of these plans were accompanied by changes in the banking industry.

**The plan covering the period 1969–1974**

This plan was the second, and was affected by the political change that occurred in 1969, which brought about a different view of economic activities conducted in Libya; therefore, the plan was not implemented (Gait, 2009). As a result, the two years subsequent to 1969 witnessed economic stagnation (Alwaddin, 2005).

For the banking sector, a significant event occurred during this period. In December 1970, the last step towards the dominance of Libyan ownership in the banking industry in Libya had been taken. Law No. 153 was issued to nationalize the banking sector. Law prohibited foreign ownership in this sector, and all commercial banks became totally owned by Libyans. This step appears to be consistent with the political stand against foreign ownership in Libya. The goal of freeing Libya from “what was perceived to be the various foreign influences” seems to include financial influence as well, particularly with difficulties (mentioned earlier) which the Bank of Libya had encountered with foreign banks since its establishment. The nationalization process appears to be an extension of the previous actions regarding the foreign military bases of Britain and America, and the property of Italians and Jews in Libya. In fact, all these steps were taken in the same year. Husien (2007, p. 112) observed that the underlying cause for the Nationalization Act was the “intention to end the capitalist monopolies in the banking sector”.

The implementation of Law 153 led to the emergence of two new banks. The first was the National Commercial Bank, resulting from separating the Department of Commercial Operations from the Bank of Libya and merging it with Al-Orouba Bank and Al-Esteqlal Bank. The second bank was the Wahda Bank, which was the result of merging The Commercial Bank, The African Banking Company, Nahda Arabia Bank, The Bank of North Africa and Al Kafela Bank (Hanibich, 2009).

This process reduced the number of Libyan commercial banks from ten to just five; namely, the Gumhouriya Bank, the Umma Bank, the National Commercial Bank, the Wahda Bank and the Sahara Bank. The Bank of Libya owned all the capital of the first
three banks, and most of the capital of the other two banks. The dominance of these five banks in the commercial banking sector lasted for more than two decades.

In the following year, 1971, banking law No. 63 was issued amending the previous law No. 4, which was issued in 1963. The new law changed the name of the Bank of Libya to the Central Bank of Libya, and gave it more power to supervise, direct and control the activities of commercial banks. Alwadden (2005) identified an important and dramatic change in the main goal of commercial banks: profit maximization no longer became their priority. Article (57) in the law 63/1971 stipulated that:

The Central Bank of Libya shall control and supervise commercial banks, regulate the relations between them, coordinate their activities and follow-up their work in implementation of the general policy laid down for the banking sector, in accordance with the general plans of state.

The law made the general plan of the state a guide for commercial banks. Their activities turned from focusing on profit to concentrating on financing the social and economic plans, which were put in place and implemented according to criteria other than the profit. This in fact cast doubt on the validity of the continuance of describing these banks as commercial banks. It seems that by becoming government-owned, they turned into mere financial tools for implementing the government’s plans. Thus, the commercial banks extended their activities to cover wider areas, participated in the establishment of some foreign firms and banks (such as the Euro-Arab Bank and the Franco-Arab Bank), financed more sectors, and cooperated with the Libyan Real Estate Industrial Bank to solve housing problems by providing housing and real estate loans to people with average and limited incomes (Alwadden, 2005; Husien, 2007). As Alwadden (2005, p. 55) stated that “the activities of commercial banks in Libya were extended to all fields all over the country”.

Habara (2009) mentioned that commercial banks, in order to achieve economic and social plans, opened many branches in different parts of the country to provide their services and loans to all Libyan citizens and to all government sectors. What made the opening of bank branches necessary was that by law, all wages and salaries of governmental workers and employees had to be provided through banking accounts, thus establishing a need for continuous contact between banks and citizens whatever their location.
In February 1972, banking law No. 18 was issued—and later amended in the same year by law No. 66—founding the Foreign-Libyan Arab Bank. This was established to conduct banking activities outside Libya (Husien, 2007).

**The plan covering the period 1973–1975**

About $6.6 billion was devoted to implementing this plan, with special focus on sectors such as housing, 18.4%; agriculture, 16.6%; electricity and water, 13.1%; transport and communication, 12.9%; industry, 11.8%; education, 9.8%; and public services, 9.5%. Interestingly, the sector of banking and insurance received the lowest percentage: 0.02% (Alwaddan, 2005). Despite some difficulties such as the lack of a skilled workforce and the lack of sufficient studies for development projects, the plan was regarded as being successful since it reached a 19.5% actual growth rate in non-oil production, exceeding the expected growth rate of 17.5% (Habara, 2009).

What seems to be interesting is the existence of a political motive (at that early time) behind this economic plan. Gait (2009) commented that one of the reasons for implementing this plan was to gain the support of the Libyan people for the new political regime.

**The plan covering the period 1976–1980**

The budget devoted to this transformation plan reached approximately $24.3 billion (nearly four times that previously) with the priorities of the plan changed to focus on manufacturing (the first sector, claiming 21.1% of the total investment), transport and communication (second, with 16.7%), and agriculture (third, with 14.4%) (Alwaddan, 2005). Habara (2009) considered this plan to be a success as the rate of annual economic growth from 1975 to 1980 was about 6.6%. He mentioned also that during this period, funds, loans and facilities were granted to encourage the rural population to refrain from migrating to cities. It is obvious that oil revenue was the main source for financing this plan—and others before it. By the end of this period, however, this revenue had reached its highest value since 1970, and it then started to decline after the end of 1980 (Gait, 2009). Such a turning point had negative implications in the 1980s on economic and social plans and the Libyan economy at large.

Based on the above, it can be said that Libyan commercial banks witnessed considerable changes in their structure, objectives, activities and participation in financing all sectors and citizens all over the country. It is not unreasonable to consider this to be the result of the economic situation, particularly the increase in oil production and price, and the changes made to banking laws (Alwaddan, 2005). Table 2.4 demonstrates a
considerable growth in commercial banks’ budgets—specifically their capital and reserves, deposits and credit granted:

Table 2.4: Capital and reserves, deposits, and credit granted (Libyan commercial banks during the period 1970–1980) (Million L.D)

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<tr>
<td>Total credit</td>
<td>96.2</td>
<td>240.9</td>
<td>641.9</td>
<td>739.5</td>
<td>1321.2</td>
</tr>
<tr>
<td>Capital and reserves</td>
<td>9.9</td>
<td>24.2</td>
<td>43.6</td>
<td>47.9</td>
<td>148.6</td>
</tr>
<tr>
<td>Total deposits</td>
<td>129.7</td>
<td>367.1</td>
<td>615.9</td>
<td>826.5</td>
<td>2416.2</td>
</tr>
<tr>
<td>Total assets</td>
<td>160.0</td>
<td>452.3</td>
<td>923.0</td>
<td>1,160.2</td>
<td>3436.3</td>
</tr>
</tbody>
</table>

(Source: Central Bank of Libya, 2001)

*The plan covering the period 1981–1985*

The decrease in oil prices in the 1980s due to the decline in the demand for oil negatively affected the general budget of the country and caused a Gross Domestic Debt which reached LYD 5,345.4 million by the end of this decade; this was covered by the Central Bank and commercial banks (Husien, 2007). During the period 1981–1985, Libyan exports of crude petroleum decreased from LYD 6,287.300 in the first year to 3,184.000 in the last year; this, in turn, resulted in a deficit in balance of payments, as well as a decline in GDP (Gait, 2009). Inflation also reached 11.9% in 1982 (Husien, 2007). This situation created difficulties in financing many development projects. The Central Bank, as a response to this situation, implemented a restricted policy regarding foreign exchange, which badly affected the banking sector in terms of net foreign assets and currency supplies (Husien, 2007).

However, in the 1981–1985 plan, the industry sector continued to be a focal point of the government, gaining 23.1% of the total investment of the plan, followed by the agriculture sector (18.2%), transport and communication (12.3%) and then the remaining sectors (Alwaddan, 2005). This plan was the last plan in the period 1970–1992.

As a result of this plan, in 1981 two specialized banks were established to replace the Libyan Real Estate Industrial Bank (Hanibich, 2009). The first was founded by law No. 2, issued on 27 January, and named The Saving and Investment Bank. Its main task was to encourage estate saving and investment, and to provide citizens with housing loans. The second bank was established by law No. 8, issued on 21 March, and named the Development Bank. Its task was to finance productive activities of the economic sector.

Apart from that, and since about 80% of the credit granted by commercial banks during the 1980s was allocated to the public sector (Husien, 2007), this period witnessed the
growth of non-performing loans. The abolition of the private sector left commercial banks with little choice but to finance public companies, projects, and national economic and social plans. Therefore, since these were not profitable initially and their efficiency was low, loan repayments became a problem and the growth of non-performing loans became more noticeable. In addition to that, Libyan commercial banks were directed to contribute to covering the deficit in the general budget. In 1991, LYD 5,820.3 million was the commitment by public treasury to Central Bank of Libya and Libyan commercial banks (Husien, 2007).

The period starting from 1986 also witnessed some political events that added more burdens on the difficult economic situation in Libya. For instance, in addition to US sanctions imposed on Libya in 1981 (Habara, 2009), in 1986 all Libyan assets in US banks and their branches inside and outside America were frozen by an American decision as part of a US policy fighting terrorism (Husien, 2007). In 1992, the UN Security Council also imposed sanctions on Libya because it was accused of being responsible for the destruction of Pan Am Flight 103 over Lockerbie and UTA Flight 772 over Chad and Niger.

Economically, the period after 1985 saw a sharp decrease in oil revenues on which the Libyan economy largely depended. As a result of that, and combined with the pressures resulting from the economic and political problems stated earlier, this period witnessed the beginning of economic reforms—specifically, taking steps towards opening the door to the private sector once again. One of these steps was the establishment of the National Investment Company. This company was founded in 1986 in order to achieve two objectives: promoting privatization programs and attracting foreign investors (Kumati, 2008). This company was owned by Libyan people because of their monthly compulsory contribution to the company, which represented 1.5% of their salaries. In addition, a new kind of partnership called “Tachrokyaat” was introduced by the Libyan government, by which individuals were permitted to run small businesses in a cooperative way (Alwaddan, 2005). In 1987, decision No. 447 was issued by the Libyan General Peoples Committee regarding transferring the ownership of some state factories to their employees (Sharkasi, 2011). The year 1989 brought more explicit decisions towards reopening the economy to private activities. Private ownership of small and medium industries became legal and the Libyan government started liberalizing some economic sectors (Alwaddan, 2005). Finally, law No. 9, 1992 was issued on
27

2 September detailing the privatization of public firms and the private participation of individuals and companies in the Libyan economy (Kumati, 2008).

It is worth mentioning here, however, that article No 11 in this law stipulated that the state and the commercial banks should provide these new private organizations with the necessary help and facilities including, specifically, credit facilities to conduct economic activities. It seems that commercial banks were being used once again as a tool to implement state policy and to respond to its directives, rather than giving banks a choice to behave naturally according to market considerations. Husien (2007) stated that the Comprehensive Economic Reform and Structural Adjustment Programs were designed to be implemented in two phases, and the role of the banking sector in these two phases was essential. The first stage commenced in the early 1990s and was aimed at enhancing macro-economic management and increasing dependency on non-oil sectors with the aim of improving growth. Accomplishing these goals entailed taking various steps, including consolidating the banking system. The second phase started in the late 1990s and aimed to reduce the size of the public sector in favour of the private sector and move towards a market-based economy. This direction created a need for taking some structural, economic and legal steps, including privatization of public banks.

Based on the above, it seems that since the 1970s, implementation of socialism via The Green Book resulted in an economy heavily controlled and managed by the public sector. This sector was characterized by weakness in efficiency and inability in investing the huge amount of capital allocated for it. This matter led to the failure of the public sector in supporting its continuation, and caused it to constitute a continuous and increasing burden on the public budget, and increase the budget deficit. This economically difficult situation was deepened by pressures of some external factors, such as the dramatic drop in oil export and its price, and international sanctions. The government realized that abandoning the private sector was not the right decision, at least from an economic point of view.

2.4.5. The Fifth Stage: 1993–2004

The change in government attitude and policy to the participation of the private sector in the Libyan economy created a need to first reform the banking system. The government came to that point when it realized that privatization programs and opening the door for the private sector to participate in economic activities requires, to a certain degree, liberalizing the banking sector from state control. Alwaddan (2005) argued that the economic reform policy implemented by the Libyan government, starting from the
mid-1980s and focusing mainly on the private sector, needed a strong and effective banking sector. Kumati (2008) argued that such a strong banking sector could underpin economic reforms and private investment initiatives. As a result, banking law No. 1 was promulgated on 21 March 1993. Husien (2007) deemed this law to be the first step needed to be taken to facilitate the process of reforming the banking sector. As such, it can be said that reforming the banking sector was not the goal per se; rather, the main objective was to support the reform policy of the Libyan economy.

Considering the articles of this law, some points are worth mentioning. Firstly, according to Article 51, commercial banks were still required to contribute in financing development plans; that is, the continuation of directing the commercial banks’ activities towards serving public programs.

In 2009, Gabgub commented that:

...the disparity in the volume of loans granted by the Libyan banking sector is linked to the policy of the Libyan state in respect to socio-economic development. Thus, it can be said that the Libyan government has given more attention to support the activities related to socio-economic and infrastructure projects (Gabgub, 2009, p. 106).

Earlier, in 2007, Husien stated that “since that year (1993) commercial and specialized banks have offered their services and conducted their work in observance of this Law and in accordance with the general policy of the state” (Husien, 2007 , p. 116).

The second point to be noted is that, after more than two decades, the importance of foreign participation in the banking industry has been recognized once again. The law stipulated that foreign banks be allowed to conduct banking activities in Libya through their branches, agencies or representative offices. As a result, until 31 December 2004, there were eight representative offices of foreign banks in Libya (Hanibich, 2009).

Thirdly, the law also permitted the establishment of commercial banks in the form of stock firms, paving the way for the growth of private participation in the banking sector. As a result, the following private banks were established:

- Commercial and Development Bank: established in November 1995 in Benghazi, and commencing its business in the following year.
- The regional banks, known as “Al-Massaraf Al-Ahliya”.
These banks were established for the sake of developing the different regions in Libya where they operated. They provided services within a limited geographical location, so they were small in terms of their size and their contribution to the economy. According to the second book issued by the Central Bank of Libya, which included Banking and Monetary Statistics from 1966–2000, the goal of establishing these banks was to “spread the banking services, and provide the necessary credit to the small productive projects in those regions” (Central Bank of Libya, 2001, p. 7). By the end of 2000, there were 44 regional banks established in different years: one bank in 1996, 30 banks in 1997, 11 banks in 1998, one bank in 1999 and one bank in 2000 (Central Bank of Libya, 2001).

It is obvious that the existence of private banks was a natural result of allowing economic activities to be conducted by private companies. As such, issuance of the law No. 1 paved the way for the government to continue its move towards turning parts of its public sector into a private sector, since the privatization process was a suggested solution for problems created by the public sector. As a result, in 1994, 145 manufactories had been transferred from the public sector to the private sector, and in 1995 the ownership of another 295 manufactories was transferred to their employees (Sharkasi, 2011). Furthermore, the Libyan government issued its decision No. 313 in 2003 transferring the ownership of 260 firms to the private sector. In addition, the government provided some incentives for private firms, including the exemption of taxes for five years and allowing the import of raw materials and equipment without paying tax and customs during the same period (Sharkasi, 2011). However, Husien (2007, p. 101) noted that although there was a general framework for the process of the privatisation founded in 2000, “there was no privatisation law, and the framework was neither finely-tuned nor realistic” (Husien, 2007, p. 101).

In November 2003, Al Gaddafi, Leader of the Revolution, admitted the failure of the public sector (which he had stridently defended for more than two decades) and called for the privatisation of all economic sectors, including the banking sector. Just two months later, in January 2004, the General Board of Privatisation was established to help plan, organise and implement the privatisation programs of public enterprises (Kumati, 2008). The process of privatisation then began to expand, and the government started to sell around 360 public companies (Husien, 2007).
Returning to the banking sector, in 2002 the General People's Committee (the Libyan government) issued its decision No. 12 to establish another specialized bank—the Rural Bank—joining the other three specialized banks. The main aim of this bank was to “motivate people with limited income, and unemployed individuals who are looking for a job to contribute in the productive process and to enhance their living standards” (Central Bank of Libya, 2006a).

In terms of economic plans, another initiative was put in place for the period 1994–96. It aimed at finishing the uncompleted projects of the previous plan, as well as implementing new projects in sectors such as health, energy, public utilities, and the industrial sector (Alwaddan, 2005). This plan was affected by the decrease in oil prices, and as such, the actual expenditure did not exceed 60% of what had been estimated. The year 1998 also witnessed a significant drop in oil revenue owing to the dramatic decrease in both oil prices and oil exports, which were partly affected by US and UN sanctions (Alwaddan, 2005).

During the 90s, and some years after, Libya witnessed the impact of international sanctions imposed by the UN on some economic sectors in Libya. Kumati (2008) refers to a report submitted to the UN secretary in September 1996, and a foreign ministry document in April 2003. The report demonstrated that the development programs and plans of health, social welfare and infrastructure were negatively affected by the economic sanctions imposed; the document also reported that, as a result of these sanctions, Libya's industries had lost more than US$55 billion. Gait (2009) considers the international sanctions to be one of the causes of the economic stagnation which the Libyan economy encountered at that time.

By the late 1990s, Libya started changing its foreign policies and taking some steps to satisfy the Western world (Habara, 2009). These steps included stopping support for terrorist activities, handing over (on April 5, 1999) the two Libyans accused of blowing up Pan Am Flight 103 over Lockerbie, and implementing some economic ideas of the capitalism market. This subsequently resulted in freezing the economic sanctions in April 5, 1999 (and lifting them in 2003). Alwaddan (2005) pointed out that from 1999 the Libyan government started to make efforts to attract foreign investors to the Libyan market. In fact, these efforts started officially before that—specifically, with the issuance of law No. 5.1997 which encouraged foreign capital investment (this was amended later in 2003 by law No. 7). Other economic laws and regulations aimed at improving Libya’s economic performance were also issued. For instance, some laws
such as law No. 9, 2000 and law No. 21, 2001 were issued by the General Peoples’ Congress (the Libyan Parliament), and some other economic regulations were issued by the General Peoples’ Committee (the Libyan government) such as decisions No. 178, 2001; No. 2, 2002; and No. 21, 2002 (Sharkasi, 2011).

Another development plan was initiated during the period 2001–2005. Gait (2009) asserts that this plan (which focused on power, water and hydrocarbons) aimed to reform the Libyan economy, especially after the freezing of international sanctions. He alludes to the increase of both GDP and the contribution percentage of non-oil sectors in this plan, and he attributed this increase to the process of liberalizing the Libyan economy—which involved some measures such as privatization of some public firms and opening the door for foreign participation in economic activities. In supporting the productive activities, the board of the Central Bank issued its decision No. 16 of 2004 to reduce the interest rate on industrial and agricultural loans from 5% to 3% (Hanibich, 2009).

Regarding the banking sector, by the end of 2004 the number of commercial banks in Libya totalled 57 (Hanibich, 2009). However, the banking sector continued to be dominated, to a large degree, by public ownership.

One last point is worth mentioning in concluding the discussion on this development stage. Although the period from 1993 to 2004 witnessed important changes in the banking industry in Libya—especially in relation to the privatisation issue (such as the emergence of private banks and the increased role of the private sector in the Libyan economy and, therefore, the emergence of a new market for credit activity of the commercial banks)—the attitude of Libyan commercial banks remained generally unchanged. According to Husien (2007), commercial banks continued their reserved policy in granting loans during the period 1993–2004. The ratio of credit to total deposits dropped from 86.2% in 1993 to 60% in 2004, and although there was a state policy for encouraging the private sector, the commercial banks continued to direct most of their credit (about 80%) to the public sector. Apart from the point of whether or not the Central Bank was responsible in any way for such a trend—especially as it was the owner of the major banks in the banking sector—Husien (2007) also mentions the Central Bank’s ownership of public banks as being a weakness in the Libyan banking system. The potential conflict of interest between the roles of the Central Bank, as the owner (of the dominant banks) and the regulator (of the banking sector), weakens the ability of the bank to efficiently play the two roles concurrently.
2.4.6. The Sixth Stage: 2005–2010

This period is characterized by the issuance of banking law No. 1 on 12 January 2005. It includes 121 articles reorganizing the Libyan banking sector. In this law, issues of credit granting and ownership of banks were addressed. Article No. 79 laid the responsibility of formulating and implementing rules for granting of credit on the board of directors of each bank. However, this was to be done within the framework of the credit policy, laid down by the Central Bank which, in turn, according to article No. 5, should be designed according to the state’s general policy. It seems that credit activity was still controlled initially by the general policies, which had some priorities coming before the interests of the banks.

Regarding the issue of bank ownership, article No. 67 stipulated that commercial banks should be in the form of a Libyan joint-stock company, and shares in these banks could be owned by natural persons and legal entities—public and private alike. This article also added a new chapter to the story of participation by foreign investors in the Libyan banking industry. In addition to the opportunity of opening foreign branches and representative offices, this article gave the Central Bank the authority to grant permission to foreign banks to hold shares in domestic banks, and even establish banks with foreign capital.

Hanibich (2009) considered that the period starting from 2005 was the genuine start of reforming monetary and banking policies in Libya. This period witnessed important events in the banking industry and financial sector at large.

According to the annual report of the Central Bank of Libya, No. 49, the year 2005 witnessed a continuation in privatizing some productive and service units, and issuance of some laws and resolutions to encourage the participation of local and foreign investors in economic activities. The real total domestic product recorded 5.8% as its growth rate to reach LYD17.9 billion, compared to LYD17.0 billion in 2004.

In 2005, in addition to issuance of law No. 1, 2005, the Central Bank of Libya issued several resolutions. Gabgub (2009) cites the following specifically:

- Resolution No. 15 to reduce the interest rate from 2.5% to 1.75% on the deposits of commercial banks with the Central Bank. This was to encourage the commercial banks to search for better investment opportunities and, thus, enhance economic growth.

- Resolution No. 36 to liberalize the interest rates in time deposits in commercial banks. This was to create competition between commercial banks in attracting deposits.
Resolution No. 39 on standardization of the interest rate on credits granted by the commercial banks.

In addition to those resolutions there were others, including a number of resolutions granting permission for some foreign banks to open representative offices (four permissions); resolution (No. 22) giving the public the opportunity to buy shares in the Sahara Bank; and resolution (No. 46) granting permission for establishing the Alwaha Bank (Libyan commercial bank with foreign capital) (Central Bank of Libya, 2005). As such, the number of commercial banks—including the existing 48 regional banks (Sharkasi, 2011)—reached 58 banks by the end of the year. In regard to banking branches and agencies, these increased by 10 branches and agencies from the previous year, and their number reached 444 (Central Bank of Libya, 2005). Permissions were also given to foreign banks in this year to open some representative offices.

Another important issue affecting the Libyan banking sector came from outside this sector. Saif Al-Islam, the son of Al Gaddafi, announced at the World Economic Forum regional meeting in Jordan (May 2005) that the Big-Five commercial banks would soon be privatised, and foreign banks given the chance to hold up to 50% of the shares of these banks, and to participate in their management (Kumati, 2008).

At the governmental level, the Libyan government issued two decisions, No. 8 and No. 737, regarding organizing the opening and registration of branches and representatives’ offices for foreign companies in Libya (Sharkasi, 2011). This step seems to be consistent with the case of the banking sector regarding the branches and representative offices for foreign banks. In addition, the General Peoples’ Committee (the Libyan government) issued its resolution No. 20 related to lending for housing and real estate, and practising economic activities including production, service and craft. Millions were transferred to the specialized banks—The Saving and Investment Bank, The Development Bank, and Agriculture Bank—to be used in financing the economic activities mentioned above. Implementing this resolution led to an increase in money supply which, in turn, resulted in a positive rate of inflation (2.0% for the first time since 2000), and reduced the amount of the credit granted by the commercial banks (excluding the regional banks) due to the credit granted by the specialized banks with a lower interest rate (Central Bank of Libya, 2005).

Economically, the country continued its complete reliance on oil exports. Crude oil continued to be the dominant export, with a percentage of 97.3%. In 2006, according to the 50th Annual Report of the Central Bank of Libya, the government continued its
policy of privatising some productive and service units, and there were various legislations encouraging public sector and foreign investment aimed at increasing the rate of economic growth that year. However, the increase in money supply and rate of inflation continued, due to credit granted by the specialized banks, and an increase in the rate of public spending (Central Bank of Libya, 2006b).

In this year also, the number of regional banks dropped. Twenty-one regional banks merged to form the National Banking Corporation, which in turn became a commercial bank called North Africa Bank in February 2006, and the Central Bank set a time limit for the other 37 regional banks to correct their situation according to the provisions of law No. 1, 2005 (Central Bank of Libya, 2006b). Most regional banks during their short existence in the banking sector encountered financial difficulties, such as the increased size of their non-performing loans, inability to meet their obligations, and inability of some of these banks to fulfil the minimum subscribed capital required by law No. 1, 2005. This was in addition to the low quality of their services. As a result, some of them, as mentioned above, merged in 2006; some others merged in 2007; and the remainder converted to four commercial banks: United Bank for Commerce and Investment, Mediterranean Bank, Arab Commercial Bank, and Assaray Trade & Investment Bank. Additionally, the Central Bank sold its remaining shares in Sahara Bank (58%) to the Economic and the Social Development Fund, one of the public financial institutions operating in the Libyan financial sector.

The Central Bank of Libya also issued its resolution No. 56, 2006, accepting and certifying the results of a study (a) conducted to review the strategy of foreign banks’ entry into the Libyan banking market and (b) designed to restructure the financial and banking sector. The implementation of this plan started by the beginning of the second half of 2006, but the first practical step occurred in 2007 (Hanibich, 2009). Apart from that, nine permissions were issued to open representative offices of foreign banks.

In regard to the Libyan economy, crude oil maintained its importance by constituting 96% of total exports in 2006. Furthermore, this year also witnessed the establishment of the Libyan Stock Market. The General Peoples’ Committee (the Libyan government) issued its resolution No. 134 on 3 June 2006 establishing this market, which started its operations in the same year. By the end of the year four banks were listed on the market (Central Bank of Libya, 2006b) along with three other companies.

In 2007, money supply and the rate of inflation continued to increase, due to an increase in public spending and credit granted, especially by the specialized banks. In the Libyan
Stock Market, there were just six listed firms, four of which were banks. In terms of export structure, as usual, crude oil was the main product exported during 2007. Its percentage in total exports increased to 96.6%.

However, some important banking events occurred in this year. On 17 July 2007 the Central Bank announced that 19% of Sahara Bank’s shares (owned by the Economic and the Social Development Fund) were sold to BNP Paribas Bank. This transaction was the first of its kind in Libya (Hanibich, 2009). In line with this step, the Central Bank issued a resolution to sell its shares in Wahda Bank. Fifty-four per cent (out of 87% owned by the Central Bank) of Wahda Bank’s shares were sold to the Economic and the Social Development Fund. Another resolution, No. 50, 2007, was taken to merge two other big banks: Gumhouria Bank and Umma Bank. Regarding the representative offices of foreign banks, other three permissions were issued, and by the end of 2007 there were 19 offices (Central Bank of Libya, 2007).

The level of money supply and rate of inflation increased in the year 2008 for the same reasons (mentioned above) as in the previous years. In terms of the banking industry, there were some important changes in the sector. On 13 February 2008, 19% of the shares in Wahda Bank were sold to Arab Bank, the same bank that had practised its banking activities in Libya from 1952 until 1970 when the nationalization process started. The Arab Bank (similar to BNP Paribas Bank), as part of the selling transaction, obtained the right to control the executive management, to be the majority on the directors’ board, and to increase its share in the bank in the ensuing years.

In the same year, 2008, Gumhouria Bank merged with Umma Bank under the name Gumhouria Bank, which became Libyan’s largest commercial bank. This was the first merger between banks in Libya since 1970 (Hanibich, 2009). Another bank called First Gulf Libyan Bank was founded by the resolution of the Central Bank No. 23, 2008 (Aspaqh, 2011). Fifty per cent of the capital of this bank was owned by First Gulf Bank (FGB), one of the UAE’s banks, while the other half was owned by Libya, represented by the Economic & Alenmaa for Financial Investment Holding Company (AFIHC) (a public company). This was the fifteenth (and the last) commercial bank operating in Libya at the end of 2010 (the end of the period covered by the current study).

In relation to its ownership of the remaining major banks, the Central Bank decided to sell some of its shares in the capital of Gumhouria Bank and National Commercial Bank. This appears to be in response to criticism that as both the owner and legislator of the major banks, its officers were playing a contradictory role. Regarding the
representative offices of foreign banks, other three permissions were issued, and by the end of 2008 there were 22 offices (Central Bank of Libya, 2008).

Considering the credit issues, the Central Bank took a number of steps to resolve several related problems (Central Bank of Libya, 2008). For instance, in an attempt to resolve the problem of non-performing loans, the bank gave permission for establishing a financial services company specialized in debt collection. Additionally, permission was also given for establishing an office called the “credit information office” to provide credit-related information to all banks about prospective customers seeking loans in order to avoid a probability of granting loans to unreliable or untrustworthy customers. In 2009 this permission led to the establishment of The Libyan Centre of Credit Information. Furthermore, the Central Bank started discussing the idea of subjecting the credits granted by specialized banks to the credit conditions followed by the commercial banks. In respect to the Libyan Stock Market, only financial firms (three insurance companies and four banks) were listed. With such a limited number of companies, it is not surprising that the trading index in the market continued to be weak.

The level of money supply increased in the year 2009, but at a lower rate. This, combined with a reduction in commodity prices internationally, led to a drop in the inflation rate from 10.4% to 2.4%. The general budget relied heavily on oil, the product that contributed to 90% of the general revenue of the state. In this year (2009), the value of oil exports decreased due to a drop in oil price in the global market, which subsequently led to a reduction in the surplus of trade balance by LYD30.2 billion.

In terms of the banking industry in Libya, the Central Bank issued many resolutions in this year in order to increase competition in the banking sector (Central Bank of Libya, 2009). One of those resolutions was to determine the conditions and procedures for foreign participation in ownership of commercial banks, which should not exceed 49%. Furthermore, the Central Bank decided to increase the capital of Gumhouria Bank to LYD one billion (in February), and the capital of National Commercial Bank to LYD500 million (in May). Moreover, the Central Bank issued another seven licences for representative offices of foreign banks, thereby increasing their number to 29 offices. In respect to the Libyan stock market, five banks (in addition to another five firms) were listed in this year.

In 2010, the contribution of oil to the total general revenue of the Libyan state reached 90.6%. The noticeable increase in oil price in the global market led to an increase in oil exports value; in turn, the trade balance surplus increased by LYD11 billion compared
to that of 2009. In terms of the continuous change in the banking sector, the year 2010 witnessed the entry of another two strategic partners to Libyan commercial banks (Central Bank of Libya, 2010a). The first was BES (a Portuguese financial group), which became a shareholder of Aman Bank with a 40% stake. The other strategic partner was the Ahli United Bank Group (the Kingdom of Bahrain), which owns 40% of United Bank for Commerce and Investment. Additionally, the number of representative offices of foreign banks increased to 32 offices. Moreover, and in order to improve the performance of the banking sector, the Central Bank of Libya issued a governance guide to be adhered to by all Libyan banks (Central Bank of Libya, 2010b).

By the end of the year 2010, in addition to the four specialized banks, the ownership structure of Libya’s commercial banks operating inside Libya was as shown in Table 2.5.

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<thead>
<tr>
<th>Name of the bank</th>
<th>Ownership</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Public %</td>
<td>Private %</td>
</tr>
<tr>
<td>Gumhouriya Bank</td>
<td>83</td>
<td>17</td>
</tr>
<tr>
<td>Sahara bank</td>
<td>59</td>
<td>22</td>
</tr>
<tr>
<td>National Commercial Bank</td>
<td>85</td>
<td>15</td>
</tr>
<tr>
<td>Wahda Bank</td>
<td>54</td>
<td>27</td>
</tr>
<tr>
<td>North Africa Bank</td>
<td>82</td>
<td>18</td>
</tr>
<tr>
<td>Commercial and Development bank</td>
<td>17</td>
<td>83</td>
</tr>
<tr>
<td>Alwaha Bank</td>
<td>90</td>
<td>10</td>
</tr>
<tr>
<td>Aman Bank for Commerce and Investment</td>
<td>60</td>
<td>40</td>
</tr>
<tr>
<td>United Bank for Commerce and Investment</td>
<td>3</td>
<td>57</td>
</tr>
<tr>
<td>Arab Commercial Bank</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Assaray Trade &amp; Investment Bank</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Al-Ijmaa Alarabi Bank</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Mediterranean Bank</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Al Wafa bank</td>
<td>0.7</td>
<td>99.3</td>
</tr>
<tr>
<td>First Gulf Libyan Bank</td>
<td>50</td>
<td></td>
</tr>
</tbody>
</table>

Source: Central Bank of Libya (CBL), Annual Report, Department of Supervision on Banks and Cash (2010–2011)

The main development indicators of Libyan commercial banks over the period 2005–2010 are summarized in Table 2.6.

This demonstrates a considerable growth in the budgets of commercial banks, specifically their capital and reserves, deposits and credit granted. On the other hand, the table also shows problems of non-performing loans and the increasing rate of liquid assets.
Table 2.6 Commercial banks’ development and performance indicators (2005–2010) (Million L.D and rates)

<table>
<thead>
<tr>
<th>Item/Years</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital and reserves</td>
<td>1047.1</td>
<td>1176.3</td>
<td>1479.8</td>
<td>2144.4</td>
<td>3657.1</td>
<td>4517.8</td>
</tr>
<tr>
<td>Total deposits</td>
<td>13782.5</td>
<td>17359.4</td>
<td>24805.5</td>
<td>41530.5</td>
<td>48672.3</td>
<td>55313</td>
</tr>
<tr>
<td>Total assets</td>
<td>18524.9</td>
<td>23011.7</td>
<td>31185.2</td>
<td>50230</td>
<td>58767.8</td>
<td>65352.4</td>
</tr>
<tr>
<td>Total credit</td>
<td>6166.6</td>
<td>7067.2</td>
<td>8191.3</td>
<td>10544.6</td>
<td>11812.7</td>
<td>13044.6</td>
</tr>
<tr>
<td>Loans/Assets</td>
<td>33.2</td>
<td>30.7</td>
<td>26.3</td>
<td>21</td>
<td>20.1</td>
<td>20.0</td>
</tr>
<tr>
<td>Growth rate of Loans (%)</td>
<td>-5.3</td>
<td>14.6</td>
<td>15.9</td>
<td>28.7</td>
<td>12</td>
<td>10.4</td>
</tr>
<tr>
<td>Non-performing loans/loans (%)</td>
<td>31.7</td>
<td>26.1</td>
<td>26.2</td>
<td>22.5</td>
<td>17</td>
<td>17.2</td>
</tr>
<tr>
<td>Liquid assets/assets (%)</td>
<td>59.8</td>
<td>60.2</td>
<td>68</td>
<td>73.4</td>
<td>74.1</td>
<td>74.3</td>
</tr>
<tr>
<td>Net profit/average assets</td>
<td>0.5</td>
<td>0.5</td>
<td>.05</td>
<td>0.6</td>
<td>1.3</td>
<td>1.0</td>
</tr>
</tbody>
</table>

Sources: Central Bank of Libya (CBL), Financial and Monetary Statistics (2000–2010)

2.4.7. Uprising of the 17th of February 2011

The February 2011 has witnessed the uprising of Libyans, as a part of the Arab people uprising in some Arab countries. It started by calling for justice, democracy and respecting human rights, and led to one goal, that is, the end of Gaddafi's regime. The fighting continued for months between the military forces of Gaddafi and the anti-Gaddafi people with support of the international community, represented in the Security Council. Gaddafi was killed on 20 October 2011, and the country liberation was announced by the national transitional council three days later, on the 23rd of that month.

As seen in this chapter, the previous regime is argued to be the main cause of the fundamental changes in the Libyan banking sector. As such, it seems possible that the collapse of this regime creates a very high chance that the different issues, including CSED, will change accordingly. What confirmed this prediction is that in the following year, the banking law 1, 2005 was amended by Law No. 1 of 2012 and later by Law No. 46 of 2012, which include details on Islamic banking.

2.5. Concluding remarks

The banking industry in Libya has encountered significant events and changes during its period of existence. This, in turn, influenced the banking sector—its goals, activities and its impact on the national economy and the Libyan population.

Summarizing what has been discussed in this chapter, there are some important points to be emphasised. Firstly, foreign banks demonstrated in the period prior to the second
half of the seventies that banks can go beyond their legitimate economic and financial roles, to operate in unethical and even immoral ways that serve commercial or international political interests at the expense of the interests of the nation in which they conduct their activities. Italian banks were a good example of this when they participated in plans for the colonisation of Libya. Moreover, the dominance of foreign banks in the Libyan market and their monopoly of banking activities left Libyan people lacking basic banking skills, experience and the related experience and education in respect to the banking system—a matter which was suggested by a United Nations subcommittee as a key factor in resolving Libya’s economic problems. Furthermore, foreign banks obstructed the performance of the Central Bank of Libya (in the first years of its establishment), and undermined its expected role in the financial and banking sector as a regulator, controller and head of the banking industry. This conflict of interest between the Libyan state and the foreign banks resulted in these banks facing retribution as soon as significant economic and political conditions changed in Libya. The result was an extreme reaction in the form of nationalization and liberalisation policies which prohibited any kind of foreign participation or ownership in this sector for more than three decades. However, it seems that opening the door once again to foreign banks, after such long absence, did not achieve the expected improvement, at least during the short period since their return.

Secondly, the fundamental reason behind establishing Libyan banks was to implement national economic and social development plans. This role was underpinned by the political change that occurred in the late sixties, which emphasised such goals. It seems that since then, this inheritance has continued to cast its shadow over the minds of banking policy makers. Thirdly, the political, economic and social ideology of The Green Book, which has affected Libyan life since the seventies, had profound implications on the performance of Libyan banks for a long time. Considering commercial activities and profit as exploitation phenomena questioned the accuracy of the term commercial banks. The dominance of the public sector for decades in all economic sectors in the Libyan economy and its subsequent failure badly affected the banking sector in terms of nonperforming loans, inefficiency of banking performance, and contribution in covering the deficit in the general budget. Although the trend of applying the ideas of the economy market became more obvious, its real effectiveness, especially on the banking industry, is still uncertain.
Fourthly, and equally important, is that the exploration, production and export of oil considerably and positively changed the economic situation of Libya. By the same token, the decrease in the global demand for oil—and the decrease in oil prices as a result—had negative implications on the level of economic development, and on development and social plans. In both cases, the Libyan banking sector was affected. In the first case, banks had to finance plans for projects that were mainly public ones; in the second case it had to assume the burden of covering some of the general budget deficit. In the period 2005–2010, the heavy dependency of the economy on oil revenue continued, and it is reasonable to assume that economic sectors in Libya (including the banking sector) were affected by the fluctuation in oil prices and demand. The fifth point is that the isolation of Libya as a result of the sanctions imposed by the international community contributed to creating a knowledge gap in regard to the most recent developments in the banking industry. Catching up with those changes may take some time. Sixth, the pressure from the international community due to the political and economic sanctions was a major motivation for re-evaluating many Libyan policies, including those of economic, financial and banking importance. Establishing the Libyan Stock Market, turning towards a market economy, and opening the Libyan market to foreign investment can be deemed, even partly, a result of international pressures.

To sum up, the culture of the Libyan banking system is a result of mixed circumstances, inside and outside the banking sector alike. Understanding the attitudes of Libyan banks to an issue entails having a good knowledge of the history of these banks and the environment in which they operate.
Chapter 3. Empirical Literature Review

3.1 Introduction

Attention by researchers to the social responsibilities of corporations has grown considerably since the 1970s (Fifka, 2013; Sobhani, Amran, & Zainuddin, 2009; Ullmann, 1985), with a rich body of accounting studies emanating from both developed countries and less developed ones (Ali & Rizwan, 2013; Ferreira, 2014; Odia, 2014). Corporate social and environmental disclosure (CSED) is a topic of interest in both academia and the business press (Akbas & Canikli, 2014; Crifo, Forget, & Teyssier, 2015; Frankel & McNichols, 1995).

The importance of disclosing social and environmental information that relates to a firm’s activities has been highlighted by scholars in the accounting field, realised by the public, acknowledged by companies in many countries (especially developed ones), and evidenced by numerous research studies. Sobhani et al. (2009) indicated that the majority of CSED researchers have focused on two points as a core of interest and investigation: firstly, discovering the nature of disclosure and its extent; and secondly, determining the relationship between disclosure and other related factors.

This study covers these two points and goes further to investigate the possible use of social and environmental information provided by firms in lending decisions taken by banks; that is, the role of banks as producers and users of such information. The purpose of this chapter is to review the literature pertaining to these two activities.

3.1.1 CSED practices

Many studies throughout the world have confirmed the existence of social and environmental disclosure in statements released by entities in different sectors. The following are some examples of those studies.

Clarke and Gibson (1999) examined 95 annual reports of the top 100 UK companies for the period from April 1996 to March 1997 for disclosure of corporate community involvement and environmental issues. The results revealed that most companies voluntarily disclosed information about the impact of their activities on the environment and society. Moreover, all banks included in the study’s sample frequently disclosed
notable amounts of information pertaining to their involvement in the community, while environmental information was released by half of those banks.

In their study of 15 Portuguese banks, Branco and Rodrigues (2006) examined social disclosures made in 2003 and mid-2004. They concluded that the importance of disclosing social responsibility has grown throughout the world, and Portuguese banks were no exception. Indeed, they produced social information pertaining to their activities. Secchi (2006) sought to determine which types of organizations produced social reporting. Using a sample of Italian private firms, publicly owned enterprises, cooperatives and non-profit organizations, the results revealed that all of these entities published social information about their activities, and most of this information was disclosed by private banks.

In the Indian context, Hossain and Reaz (2007) investigated the existence and extent of voluntary disclosure (relating to many topics such as corporate strategy, financial performance, corporate social disclosure, accounting policy review, etc.) in annual reports of 38 banks (18 public and 20 private banks) in the period 2002–03. Their findings indicate that a significant volume of information, including social aspects, was disclosed voluntarily by Indian banks at the level described by the researchers as an acceptable level.

Amran and Devi (2008) investigated the influence of government and foreign affiliates on corporate social disclosure made by 133 Malaysian companies (in different sectors including the banking sector) in their annual reports for the period 2002–03. Content analysis was used in measuring CSED. Their findings showed that companies operating in the plantation sector tendered the largest number of disclosures, followed by banks. Amran and Devi (2008) concluded that the result regarding banks could reflect strict regulations and control by the central bank in Malaysia.

An earlier study by Andrew et al. (1989), which also used Malaysian companies, included Singaporean companies and examined the quality of social disclosure made in the year 1983. They found that regardless of the quality of social disclosure, the highest proportion of companies with this disclosure was achieved by banks. In the same vein—even though some shortcoming have been found in corporate social reporting published in 2006–07 by 246 Bangladeshi firms (acting in 15 different industries)—Azim et al. (2009) found that banks included in the sample were the main producers of social reporting. In the same country (Bangladesh) and excluding other sectors, the annual reports of the period 2007–08 published by all private commercial banks were analysed.
by Khan (2010) to determine social and environmental disclosure. It was found that CSED is, generally, moderate and sound in its variety.

Environmental disclosure

The increased importance of environmental information released by entities as a major part of social disclosure (if, indeed, not the most important one) can be recognised in the literature over the past few decades. Early studies show that environmental information is an important part of voluntary disclosures made by firms and banks. Chowdhury and Hamid (2013, p. 128) believe that “Environmental issues are top most discussed topic in the present world”. In his review of social and environmental accountability research, Parker (2011) concludes that generally, environment was the most discussed topic in social and environmental research over the years from 1988 to 2008, and the academic interest focused more on environmental accountability compared to social accountability, especially during the period 1998–2004. Thompson and Cowton (2004) believe that environmental information is the most significant component of social accounting.

The study by Tsang (2004) indicated that the amount of environmental information released by the top 100 Australian firms greatly exceeded that of social information provided by the same firms. This perceived importance of environmental information was also found in some developing countries. In Bangladesh, Sobhani et al. (2009) conducted their study on 100 companies in 19 industry groups (including banks). The researchers revisited the state of CSED by analysing annual reports of the year 2006–07 and comparing them to those of 1996–97. The interesting observation was that banks were found to be the most disclosing firms—even more so than the level of reporting by industrial firms—and achieved the highest level of CSED in all aspects including, in a striking result that went against general expectations, environmental topics as well. The authors attributed this finding to the strong control implemented by the central banks on Bangladeshi banks which, in turn, resulted in increased awareness and a more developed corporate culture created in the banking sector.

In a comparative study, Baskin (2006) analysed the reports of 127 leading emerging-market companies (including banks) from 21 emerging markets in four continents: Asia, Africa, Latin America, and Central and Eastern Europe. Overall, 1700 reports of companies in developed countries were investigated to examine their coverage of social and environmental issues. It was found, contrary to common expectations, that few differences were noted between nearly half of those 127 companies and their
counterparts in developed countries in publishing information (52%–53.5%, 59% respectively) pertaining to environmental matters (environmental policies and environmental management systems).

**Increase in CSED practices**

The studies presented in the previous section demonstrate that CSED practices are prevalent globally, regardless of the differences in political, economic or social systems of different nations. This prevalence is accompanied by an increase in the magnitude of social and environmental information disclosed by firms across time. For instance, Secchi (2006) indicated that social disclosure by Italian private firms, publicly owned enterprises, cooperatives and non-profit organizations increased during the period investigated (1999–2001).

Tsang (1998) investigated 330 annual reports of 33 Singaporean firms working in three different industries (banking, food and beverages, and hotel) during the period 1986–1995, searching for social information that might be disclosed. He found that social disclosure (made by 17 companies) increased steadily from 1986 to 1993, but had remained stable since then. In Tsang’s (1998) study, banks scored the highest percentage in disclosing social information compared to the other sample companies. The author highlights that there were three main causes of the increased awareness by firms of their social responsibilities and social disclosure: government intervention, public awareness and the establishment of a Culture Ministry.

The first cause was the intervention of government in several ways, such as providing legislation on environmental issues, launching regular campaigns to raise awareness about the economical use of water and energy, and cooperating with other public organizations to improve the abilities of company workers (and other staff) by adopting training programs in order to maximize their productivity. Secondly, with the increased progress of the industry sector, public awareness of environmental pollution and other related issues increased as well. This cause was confirmed later by Cormier and Magnan (1999), who suggested that the interest of the public in environmental information released by firms, and the subsequent pressure to provide such disclosure, may increase with time and force firms to develop and enhance ways of disclosing such information. Thirdly, the establishment of a Culture Ministry created the need for corporate financial support. A potential reason—from the author’s point of view—for the stable level of disclosure since 1993, is that voluntary disclosure does not offer a motivation for companies to increase their social disclosure once it reaches a certain level. By such
argument, the author attempted to establish the impact of external events and efforts on disclosures made by firms. He stated that the increased disclosure “was in line with the socio-economic issues present at that time” (Tsang, 1998, p. 629).

On the same continent but in another country, Bangladesh, the main result of Sobhani et al.’s (2009) study, which considered social and environmental disclosures of 100 companies (including banks), demonstrated that there was an increase in the level of disclosure during the ten years from 1996–97 to 2006–07. In Turkey, Akbas and Canikli (2014) pointed out that there has been an important increase in the environmental disclosure level. Moreover, the findings of Al-Hamadeen and Badran (2014) indicate that the practice of CSED in Jordan increased from 13% in 2004 to 19% in 2011. In a recent study, Kiliç et al. (2015) analysed the nature, extent and trend of CSED in the Turkish banking industry, during the period between 2008 and 2012, and found that there was an improvement in this kind of disclosure during that period of time.

Nevertheless, other studies unveiled some negative observations correlated with social and environmental disclosure practices of some companies in different sectors and countries. The next section presents and discusses the findings of such studies.

**Weaknesses in social and environmental disclosure provided**

In the context of developing countries, Andrew et al. (1989) examined CSED practices in 119 annual reports from the year 1983 of publicly listed companies (from various industries; namely, finance, mining, industrial and commercial, hotels, plantations and properties) in Malaysia and Singapore. They concluded that, contrary to the case in developed countries, social disclosure by firms in less developed countries was very limited. In their sample, social disclosure was provided by just 31 firms in a sample of 119 firms. In another study, Tsang (1998), who investigated 330 annual reports of 33 Singaporean firms, found that around half of the sample (16 companies) did not provide any kind of social information in their annual reports during the ten years from 1986 to 1995.

The annual reports for the year 1996–1997 of 143 Jordanian companies from various industries (including banks) were analysed by Abu-Baker and Naser (2000) regarding their social and environmental disclosure. The findings indicated that modest attention was paid to this kind of reporting. Nonetheless, the researchers observed that environmental disclosure needs to be given much more attention by companies, and that most of banks included in the sample (16 out of 17) disclosed no environmental information. Moreover, banks and companies in the manufacturing sector were
criticized by researchers for not dealing with social and environmental issues in a compelling way.

Many other studies conducted in a different context have indicated the shortcomings of social and environmental disclosure made by corporations, regardless of their sector. Indicators of weak disclosure can be noted and investigated in order to understand the source of that weakness, and then ways can be found to leverage the communication process and make it fruitful between the sender of the social and environmental information and the information receiver and, as a result, bridge that gap between the two. The study by Deegan and Rankin (1999) investigated whether there was a gap between the preparers and the users of environmental information related to environmental reporting and, if so, whether the perceptions of both groups were the source of this gap. In so doing, the attitudes of 462 senior executives (as a preparers group) in the largest Australian companies (including banks), and the attitudes of 474 individuals from different categories such as shareholders and academics (as users group) were surveyed. The main finding of this study showed the existence of such a gap, and pointed out that the reason for its existence could be attributed to the differences between the perceptions of both preparers and users of reports regarding key points related to environmental information and reports.

There are several factors that have the potential to widen such a gap and render it a real obstacle in the communication process between firms and their stakeholders, and society at large. The perceived picture of flexibility in the methods used to provide social and environmental information can be seen as one of those factors negatively affecting firms’ disclosures. Such information can be shaped to present an image that differs from that related to financial performance, which is presented in numbers. Social and environmental information can be provided in a descriptive way where words and sentences take the place of numbers. Information presented in this manner might be perceived by information users as inaccurate, inadequate or unsuitable for making informed decisions because it is simply lacks some important characteristics of good or high quality information. Nevertheless, some studies proved the existence of such disclosure.

Andrew et al. (1989) found that the social disclosure made by Malaysian and Singaporean companies was mostly qualitative. The same result was also reached by Tsang (1998). Imam (2000) examined the annual reports of 40 Bangladeshi companies listed on the Dhaka Stock Exchange for the period 1996–1997 operating in different
industries. The examination revealed that compared to corporate financial disclosure, social and environmental disclosure was relatively modest in quantity, and narrative in nature. Furthermore, it was demonstrated that environmental effects of companies’ activities received little attention from the preparers of their annual reports compared to other issues such as human resources. In another study, Belal (2001) examined social disclosure in 30 annual reports of various industrial companies (public and private). The results indicated a low level of such disclosure. The volume of the social information released was very poor, and most of it was just descriptive. In addition, despite being mandatory to disclose some social information, it seemed unimportant to some Bangladeshi companies—more than half of them did not comply with some compulsory requirements such as those concerning foreign currency transactions.

No differences were found in the study by Azim et al. (2009). The main objective of their study was to investigate the practices of corporate social reporting by 246 Bangladeshi public listed firms (operating in 15 different industries, including the banking industry). Annual reports of 2007 and separate corporate social disclosure reports covering the period from 1 July 2006 to 30 June 2007 were analysed. Results indicated that social information was produced by relatively few firms, and the amount of information released was inadequate. In addition, the qualitative nature of the disclosure was dominant in the information provided.

From the above, it seems that producing more social and environmental information and using numbers in the disclosure process can enhance the quality of firms’ reports. However, this was not always the case. Even though there is a common belief that corporate disclosures should convey all relevant information, regardless of whether it is negative or positive, in order to make informed decisions by different users, many firms seemed to be using the disclosure process for self-interest. Thus, positive information was more likely to be released, while unfavourable material tended to be omitted in order to shape the impression of information users in a way that served firms’ interests (Cho et al., 2010; Merkl-Davies & Brennan, 2007). This supports the claim of Belal and Cooper (2007) that a firm’s interest is one of the key factors that motivates disclosing social (and environmental) information. Therefore, disclosing such information can be seen as a tool to achieve the company’s desire of creating a favourable image with stakeholders (Sobhani et al., 2009) or, conversely, that disclosing negative information will damage this image.
Plentiful empirical evidence of the previous point has been provided in different contexts. Tsang (1998) found in his study of 33 Singaporean firms (including banking, food and beverages, and hotel) that only 17 firms disclosed social information, that this information was always good news, and that there was no signal of any bad news regarding the social impact of their activities. The result of Belal’s (2001) study was similar. He found that although all Bangladeshi companies (investigated in his study) disclosed some social information, only positive disclosures were made.

In Islamic banks the situation was similar. Maali et al. (2006) attempted to develop a suitable benchmark of social disclosure for Islamic banks and evaluate the social information disclosed in their annual reports. They examined the year 2000 reports of twenty-nine Islamic banks located in sixteen countries—Jordan, Sudan, Iran, Bahrain, UAE, Palestine, Egypt, Turkey, Pakistan, Kuwait, Bangladesh, Qatar, Albania, South Africa, Russia and Mauritania—and found that, contrary to expectations, social issues did not feature as one of central interest; for most of them, the main motivation to produce such information was to enhance the bank’s image.

A fear of negative reaction that might result from adverse disclosure was shown in a study by Belal and Cooper (2007); these authors investigated the reasons behind the absence of disclosing social information pertaining to three specific issues: child labour, equal opportunity and poverty alleviation. Opinions of senior corporate managers in various sectors (including banks) in Bangladesh during 2001–2002 were surveyed by conducting 23 semi-structured interviews. It was found that avoiding a bad reputation (resulting from adverse news released) was a major reason for not disclosing information about the issues mentioned. Avoiding adverse publicity seems to be one of a firm’s priorities.

This finding can be also seen in results of studies that focused only on environmental disclosure. For instance, the environmental disclosure practices of 25 Australian corporations from 16 industries (covering 197 annual reports for the period 1980–1991) were analysed by Deegan and Gordon (1996). One of their main findings was that environmental disclosures made by Australian companies were used to portray positive images for the companies, and disclosures were self-laudatory. In the Chinese context, Liu and Anbumozhi (2009) conducted a study of 100 listed firms in industrial sectors, aiming at identifying the factors influencing the level of corporate environmental disclosure from the stakeholders’ perspective. Different tools of disclosing environmental information were used (including annual reports, separate environmental
sustainability or CSR reports and websites) in 2006. Companies investigated were found to be selectively disclosing their effects on the environment.

The danger resulting from such disclosures mentioned above is that providing information which is inclined to be too positive, self-serving or selective may be deemed as a risky undertaking, in that it may lead investors to regard such information as unreliable (Cormier & Magnan, 2003a), and perhaps an indication of defensiveness or even deceit. The study of Cho et al. (2015) seems to support this possibility. The result of this study revealed that CSED is not positively valued by investors.

To avoid such risk, Cormier and Magnan (2003a) suggested that the information concerning environmental management of the company should be self-critical. One of the steps proposed towards fulfilling such a suggestion and gaining credibility is to implement some international initiatives that are addressing this problem.

### 3.1.2 International initiatives

The above studies demonstrated different levels and quality in social and environmental disclosures provided by different kinds of firms. However, some of the provided results are questionable, and one can doubt their reliability. On the other hand, it can be assumed that self-evaluation would be involved in some cases. This reasonably leads to the question: What is the best way to evaluate the level of information released by organisations? That is, are there specific ways of evaluation that have an accepted level of neutrality and credibility?

With reference to the result of Deegan and Rankin’s (1999) study, which proved the existence of a gap between the preparers and the users of environmental information regarding environmental reporting, Lungu et al. (2009) analysed the status of development in social and environmental reporting literature, and confirmed the need for bridging the gap between producers and users of social and environmental information. The former group would like to know whether the reports they produce are effective, while the latter look for an improvement in the consistency of accounting work and its output. The issue that seems to be the key to finding a solution to this problem is uniform accounting standards, or an accepted framework regarding social and environmental reporting. Lungu et al. stated that “a framework for reporting on corporate social-economic and environmental is necessary” (Lungu et al., 2009 p. 8).

Perrini (2005) conducted a study that aimed to understand firms’ behaviour in regard to their social responsibilities. Using a sample of 90 European publicly listed banks and
financial companies, Perrini found, in regard to the environmental information released, that different approaches were used by companies to evaluate their environmental performance and provide related data and, as a result, comparability problems emerged. Perrini believed that the absence of agreed standards or framework was the cause of disclosing information differently from one company to another which, in turn, made it difficult to evaluate and judge companies’ performance and standpoint in relation to the environment.

The positive impact of establishing and following agreed guidelines in social and environmental processes has been highlighted by many researchers. Perrini (2005) mentioned the benefit to information users of standardised, credible and comparable information. Lungu et al. (2009) agreed that applying common standards would give credibility to social and environmental information presented in firms’ reports. Gaining investor trust can be a result of implementing uniform standards, which, in turn, will result in improvements in procedures of measuring, evaluating and reviewing social and environmental information released (Perrini, 2005; Willis, 2003). In Islamic banking, researchers also call for applying uniform accounting standards hand-in-hand with Shari rulings as a fundamental step in improving disclosure practices of Islamic banking (Dudley, 2004; Farook et al., 2011; Karim, 2001).

The question that might be posed here is: Who is deemed to be responsible and eligible for creating such guidelines? A study by Deegan and Rankin (1999) revealed the belief of information users that guidelines for environmental disclosure should be made by accounting professionals and authorities. Adems and Narayanan (2007) pointed out to the efforts of some governments in the issue. For example, there are two Canadian sustainability reporting initiatives, namely; the Sustainability Report, and the Sustainability Reporting Toolkit, to publish the sustainability reports of Canadian firms, and to provide them with guidance on producing sustainability reports. In Australia, there is the Australian government’s Corporate Sustainability Reporting Toolkit, which was issued to encourage companies to disclose information on the impact of their operations on the society and environment. However, in a comparative study Golob and Bartlett (2007) examined how corporate social disclosure issues are addressed in Australia and Slovenia. They found that—from both sides—more importance tends to be attached to increasing reporting incentives and to comparing them with the international standards included in some global initiatives.
The existence of such initiatives is justified by the corporations’ need for guidelines providing an explicit and effective framework which can be implemented to disclose social, environmental and economic effects of their activities at an acceptable level (Belal & Owen, 2007). The importance of adopting such initiatives is derived from the increased effect of globalization, overlap and expansion of interests throughout the world and, as a result of that, the emergence of investors’ need for comprehensive and united reporting of all relevant information provided by corporations. Such forms of reporting are more likely to be formulated in developed countries. The credibility and accuracy perceived by investors in the guidelines implemented in more developed countries and markets, and the possibility of preferring and accepting them—which has been proved by some studies such as that of Chipalkatti (2002)—might be interpreted as a positive point in favour of implementing international initiatives in regard to social and environmental disclosure.

It can be said that organisations should satisfy the needs of different users (regarding information released by firms) by providing them with adequate, related and suitable social and environmental information. Moreover, firms need standards or guidelines to help them disclosure the required information at an acceptable level and, subsequently, some international initiatives (such as the International Standards Organization (ISO), the World Business Council for Sustainable Development (WBCSD), and the Global Reporting Initiatives (GRI)) have emerged during the last decades describing in detail the best ways of informing stakeholders, and society at large, of the social and environmental effects resulting from firms’ activities. Such international guidelines can be seen here as a response to the results of many studies, including that of Deegan and Rankin’s (1999).

Implementing international initiatives is more likely to result in leveraging firms’ opportunities to extend their market and reach international ones. Accomplishing such a goal entails meeting the high level of requirements included in these initiatives. This might be a real challenge for firms working in a local context, since what is assumed to be good and adequate disclosure from a local perspective can be inverse and seen as inadequate and below the level required from international or more developed points of view. Two Bangladeshi studies provide a good example of this case.

“Bangladeshi private commercial banks, CSR reporting is, rather, moderate; however, the varieties of CSR reporting are really impressive”. This was one of the main findings of Khan (2010) who examined the annual reports of the year 2007–08 published by
those banks which were listed on the Dhaka Stock Exchange. Surprisingly, social disclosure appearing in published annual reports after 2008–09, and also by Bangladeshi private commercial banks listed on the Dhaka Stock Exchange, was described by Khan et al. (2010) as “relatively scanty” and totally lacking the required information in relation to product responsibility and human rights; further, of sixteen items related to financial service sector (FSS) specific disclosure, just seven were addressed. This surprising result was found because the evaluation of this year was comparing with GRI standards this time. Thus, one can expect that, from the perspective of investors trusting GRI indicators (or other international initiatives), doubt might be cast on disclosures not made in accordance with one of those initiatives. This assumption is supported by Khan, who stated that:

...from the study’s finding, it is well documented that tendency of CSR items reporting in an isolated manner (lacking the adoption of any guidelines or implementing international practice) alone is not sufficient to attain overall superior level of disclosure unless, banks have the preparation to put GRI guidelines into practice or other forms of social reporting in future (Khan, 2010).

Another study in this context is that of Sobhani et al.’s (2009), who found that the level of social and environmental disclosure increased during the period from 1996–97 to 2006–07. However, these researchers acknowledged that when it is seen from an international viewpoint, the level of disclosure mentioned was lagging behind. This suggests the need for adopting global initiatives as a way to reach accepted levels of disclosure matters.

However, there is an argument that international initiatives may better serve companies that have worldwide international operations (Golob & Bartlett, 2007), and this may explain, in part, the hesitation by local companies to adopt such initiatives. Yet, local authorities and professional bodies can at least make good use of global initiatives (Arthaud-Day, 2005; Golob & Bartlett, 2007). The widespread adoption of some international initiatives considered to be the most accepted and prevalent throughout the world (such as GRI, AA1000 and SA8000) is estimated to play an important role in improving social and environmental disclosure practices (Belal & Owen, 2007).

In this realm, the Global Reporting Initiative (GRI), which was released in 1997 by the Coalition for Environmentally Responsible Economies (CERES), is one of the global initiatives which have been, and continue to be, accepted by so many different corporations worldwide. In empirical studies, it seems that GRI is increasingly being
used globally as an effective instrument to evaluate the level of social and environmental disclosure made by corporations. For instance, in a comparison study, GRI guidelines were one of those used by Baskin (2006) to evaluate social and environmental disclosures of 1827 corporations acting in different sectors (including the banking sector) in both developed and developing countries.

Hedberg and Malmborg (2003) conducted their study to investigate social and environmental disclosure practices in Sweden, and that country’s use of the Global Reporting Initiative (GRI) guidelines. The researchers aimed at discovering Swedish firms’ reasons for implementing GRI guidelines, and what steps had been taken to achieve corporate social responsibility and environmental management as a result of this implementation. The sample comprised all firms applying GRI guidelines in Sweden (in various industries including banking) in 2001. Interviews were conducted with representatives of the companies, and with the GRI interim secretariat in Boston. It was found that firstly, obtaining legitimacy was the main purpose of firms in disclosing social and environmental information. Secondly, raising the credibility of their social and environmental disclosure was the main motive for applying GRI guidelines, and those Swedish firms sampled, indeed, gained more credibility by using such guidelines.

Additionally, improving the reporting process was another objective since GRI guidelines provide good structures for better reporting, with indicators reflecting transparency. Finally, GRI has a positive impact on the communication process externally and internally, with more effect inside firms. Some other benefits of implementing GRI guidelines have also been highlighted by the interviewers. These include improving environmental management inside firms; increasing the firm’s awareness of itself and its stakeholders; and being a valuable opportunity for educating staff and extending their knowledge about social and environmental impacts of their firms’ activities, and the relationship of that with their work. One last point worth mentioning is that with regard to the gap between preparers and users of reports mentioned in the studies of Deegan and Rankin (1999) and Lungu (2009), the result of Hedberg and Malmborg’s (2003) study suggests that the transparent information in a firm’s reports as a result of following GRI guidelines is more likely to reduce the gap—not just between the firm and society, but also between managers and the firm’s personnel.

However, the result of another study in the context of developing countries indicated different practices, even though the study was conducted almost in the same period.
Belal and Owen (2007), during the period between December 2001 to March 2002, interviewed senior managers of 23 Bangladeshi companies (multinational and domestic) acting in private and public sectors (ten industries, including banking) to ascertain their views on social reporting. With regard to GRI, the study revealed that of 23 respondents, only one firm had utilized the GRI’s Guidelines in producing their reports, and the others were not intending to implement them in the short term. It was found that five firms (including two international ones) knew nothing about GRI. Nevertheless, this result did not prevent the authors from being optimistic about the acceptance of the global initiatives (in relation to social accounting) in the future.

3.1.3 Tools of CSED

As referred to earlier, Sobhani et al. (2009) argued that two points have received the attention of CSED researchers. The first, which is related to the extent of disclosure and its nature, has been discussed; the second point, which is the effects of some factors on the level of CSED, is discussed next.

The literature provides several reasons for the absence or existence of social and environmental information disclosed by firms, and the level of such disclosure. A considerable number of empirical studies conducted worldwide have presented some plausible explanations for the levels found, and for firms’ behaviour regarding disclosure decisions.

The studies showed the impact of some factors on social and environmental disclosure produced by corporations, and it seems to be reasonable to argue that these factors cannot be tracked to one source. Companies are not the only players to blame in cases of low levels of disclosures, or for not releasing non-financial information. “Disclosing corporate environmental and social information is a collective process involving: corporations, their managers, stakeholders, governments and society at large” (Cormier & Magnan, 2003a, p.45). Thus, the absence (existence) or weakness (accepted or high quality) of social and environmental disclosure presented by firms can be attributed to one of the following three possible reasons.

1. The limitations attached to some empirical studies.
2. Factors that can be attributed to the firm itself.
3. Factors related to conditions that are out of a firm’s control.

Regarding the first possible reason for social and environmental disclosure being weak or even absent, the limitations attached with some studies prevent their results from
being generalizable, or even accurate in judging the real level of social and environmental disclosure made by firms. A good example of this is that some studies are confined to investigating CSED only within annual reports, and ignored other means (such as websites, press releases, booklets and pamphlets etc.) which can be effective vehicles to convey social and environmental information to a wider range of users interested in such information. Maali et al. (2006) mentioned that banks may use other tools (such as websites and advertising) to release social information over the year.

However, several reasons have been presented to justify the focus by researchers on annual reports as a main tool in disclosing social and environmental information on corporations’ activities. Among those reasons is that an annual report is provided by all corporations regularly as a response to the related legislation, and this generates some advantages such as making comparative study possible (Tilt, 2001). Furthermore, Gray et al. (1995) emphasised the importance of annual reporting in building the image of the entity. This might explain the consideration of annual reports by many researchers (Akbas & Canikli, 2014; Al-Hamadeen & Badran, 2014; Cowen, Ferreri, & Parker, 1987; Guthrie & Parker, 1989; Haniffa & Cooke, 2005; Mia and Al Mamun, 2011; Qiu, Shaukat, & Tharyan, 2014; Tilt, 2001; Wiseman, 1982) as a major vehicle for companies to disclose information. From the users’ perspective, annual reports are mostly deemed to be the main source of information when making informed decisions. Harahap (2003) mentioned that annual reporting has been used by institutional investors in the UK, financial analysts in New Zealand, individual investors in Australia, and all of those users in the USA as one of the most important sources of information when making their decisions. In the study by Al-Khater and Naser (2003), four users—accountants, external auditors, bank officers and university lecturers—preferred social information to be disclosed in monetary and non-monetary form in the pages of the annual report. This preference is also prevalent in the banking sector in the UK (including foreign banks). The information collected by a questionnaire (distributed to 57 banks) and semi-structured interviews (conducted with 12 senior officers of banks), covering the mid-1990s, demonstrated the importance given by bankers to annual reports (Thompson & Cowton, 2004). One of the matters investigated in this study was the source of information used in lending decisions that might affect or be affected by environmental issues. The bankers preferred environmental information to be stated in the annual report, the channel they are familiar with. The Portuguese firms’ case was similar to that of the UK banks’ case pertaining to the preference of annual reports.
Forty-nine Portuguese firms, in the study by Branco and Rodrigues (2008a), considered annual reports to be more beneficial than the Internet.

However, it should be noted that not all annual reports are perceived to be the best medium for conveying social and environmental information. Belal (2001) noted that most social information was disclosed in directors’ reports and chairmen’s statements. The different parts of the annual report are believed to be different in the level of suitability for carrying social and environmental information and, in turn, the level of importance perceived by users. Thompson and Cowton (2004) emphasised the importance of directors’ reports, the chairman’s report and notes to the accounts, both of which were found to outweigh the usefulness of primary financial statements in regard to environmental information. This was because of the capacity of those reports and notes to carry detailed quantitative and qualitative data.

Similarly, a firm’s capacity for disclosing all kinds of information (which users ask for or might need) in different ways with different levels of detail has been extended, and has resulted in new means of releasing information other than through the annual report. Clarke and Gibson (1999) found that annual reports were not the only tools for disclosure; rather, separate reports were also chosen as a special vehicle to communicate information pertaining to community-wide involvement and the environment. In another study, 62 stand-alone reports were analysed by Secchi (2006), and found to be used by private and public firms and non-profit organisations in Italy to disclose social information during the period between 1999 and 2001. The same case was seen, as well, in the context of developing countries. The study by Azim et al. (2009) revealed that Bangladeshi companies used separate corporate social disclosure reports (in addition to the annual reports) to disclose social information.

In addition to those special reports, the emergence of the Internet has offered firms an extraordinary tool for disseminating information (all sorts of related information in different degrees of detail) to all interested users worldwide. Websites have become an important channel of communicating information about a firm’s performance. For example, Lodhia (2004) argued that the Internet has the potential to improve the communication process between a firm and its stakeholders on environmental information. Hedberg and Von Malmborg (2003), in their study of social and environmental disclosure made by Swedish companies (in different sectors including banking), found that all companies used the Internet to make such disclosure. The researchers underscored three characteristics of the Internet which render it more
suitable for disseminating social and environmental information: (1) it is inexpensive, (2) it is more flexible, and (3) it has the continued capacity to update information.

Nevertheless, using websites to disclose social and environmental information is not a guarantee of information quality and credibility. There are several factors influencing the amount and quality of information released, including the firm’s characteristics (size, type of industry, and so on), managers’ perceptions and awareness regarding the users’ information needs (Cormier & Magnan, 2003a), as well as cost, ability to use, digital divide, security and, as a result, credibility issues (Lodhia, 2004). Some researchers point to practical cases as proof of some of the shortcomings mentioned above. Cormier and Magnum (2003a) found that the information released by Canadian firms (in 2001) using their website as a traditional tool for disclosing information did not differ significantly from that included in their annual reports. This result is also confirmed by the study by Andrew (2003) who analysed the websites of 64 Australian companies listed on the Australian Stock Exchange during the period from 2001 to 2002. The report found that Australian companies did not exploit effectively the features of the Internet, so information related to environmental issues did not appear on company websites and, as result, there was little difference between information published in the traditional way and that released through websites.

What can be noted from the above is that social and environmental disclosure can be provided in many forms other than annual reports. Thus, the question might be posed: What makes firms choose a certain tool specifically to disclose such information?

Some reasons for choosing a certain tool specifically to disclose social and environmental information have been mentioned in the previous paragraphs, but one more reason can be provided here: that is, the type of information user. It is argued that a firm’s decision to present social and environmental information in its annual report, stand-alone reports, website, or other reporting tools is based on the receiver type and to whom this information is provided (Branco & Rodrigues, 2006; Ze´ghal & Ahmed, 1990). The study by Branco and Rodrigues (2006), which considered the case of 15 Portuguese banks, lends support to such argument. It was found that information about environmental and human resources was more likely to be shown in the annual report, while a firm’s website was used mostly to present information relating to issues of consumers and community involvement. The justification provided by the authors was that since annual reporting is mainly directed at investors, it is reasonable to give them the information they are interested in. In the same vein, a firm’s website is more likely
to provide information relating to products, customers and the community at large, since visitors to the website are assumed to be much more numerous and varied than investors alone, and include many other stakeholders. Similar confirmation was presented by the same authors (Branco & Rodrigues, 2008a) considering the same period of the study (annual reports of 2003 and firms’ websites in August 2004), but with a larger sample including 49 Portuguese companies in 17 different sectors (including the banking sector).

As a conclusion to this discussion on the possible reasons for the absence or the weakness of social and environmental disclosure made by corporations, one point was intended to be made: concentrating the investigations and analysis exclusively on annual reports (looking for social and environmental information) and omitting other vehicles for releasing information can lead to obtaining flawed results about the practices of social and environmental disclosures conducted by firms. Such a case can have a negative impact on decision-making processes in the business world, and on the validity of study results in the academic field. One last study can be mentioned here to underpin this opinion and that is the study by Amran and Devi (2008). One of the study’s hypotheses was that corporate social disclosure is positively influenced by the high proportion of foreign shareholders and the relationship with foreign companies. Despite the common belief that the reporting culture of multinational companies should encourage corporate social disclosure practices of those companies with which they have a relationship, the result of the study did not confirm this expectation and general belief. As the study focused exclusively on annual reports, the authors partly justify this result by assuming that multinational companies may use other means (such as stand-alone reports) instead of annual reports as mediums to disclose the social impact of their activities.

3.2 Factors affecting CSED

Apart from the explanation of the levels of social and environmental disclosure that has been offered in the previous section, there are several factors, some researchers argue, that have a role in determining the disclosure level of social and environmental information related to firms’ activities. Hossain and Reaz (2007) argued that one of the three most important issues researchers encounter in disclosure-related studies is identifying and understanding the factors influencing managers’ decisions regarding disclosure issues, and how such understanding can be beneficial in predicting disclosure levels, and thus enhance the quality of firms’ reports in terms of non-financial
information. These factors can be broken down into three groups: corporate characteristics, internal contextual factors and general contextual factors (Adams, 2002).

### 3.2.1 Bank characteristics

Many corporate characteristics have been suggested as being explanatory variables for the status of CSED provided by organisations. These characteristics include, but are not limited to, profitability, size, ownership and listing on a stock exchange.

**Profitability**

For several reasons, profitability is found to be a reason for disclosing more information pertaining to the effects of a corporation’s activities on society and the environment. Hosain and Hammami (2009) considered political costs, financial performance justification and self-interest of managers as explanatory factors related to profitability as motives for disclosing more social and environmental information. A corporation’s management might feel that it has to prove that its profits have not been at the expense of its social and environmental performance; that is, it caused no harm to society or the environment while achieving its profits. In addition to this possible explanation, costs expected to be imposed in the case of achieving high levels of profitability by some external groups such as trade unions (in the form of calling for increases in workers’ wages, for example) might be an impetus for emphasizing the social and environmental role of the firm (employee issues in the case of the example). Self-interest, such as keeping their positions, can also be taken into account by managers in their decisions with respect to social and environmental disclosure, since enhanced social image has increasingly become preferred by information users. Haniffa and Cooke (2005) justified the action of disclosing social information by corporations as a desire to be seen as a positive participant in society’s development.

In the empirical field, numerous studies have proved the existence of the relationship between profitability and social and environmental disclosure, in different contexts in terms of countries and industries. For instance, Cormier and Magnan (2003b) conducted their study on 50 French companies operating in seven different sectors. In their study, profitability was found to be a significant determinant of the strategy implemented for environmental reporting. In Sweden, Tagesson et al. (2009) examined social disclosures of 267 Swedish listed firms operating in various industries. The study findings lend support to the positive association between profitability and the extent and content of social disclosure presented on the firms’ websites, as profitable companies can incur the cost of disclosing more social information.
In the different context of developing countries, annual reports of a sample of non-financial firms in Malaysia were analysed by Haniffa and Cooke (2005) for the two years 1996 and 2002 in order to evaluate the level of their social and environmental disclosure, and their sensitivity to culture, corporate governance, and some of the firm’s characteristics (including profitability). One of the results from this study is that profitability was found to be a vital factor in relation to promulgating social information by firms.

Considering the case of banks, Hossain and Reaz (2007) cited the study by Hossain (unpublished M.Phil. thesis) which was conducted in order to determine the extent of disclosure made by 25 Bangladeshi banks, and testing the relationship between its level and some of the banks’ characteristics. Of the study results, profitability was shown to be an important characteristic in terms of determining the banks’ level of disclosure. Another study, also in Bangladesh, was carried out by Khan (2010); this focused on social and environmental disclosures made by all private commercial banks in the year 2007–2008. In this study, it was found that, inter alia, profitability was statistically important pertaining to the level of social and environmental disclosure. A study by Sharif and Rashid (2014) confirmed this result. The study found a positive relationship between profitability and the CSED provided by Pakistani listed commercial banks during the years 2005–2010. In China, the findings of Lu and Abeysekera (2014) confirmed this result also.

In contrast to the results mentioned above, some studies produced contradictory findings. For instance, in different sectors, including banks, the sample of the study by Hossain and Hammami (2009) contained 25 firms listed on the Doha Securities Market (DSM) in Qatar (representing around 86% of the firms listed). The annual reports of the year 2007 were considered in examining the determinants of non-compulsory disclosure (including social aspects), and the association between this kind of disclosure and some company characteristics was analysed. In contrast to the previous results, the profitability characteristic was found to be insignificant in relation to the determinants of voluntary disclosure. This result confirmed that of another study focused only on the banking sector in India, conducted by Chipalkatti (2002). Chipalkatti examined the relationship between the nature and quality of disclosures appearing in annual reports of the year 2000 (made by 17 Indian banks), and market microstructure variables. The study findings indicated that, regarding profitability, there were no significant differences in disclosure levels, notwithstanding the different profitability levels.
recorded. In a recent study, Ullah and Rahman (2015) found no significant relationship between the profitability and the extent of CSED, produced by the listed commercial banking companies in Bangladesh in their annual reports of 2011.

These conflicting results confirmed the claim of some researchers, such as Patten (1991), Mangos and Lewis (1995), and Haniffa and Cooke (2005), that the results regarding the association between profitability and corporate social disclosure were inconclusive. Some reasons can be offered to justify such a conclusion. Haniffa and Cooke (2005) suggested that the freedom and flexibility enjoyed by a firm’s management (in conducting and disclosing information on social responsibility programs) can be a key reason for the relationship being positive. Moreover, the relationship between size and profitability is expected to make the association between the latter and social disclosure complicated (Mangos & Lewis, 1995). Based on this, it can also be argued that being affected by so many factors (internally and externally), social and environmental disclosure and its relationship with profitability can be influenced by the overlap of those factors, and by the level of its strength.

**Size**

There is almost a consensus on the existence of a relationship between firm size and the extent of disclosures made for information users. Size is argued to be a significant variable in explaining the disclosure levels. Some authors, such as Cowen et al. (1987), reached the conclusion that size is the most significant explanatory variable of social disclosure. They stated that “large companies tend to have greater numbers of social responsibility disclosure” (Cowen et al., 1987, p. 117). By the same token, Singhvi (1971) argued that small firms were more likely to release inadequate financial information, and provided three possible reasons for such a case: the high cost of gathering and producing adequate information compared to large firms, the lack of their managers’ awareness regarding the expected benefits of disclosing more information, and the assumption that more disclosure may threaten their performance and competitive position in the market. These reasons were also claimed to be valid in the case of social and environmental disclosure practices, where many researchers found that large firms disclosed more social and environmental information than small ones.

Many theories, such as legitimacy and agency theories, are involved in explaining why size is one of the determinants of the level of social and environmental disclosure, and why there is a positive relationship between the two. Some attributes of the large company can be noted in understanding why it discloses more information. Firstly,
since agency costs are assumed to be higher in large companies (Jensen & Meckling, 1976, cited by Hossain & Hammami, 2009, p. 260), managers might use social disclosure as a tool to cut these costs, especially political ones (Farook et al., 2011; Watts & Zimmerman, 1978). Secondly, large firms receive more attention (Wallace & Naser, 1995), and this in turn results in a need for justifying the existence of the firm (Patten, 1991; Farook et al., 2011). Thirdly, a large firm is more likely to have economic significance in the eyes of different interested groups (Cooke, 1991), and is thus followed by more analysts (Lang & Lundholm, 1993; McKinnon & Dalimonthe, 1993), subjected to more scrutiny (Andrew et al., 1989), and subsequently needs to disclose more information. Fourthly, availability of capital and expertise in large companies enables them to engage in more activities (which are likely to have great impacts on society and the environment), produce more information on these activities and their implications, and bear the cost of such processes (Ahmed & Nicholls, 1994; Andrew et al., 1989). Lastly, growth of large firms entails external capital, which is more likely to be obtained in the case of availability of high quality information (Wallace & Naser, 1995).

Empirically, many studies have been conducted and have shown the positive relationship between firm size and the extent of its disclosures. This association was found in different contexts: in developed and developing countries; and in different samples where banks (a) were not included, (b) were included, or (c) represented the whole sample.

Of those studies that did not consider banks, the result of Deegan and Gordon’s (1996) research revealed that size of Australian firms operating in environmentally sensitive industries was positively associated with disclosing environmental information. Cormier and Magnan (2003b) also found that large firms were more likely than small ones to disclose additional environmental information. This study was an extension of Cormier and Magnan’s (1999), which considered the Canadian case and used a cost-benefit framework to identify factors influencing environmental disclosure made by 33 firms (in three industries: pulp and paper; oil refining and petrochemicals; and steel, metals, and mines) in 212 firm-year observations during the period 1986–1993. In this study, size was also found to be an explanatory factor for environmental disclosure. Large Canadian firms were found to be producing and releasing more environmental information. Cormier and Magnan (2003a, p. 44), in explaining the Canadian case, stated, “Large Canadian firms disclose more than small firms. Since large firms are
more visible, they are likely to bear the brunt of the costs resulting from political or lobbying actions”. Additional support came from Cormier et al. (2011), confirming the result that size is one of the major factors in determining environmental disclosure. The sample of the study consisted of 137 non-financial Canadian firms focusing on web disclosure in 2005.

With respect to social and environmental disclosure together, the result regarding the relationship between size and disclosure level did not differ in the study by Cormier and Gordon (2001). The researchers analysed social and environmental disclosure made in annual reports of three electric utilities—public and private—in Canada within the period 1985-1996. It was found that firm size affected the volume of social and environmental information released by firms, with the largest firm disclosing more than the smallest. In China, Lu and Abeysekera (2014) reached the same result. A study by Tagesson et al. (2009) in Sweden also confirmed the positive relationship between firm size and amount and content of information released about the social and environmental effect of firms’ activities. In explaining this finding, the authors argued that large firms have a considerable number of interested people and groups. As a result, there is a great need for producing more social information, and such need can be met by a larger staff contingent working for those firms. In a different context—developing countries—Imam (2000), who examined the annual reports of 40 Bangladeshi companies during the period 1996 and 1997, found, inter alia, that “only large companies (based on market capitalisation and turnover) reported social and environmental matters in their annual reports” (Imam, 2000, p. 139). In Malaysia, Haniffa and Cooke (2005) also found firm size to be a significant element in relation to social disclosure of 139 non-financial corporations. In Bangladesh, Muttakin and Khan (2014) found a positive and significant relationship between the size of listed manufacturing companies and their CSED. A study by Muttakin et al. (2015) confirmed this result. It analysed annual reports of 116 listed Bangladeshi non-financial companies for the period of 2005-2009, and found that large companies provide more CSED.

Even though the previous results were confined to the case of non-financial companies, no differences have been noted when banks were considered along with other companies operating in non-financial sectors. In the UK, the study by Clarke and Gibson (1999) considered non-mandatory disclosure regarding environment and society, and revealed that annual reports were found to be used mostly by large companies (including banks) to release information about their social and environmental
impact. In Italy, Secchi (2006) found that the main producers of social reports were medium and large companies, and were mainly banks. In Portugal, and in line with the hypotheses developed in the study by Branco and Rodrigues (2008a), it was expected that a positive relationship would be found between size and social disclosure. The researchers analysed the disclosures made by 49 Portuguese companies in 17 different sectors (including the banking sector) in their annual reports of 2003 and firms’ websites in August 2004. The results were in the expected direction. In another study, Andrikopoulos et al. (2014) investigated CSED of the companies that were listed in the Euronext stock exchange, in four financial institutions: banks, insurance, financial services and equity/non equity investment instruments. They found that CSED practices were greater in large companies, and the highest disclosure was provided by banks.

At the global level, the importance of size has also been highlighted. Baskin (2006), in his comparison study, analysed social and environmental disclosures of 1827 corporations (in different sectors, including banking) in both developed and developing countries. The results revealed that the level of corporate responsibility reporting, published in emerging markets, was higher than the expectations; this was due to circumstances such as the efforts made by large companies to become globally recognised.

With samples chosen just from the context of developing countries, firm size continued proving itself to be an important element in determining the level of social and environmental disclosure. In Singapore, Eng and Mak (2003) tested the impact of several factors on voluntary disclosure by 158 Singaporean listed firms (financial and non-financial firms) in the year 1995. It was found that large firms released more voluntary disclosure. In studies including banks in their samples, Andrew et al. (1989) found that the social disclosure made by publicly listed companies in Malaysia and Singapore for the year ending December 1983 was very limited (just 31 out of 119 firms made such disclosure). Regardless of this result, size was found to be a significant factor, where the attention to social effects of companies’ activities was paid by the largest firms. Similarly, a study by Gao et al. (2005) in Hong Kong, confirmed the importance—and positive impact—of company size in determining the amount of social and environmental information disclosed in 154 annual reports of 33 listed companies (operating in three sectors: property, banking and utilities) covering the period 1993–1997. Another two studies that used mixed samples (including banks) were conducted in Malaysia and Qatar in the years 2008 and 2009 respectively. The first was conducted
by Amran and Devi (2008) and the latter was carried out by Hossain and Hammami (2009). Both studies provided additional support to all the studies previously mentioned, in that firm size is significant when it comes to social disclosure. Additional confirmation came from a study by Akanno et al. (2015). They analysed 154 annual reports of 40 Nigerian Stock Exchange (NSE) listed firms in four different sectors (banking industry, insurance industry, oil and gas industry, and food producing and processing industry), during the period 2009–2013. They found a positive relationship between company size and a company’s CSED.

In studies conducted exclusively on banks, the results provide evidence of the positive relationship between size and the extent of social and environmental disclosure made by banks. Hossain and Reaz (2007) emphasised the significance of bank size in determining the extent of its voluntary disclosure. They stated, “Most researchers in this area find a close relationship between these two variables in both developing and developed countries” (Hossain & Reaz, 2007, p. 278). This relationship was also shown in their study of voluntary disclosures made by 38 listed banks in India. The researchers confirmed the validity of the studies mentioned in their literature review (regarding bank size), such as the study by Kahl and Belkaoui (1981) who found a positive relationship between bank size and the level of the disclosures made by 70 banks in 18 different countries, and that of Hossain (unpublished M.Phil. thesis) who considered the disclosures of 25 Bangladeshi banks. In India, Chipalkatti (2002) analysed the annual reports of 17 Indian banks and found, inter alia, that better disclosures are more likely to be produced by large banks; he justified this finding by the potential pressure of investors and authorities. In a study by Khan (2010), an investigation of annual reports (of the year 2007–2008) published by all private commercial banks in Bangladesh, lent more support for the significance of bank size pertaining to the level of social disclosure. Sharif and Rashid (2014) confirmed this result. In their study, size was found to be statistically significant with the level of CSED made by Pakistani banks during the years 2005–2010. Another study by Kiliç et al. (2015) provided additional confirmation. It proved a significant positive effect of size on the CSED of the Turkish banks over the period between 2008 and 2012.

One last study to be mentioned in this context is that conducted by Branco and Rodrigues (2006). The interesting observation on this study is that, unlike other studies which used different measures as proxies for firm size, such as assets (Andrikopoulos & Kriklani, 2013; Branco & Rodrigues, 2008a; Hossain & Reaz, 2007), number of
employees (Amran & Devi, 2008), turnover (Andrew et al., 1989; Imam, 2000), and sales (Deegan & Gordon, 1996), the researchers chose another measure to suit the case of banks. They used the number of branches in Portugal as a proxy for bank visibility in customers’ eyes. They divided the sample into two groups: large (having a sizeable number of branches) and small (with a small number of branches) and expected that the first group would disclose more social information. The result of the study demonstrated the validity of this expectation.

Ownership
Ownership has been identified by many researchers to be another influential element in the process of disclosing social and environmental information by corporations. In this regard, ownership of a corporation can be seen from its concentration and, as a tool, reflects its identity (Tagesson et al., 2009). The concentration of ownership has been used by many researchers such as Prencipe (2004) and Cormier et al. (2005), and has been argued to be influential in disclosure issues where a firm with high ownership concentration is more likely to disclose less social and environmental disclosure than one with widespread shares, and vice versa. Prencipe (2004) added management ownership as another situation to cause the same effect, and in the same direction. On the other hand, ownership can be a distinguishing standard between a governmental firm (shares owned by government) and a non-governmental one, and there is disagreement among researchers about which category is disclosing more social and environmental information. A point that may be worth mentioning in this regard is that a firm owned by government is perceived to be owned by all citizens, and therefore disclosures made by such a firm are more likely to also be different in their content (Tagesson et al., 2009).

Cormier and Gordon (2001) considered ownership structure as one of the determinants of reporting strategies implemented by corporations, since a publicly owned corporation is affected from two angles: pressure on the corporation to provide more information to investors and other interested groups, and at the same time being economically able to incur the cost involved in such a process. In a French study conducted by Cormier and Magnan (2003b), ownership (as one component, among others, of information costs) was found to be a significant determinant of a firm’s environmental reporting strategy. Liu and Anbumozhi (2009) emphasised the influence of ownership concentration on the amount of environmental information released by corporations in which corporation
shares are possessed by a wide range of investors, and is therefore more likely to result in the disclosure of further environmental information.

In Canada, a study by Cormier and Gordon (2001) demonstrated the impact of ownership on the extent of social and environmental disclosure made by the three electric companies investigated. The two publicly owned companies were found to be disclosing more information than the private one. The researchers mentioned the idea that companies owned by government receive more social and political support, and so are likely to be more visible and, as a result, more politically sensitive. This was not the case in Italy, where Secchi (2006) obtained a different result, with state-owned companies disclosing less social information than private ones.

Supporting the case of Canada, in another developed country, Sweden, a study by Tagesson et al. (2009) revealed that ownership held by government was a catalyst for disclosing more social information on websites, whereas privately owned companies released less. The researchers highlighted the condition of state-owned companies, which are prone to scrutiny and pressure from government and media regarding their impact on the environment and society. They attributed this—the case of disclosing more social and environmental information by these companies, and its dissimilarity to the case of other countries—to the national culture in Sweden. They stated:

> In Sweden there is a long tradition of transparency in the public sector, which is also legally regulated in the principle of public access to official records. This principle gives all Swedish citizens the right to inspect State documents (Tagesson et al., 2009, p. 361).

They proceeded, “...Thus, national culture as an explanatory factor is probably needed in order to fully understand disclosure behaviour”.

Conversely, in a mixed Singaporean sample (companies operating in banking, food and beverages, and hotel), the result of investigating banks produced a different finding. Tsang (1998) found that the Development Bank of Singapore (DBS), which is mostly government owned, released less social information compared to other banks. The researcher assumed that well-known companies might feel that there is no need for justifying their existence. The context of the study (socially, politically and other national characteristics) might provide grounds for such an explanation. In India, a study by Chipalkatti (2002), which focused on disclosures made by 17 Indian banks, downplayed the significance of the relationship between the extent of disclosure and the percentage of shares owned by government.
The result was different for another study in the same country, but with a bigger sample of 38 banks: 18 public and 20 private. Hossain and Reaz (2007) observed that public banks released more voluntary information than the private ones. This finding was confirmed by another study, which considered the same period (2002–2003), but in another Asian country, Malaysia. Amran and Devi (2008) investigated the influence of government and foreign affiliates on corporate social disclosure made by 133 companies in Malaysia (in various sectors, including banks). The study confirmed the positive impact of the Malaysian Government (regarding social disclosure) on companies where most of their shares are owned by government; or dependent on both government or specifically on governmental contracts. Some probable reasons for government efforts to promote such disclosure were provided by the researchers; these included, inter alia, creating a favourable image for the government, and obtaining economic benefits by attracting international investors who evaluate and appreciate such type of disclosure. Another confirmation of the positive impact of the government owning shares on the level of voluntary disclosure came from a study conducted in Singapore. Eng and Mak (2003) examined the influence of ownership structure (managerial ownership, block holder ownership and government ownership) on voluntary disclosure made by 158 Singaporean listed firms (financial and non-financial firms) in the year 1995. The result of this study demonstrated that increased voluntary disclosure was correlated with significant government ownership in Singaporean firms. As a justification, the researchers claimed that such a relationship is in line with the arguments that “government ownership increases moral hazard and agency problems, and disclosure is a means of mitigating these problems” (Eng & Mak, 2003, p. 341).

Moving to another aspect of ownership structure and its influence on voluntary disclosure, interest of foreign investors may lead them to buy shares in national companies, and this is argued to be an action that bolsters the trend towards disclosing more information and paying incremental attention to social and environmental aspects. Andrew et al. (1989), who considered the case of publicly listed companies (including banks) in Malaysia and Singapore, showed the significance of firm size in the issue of social disclosure, but they also directed their attention to another dimension. They noted that large companies that disclosed more social information were generally owned by foreign investors, and that such cases were more likely to be found in developing countries. In Egypt, the study by Soliman et al. (2013) found the same results. The passing of approximately two decades offered no different results in a study by Haniffa and Cooke (2005). These researchers investigated the annual reports of 139 non-
financial firms in Malaysia, in the two years 1996 and 2002, and found the relationship between social disclosure made by those firms and foreign share ownership to be significant. This result reflected, in the researchers’ opinion, usage of corporate social disclosure as an attractive tool to guarantee the continuing participation and support of such important shareholders. Haniffa and Cooke (2005) argued that various disclosures might become more desirable, as firm shares were owned by different investors, especially when foreign ownership is a major category. This argument confirms the view of Cormier and Maganan (2003a) who believed that disseminating environmental information at a high level of quality would be the result of a firm’s shares being held by a wide range of investors, with a significant proportion being owned by foreigners; as a result, disclosing information in this case can be seen as an action to bridge the gap between managers and those who are geographically far from the information source.

Conversely, an analysis of the annual reports of 17 Indian banks for the year 2000 by Chipalkatti (2002) resulted in the researcher finding no significant relationship between the proportion of shares owned by foreign investors and the level of banks’ disclosures. The 2008 study by Amran and Devi also evidenced, contrary to the expectations of their study, that foreign shareholders and stakeholders as a whole had no significant effect on corporate social reporting. The researchers justified this result by arguing that such a result may have occurred because of the limited scope of their study. It focused only on annual reports, while some companies used other tools (such as stand-alone reports) rather than annual reports to disclose non-financial information. Another possible explanation was provided by Barako and Brown (2008), who obtained a result that was the opposite to their expectation, which was that “the higher the proportion of foreign nationals on the board, the higher the level of voluntary disclosure of corporate social reporting information” (Barako & Brown, 2008, p. 315). The researchers argued that the existence of foreigners on bank boards may work as a guarantee that the interests of foreign shareholders will be protected and, as a result, this might work as a substitute for producing improved disclosure. Based on this view, foreign ownership (in case of the presence of foreign directors on firms’ boards) can have a negative influence on the level of social and environmental disclosure.

**Listing on stock market**

Listing on a stock market is argued to be beneficial to firms. Reints and Vandenburg (1975) pointed out that being listed on the New York Stock Exchange (NYSE) or the American Stock Exchange (AMEX) is more likely to be associated with a reduction in
the risk level of a security. However, the result of some studies did not support this claim. Ying et al. (1977) point to the conflicting results of some studies, such as those of Merjos (1967), Furst (1970), Van (1970) and Goulet (1974), regarding the positive impact of listing on the market, but they criticised those studies for not making some modifications for the differential risk characteristics of the securities involved. Therefore, the researchers re-examined the impact of listing on the market, using a sample of 248 firms listed on the NYSE or the AMEX during the period 1966–1968. Findings revealed that abnormal positive returns were correlated with the listing event.

The amount of information presented on the stock market might be the main cause of its efficiency. There are requirements to be met before the stocks of a firm can be registered on the market, and releasing more information is one of those requirements. Moreover, Ying et al. (1977) pointed out that firms aiming at listing on a major stock market need not just meet the market conditions for registering, but must also continue complying with any further requirements that might be imposed later. As such, applying for registration on such markets may be construed as an indicator of managers' confidence in a firm's performance. A study by Grant (1980) provided evidence that more information was disclosed (in the Wall Street Journal during the years 1960–1964) on 100 listed (NYSE) firms than that of the 100 “over-the-counter” (OTC) firms. Grant stated: “It might be concluded that there is significantly less information available for OTC firms than for the NYSE firms” (Grant, 1980, p. 257). Confirming the benefit of listing on the market, Dhaliwal (1983), in examining the case of two samples (OTC firms and the NYSE or AMEX firms), did not find a different result to that of Grant’s (1980) study, during the year 1971. This indicated that investors were interested more in listed firms than unlisted ones, and listing on the market is correlated with disclosing more information—which is more likely to lead to benefits to both firms and investors.

A study by Fernandez-Feijoo et al. (2014) used the GRI database as their main data source, and collected data on companies, from 11 countries (in North America, Europe, South America and Asia), in the period 2008–2010. The results indicated that firms listed in the stock market disclose more corporate social information than private ones. The study by Dhaliwal (1983) showed that disclosing more information on listed firms (compared to non-listed firms) has the potential to reduce the uncertainty pertaining to their financial position and, as a result, cause a reduction in the cost of equity capital, as investors tend to accept a lower rate of return. Overall, as Saudagaran (1988) mentioned, the increasing number of listed firms nationally and internationally is proof enough of the perceived usefulness of listing on the stock market.
Not only is listing on the stock market correlated with disclosing more information, (Aljifri & Ng, 2014), but also the degree of stock market seems to be important in affecting the amount of social and environmental information released, since visibility is assumed to be influenced accordingly. In the Portuguese case, even though Branco and Rodrigues (2008a) chose the sample of their study from listed firms—since they are more likely to disclose social information—the researchers described their results as “more difficult to explain”. They found that, in contrast to the expected; firms in environmentally sensitive sectors did not disclose more environmental information than those operating in other sectors. Listing on the second market (not the main one)—which results in less visibility to investors—has been pointed out by the researchers as a potential reason, even partly, for such a result.

Furthermore, listing on more than one stock market, especially foreign stock markets, is argued to be beneficial for both investors and listed companies. Disclosing more information with different aspects (monetary, social and environmental), which is assumed to be required by those markets, is likely to have a positive impact on the quality of investors’ decisions. Hackston and Milne (1996) analysed the annual reports of the largest 47 companies (including the banking sector) listed on the New Zealand Stock Exchange on 31 December 1992. They divided the sample into four groups; the first included companies listed on the stock exchange of New Zealand, Australia, UK and North America; the second encompassed those listed in New Zealand, Australia and the UK; the third incorporated New Zealand and Australia; and the last consisted of companies operating only in New Zealand. The results indicated that listing on more than one market abroad may lead to disclosing more information regarding their effect on society. The researchers stated: “It may be that dual and multiple overseas listings only have an impact when the countries in which the companies are listed have largely different social reporting requirements” (Hackston & Milne, 1996, p. 102).

Confirmation of this argument and results came also from a different context—a developing country. Haniffa and Cooke (2005) considered a sample of 139 non-financial firms in Malaysia, and concluded that multiple listing was one of several important factors having an impact on corporate social disclosure. The researchers indicated that in the absence of regulations about social disclosure in Malaysia, companies operating in Malaysia and listed on foreign stock exchanges took into account the global concern regarding social issues. This seems to be an important step in order to benefit from the opportunity of listing on other foreign markets. This
provides such firms with some advantages such as marketing (selling products and services) and relations in conjunction with employees, public and political relations (Biddle & Saudagaran, 1991; Hossain & Reaz, 2007; Saudagaran, 1988). Biddle and Saudagaran also mentioned access to foreign capital as a major benefit.

However, some studies did not confirm the positive impact of multiple exchange listings on voluntary disclosure. Hossain and Reaz (2007), in considering voluntary disclosure made by 38 listed Indian banks in the year 2002–2003, hypothesized the existence of a positive association between listing with multiple stock exchanges and the amount of information disclosed voluntarily. Their analysis failed to reveal any significance of multiple exchange listings in relation to the extent of voluntary disclosure; that is, the level of such disclosure did not rely on the number of stock markets on which the banks were listed. An explanation of such a result can be found in the studies of some researchers such as Haniffa and Cooke (2005) and Nier and Baumann (2006). Haniffa and Cooke (2005) pointed to the differences between listing in developing countries and listing in developed ones: in the case of less developed countries there is an absence or a lack of rules and regulations regarding social disclosures, as well as low levels (or absence) of public awareness of such issues; the position is the opposite in more-developed countries. As such, firms listed in developing nations are likely to disclose less social information compared to firms listed in developed nations owing to different rules, regulations and public awareness, which are expected to be in existence and more advanced in a latter context. Moreover, even among developed countries, listing in the more developed ones is likely to positively influence the extent and quality of disclosures made by listed firms, since potentially there are more additional requirements. Nier and Baumann (2006) analysed a sample of 729 listed banks in 32 different countries over the years 1993 to 2000, and found, inter alia, that banks with lower realised risk were those that disclosed more information in their reports or had a second listing in the US (which is assumed to be more developed and demanding of more information). The authors stated: “Both the quality and the quantity of disclosure a bank provides may depend on where it is listed” (Nier & Baumann, 2006, p. 337). Going back to the result of Hossain and Reaz (2007), the two stock markets—the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE)—on which Indian banks were listed are both located in India, which implies the same political, social and economic context. As such, the result (that the extent of voluntary disclosure is not related to how many stock exchanges the banks are listed on) can be understood. Additional confirmation (in the context of developing countries) can
be found in the study by Leutz and Verrecchia (2000), which showed that lower measures of information asymmetry and higher stock liquidity were found in the case of German firms which implemented US GAAP in their reports, compared to German firms which applied local guidelines.

What is assumed to be shown above is that listing on the stock exchange (and how many markets and where) requires firms to disclose more information to meet the requirements set in such markets, and satisfy investors’ needs of adequate and suitable information for making informed decisions.

3.2.2 Internal contextual factors

Internal contextual factors—there are many—include factors such as the identity of the company chair, the existence of a social reporting committee and attitudes of internal players (Adams, 2002). Corporate governance and attitudes of managers will now be discussed in some detail.

I. Corporate Governance

In addition to the previously discussed factors that influence the existence and extent of CSED, there is another major set of factors included in the term “corporate governance” (Ali & Rizwan, 2013). Various definitions have been provided for this term, such as “the process by which corporations are made responsive to the rights and wishes of stakeholders” (Demb & Neubauer, 1992), “the manner in which companies are controlled and in which those responsible for the direction of companies are accountable to the stakeholders of these companies” (Dahya et al., 1996, p. 71), and “the system by which companies are directed and controlled” (Cadbury, 2002).

It can be noted from these definitions that corporate governance is a detailed system by which firms are controlled in a way that leads to accomplishing their goals and those of their stakeholders. Such a system influences all procedures conducted within firms and, as a result, it is reasonable to expect that such a system also affects the communication process between firms and all interested groups in society. Thus, since CSED has become a major channel of expressing firms’ attitudes to issues of society and the environment, it is logical to argue that CSED is affected by corporate governance. Gibbins et al. (1990) argue that it is vital to consider corporate governance in order to understand the process of information disclosure.
Two important factors that represent aspects of corporate governance and their influences on CSED will now be discussed. These are Non-Executive Directors on the Board and Foreigners on Bank Boards.

**Non-Executive Directors on the Board**

According to agency theory, behaviours of firms’ directors need to be monitored and controlled by firms’ boards in order to prevent any inappropriate action that fails to serve the particular firm’s interests (Jensen & Meckling, 1976). Firm boards consist of executive and non-executive directors, and it might be seen as a useless task to implement the process of monitoring and control by those who have executive roles in firm activities (Abidin et al. 2009). Many researchers have argued that outside directors are objective and independent (Dahya et al. 2013; Fama, 1980; Kosnik, 1987; Mizruchi, 1983; Singh & Harianto, 1989; Tseng, Wu, & Lin, 2013; Uadiale, 2012). Mangel and Singh (1993) stated that “the outside members are theoretically in a position to resist influence from the CEO and other inside directors” (Mangel & Singh, 1993, p. 342).

Monitoring management is one of the duties of outside directors (Franks et al., 2001), a role believed to be played better by them than by insider directors (Weisbach, 1988). Having outside directors on the board raises the chance of protecting interests of stakeholders against possible emergence of opportunist behaviour of top management (Fama & Jensen, 1983). Brickley and James (1987), investigating the case of banks, found that outsider directors may serve as an effective tool of control on managerial consumption of perquisites. Evaluating the performance of managers and replacing unsuccessful ones are important roles of the board of directors, and these tasks have a greater chance of attainment in the case of a board dominated by outside directors (Weisbach, 1988).

According to Pearce and Zahra (1991), a board dominated by outside directors is a condition of the existence of a proactive board. They listed the aims and the usefulness of inclusion of such directors as:

> To enhance their independence of management, to increase the level of expertise presented among directors, to enhance objectivity in board proceedings and decisions, and to ensure the effective representation of important constituents in society (Pearce & Zahra, 1991, p. 137).

The desire to become successful in accomplishing such goals has been emphasised as a motive for outside directors to have a positive role on the firms’ boards. Fama and Jensen (1983, p. 315) stated, “Outside directors have incentives to develop reputations
as experts in decision control … The value of their human capital depends primarily on their performance as internal decision managers in other organizations”. Non-executive directors in firms with poor performance are prone to lose reputation, and have little chance of being considered for such a high position in the future (Gilson, 1990; Kaplan & Reishus, 1990). As a result, outside directors of a firm are motivated to do their best to ensure the success of that firm, because a successful firm is a sign of the capability of its directors (Weisbach, 1988). Such motivation logically leads to the assumption that non-executive directors should be interested in issues that link the firm to society and the environment. Zahra and Stanton (1988) claimed the likelihood that non-executives are responsive to issues of honour and obligations and, as a result, are inclined to encourage fulfilling corporate responsibilities to society. Based on such arguments, corporate decisions about social and environmental issues are more likely to be positively affected by boards dominated by non-executive directors.

Nevertheless, doubt can be cast on the objectivity of non-executive directors. There is an argument that since non-executive directors in a firm are corporate executive officers in other firms, it is possible that they may be sympathetic to corporate executive officers in the other company, and this may influence the objectivity claimed (Mangel & Singh, 1993). Moreover, the imitation behaviour adopted by firms (Bettenhausen & Murnighan, 1985; Cormier & Magnan, 2003a; DiMaggio & Powell, 1983; Haniffa & Cooke, 2005; Haunschild, 1993) can downplay the perceived positive impact of non-executive directors if such directors come from other firms that do not pay attention to social and environmental matters, or if ignorance of such issues was the general trend of the whole industry.

Another important issue has been highlighted by Franks et al. (2001), who posed the question: Who disciplines management in poorly performing companies? The researchers considered five groups in attempting to find a possible answer, and non-executive directors were one of these groups. Taking into account the two main functions of non-executive directors, which are monitoring and advisory roles, the researchers found that, unlike the case in the USA (see Hermelin & Weisbach, 1991), non-executive directors in the UK do not perform a disciplinary function. The possibility that non-executive directors may replace managers in cases of poor performance has been examined and found, conversely, no proof of disciplining implemented by non-executive directors. Instead, a negative relationship between the proportion of non-executives and board turnover has been found. The researchers
blamed UK regulations, which did not pay enough attention to fiduciary responsibilities of directors: “Weak fiduciary obligations on directors have resulted in non-executives playing more of an advisory than a disciplinary role” (Franks et al., 2001, p. 246). As a comparison, the authors mentioned the opposite case in the United States where directors have fiduciary responsibility to shareholders, and failing to incur such responsibilities might result in prosecution against the directors (as reported by Millstein & MacAvoy, 1998). This matter has led to an increase in the proportion of non-executive directors on directors’ boards, and resulted in the governance function becoming more active.

In addition to the above, low levels of qualifications and experience of non-executive directors may prevent the creation and improvement of awareness of social responsibility of firms. In the study by Haniffa and Cooke (2005), no significant relationship was found between corporate social responsibility and the existence of non-executive directors on boards of a sample of 139 non-financial companies operating in Malaysia within the years 1996 and 2002. The researchers interpreted these findings by mentioning two causes: inadequate levels of knowledge and experience of non-executive directors, and indifference to social issues.

Another point that should be mentioned here is the substitution relationship between voluntary disclosure and the existence of non-executive directors; this has been presented by some researchers as an explanatory reason for the low level of disclosure. Eng and Mak (2003) tested the relationship between independent directors and voluntary disclosure of 158 Singaporean listed firms (financial and non-financial firms) in the year 1995. The researchers found that there was a negative association between the number of outside directors on the board and voluntary disclosure made by the firms; that is, the more outside directors, the higher the level of independency of the firm’s board and, as a result, the less disclosure of voluntary information. Eng and Mak (2003) admitted that this result is inconsistent with that of prior studies, but they justified the contrast by claiming the existence of a substitute relationship between the two variables in the monitoring process of managers’ behaviour.

In the case of banks, Hossain and Reaz (2007) hypothesized that “There is a positive association between the proportion of non-executive directors on the board and the extent of voluntary disclosure of information”. The result was the opposite to the predicted direction. It was found that board composition was not an important factor in
interpreting the level of voluntary disclosure made by thirty-eight Indian banks in the period 2002–2003. The researchers justified this finding by stating:

...independent directors cannot provide any pressure to provide voluntary information. Moreover, the bank’s financial information also plays a vital role in day to day economic activities. The bank follows the mandatory instruction strictly and independent directors also keep pressure on it” (Hossain & Reaz, 2007, p. 284).

Such explanation seems incomplete and somewhat misleading if the results were to be accepted in general without reasonable justification. There is no explicit reason why non-executive directors could not put pressure on banks to disclose voluntary information. The claim that banks follow the mandatory instruction strictly did not offer any justification for the result that those banks disclose “a considerable amount of voluntary disclosure” and “corporate social disclosure… has been disclosed in the annual reports in the Indian banks to an acceptable level” (Hossain & Reaz, 2007, p. 285). The researchers provided just two elements (size and assets-in-place) to be related to this acceptable level, and rejected the impacts of any other element such as board composition, diversification, age, multiple exchange listing and complexity of business. Furthermore, no external factors such as cultural, political or economic effects were investigated to explain the level of voluntary disclosure found, or to justify why such elements did not work.

The positive relationship claimed at the beginning of this discussion has been supported by many studies. Chen and Jaggi (2000) examined the relationship between non-executive directors on corporate boards and comprehensive financial disclosures made by 87 large Hong Kong firms in 1993 and 1994. Findings indicated a positive relationship between the two variables. However, this relationship tends to be weaker for family-controlled firms. The study showed that the existence of non-executive directors on the firm’s board encourages firms to comply with disclosure requirements, enhances the monitoring process, and increases the transparency level within the board. Such changes are more likely to result in enhancements in the comprehensiveness and quality of disclosures (Forker, 1992).

In the banking sector, Barako and Brown (2008), in their study of annual reports of forty Kenyan banks, confirmed the significance of the existence of non-executive directors on bank boards in enhancing social disclosure practices. It was found that the more non-executive directors on the bank board, the greater the improvement in social disclosure. This was a result of reform policy implemented by the Central Bank in
Kenya, which encouraged Kenyan banks to include more non-executive directors on their boards. A confirmation of this study came from the case of Bangladeshi banks studied by Khan (2010). This researcher used multiple regressions to gauge the impact of three elements of corporate governance, including the impact of non-executive directors on bank boards on subsequent corporate social responsibility reporting. Significant impact was found regarding the factor mentioned.

More recent support came from Pakistani and Turkish banks. A study by Sharif and Rashid (2014) examined CSED of Pakistani listed commercial banks during the years 2005–2010, and the relationship between this disclosure and different corporate governance elements. It was found that non-executive directors have a positive impact on the CSED. Also, a study by Kiliç et al. (2015) proved the significance of independent members on the board as a determinant of CSED level in the Turkish banking industry, during the period between 2008 and 2012.

**Foreigners on Bank Boards**

In line with the argument that ownership by foreigners has an impact on the level and quality of social and environmental information released by firms, some researchers argue also that corporate social and environmental disclosure can be affected by the existence of foreign nationals on boards of directors. Of course, foreign nationals, in this context, are assumed to be those who are from developed countries, where social and environmental issues receive a considerable amount of attention from information users and society at large. It is assumed that such interest and knowledge will be transferred to boards of domestic firms in developing countries by foreign executive or non-executive directors.

One of the hypotheses of Khan’s (2010) study was that the degree of corporate social disclosure made by Bangladeshi banks is associated positively with the proportion of foreign nationals on a bank’s board. This proportion was around twenty-one per cent overall, and in some banks, represented half of the banks’ boards. The results of the study supported the validity of the hypothesis mentioned; that is, the level of voluntary social disclosure of Bangladeshi banks was found to be significantly correlated with the proportion of foreign nationals on the board. The study of Muttakin et al. (2015) lends support to such result. This study revealed that there was a positive relationship between foreign directorship and the extent of the CSED provided by listed Bangladeshi non-financial companies.
In contrast, the case of Pakistani banks showed a reverse relationship. In a study by Sharif and Rashid (2014), the relationship between foreign nationals on the board of directors and CSED of Pakistani listed commercial banks, during the years 2005–2010, was found to be insignificant. This confirmed the result of another study conducted in 2008. Barako and Brown (2008) found insignificant association between the proportion of foreign nationals on bank boards and the level of corporate social reporting made by Kenyan banks. Barako and Brown (2008) justify their finding by assuming that since the existence of foreign nationals on a bank’s board is likely to be seen as a protection of interests of foreign owners, the presence of foreign directors downplays the importance of social disclosure. In other words, a substitution relationship may exist between social disclosure and foreign directors on a bank’s board.

Such explanation seems to be inconsistent with the common assumption that foreign nationals represent high levels of knowledge and care about the environment and society. Alternative explanations can be provided to justify this result. First, the proportion of foreign nationals on the board might be small and, as a result, may be insignificant and non-influential in decision making processes regarding social and environmental disclosure. Second, the issue of whether the foreigners on the bank board were executive or non-executive directors, qualified or not qualified, with or without multiple directorships, may play an explanatory role in this matter. Third, such a result might also be justified by looking at the Kenyan context. The quality of the legal system and the political situation, along with the level of corruption (which is widespread in many African countries) might spoil the expected result. That is, such possible circumstances may alter the meaning of “interest” to be confined to just financial interests of the bank owners, irrespective of how much damage might occur to Kenyan society and its environment. In other words, being aware of weaknesses in legal and punishment systems in regard to the issue of negative impacts of banks’ activities on the environment and society, foreign investors and directors may be motivated to ignore, or at least not encourage, fulfilling the banks’ responsibility to the environment and society.

II. Attitudes of managers to CSED

In evaluating CSED practices, several elements are needed to be taken into consideration. These include values and motives that influence the perceptions, attitudes and decisions of those who are responsible for organisational performance (Maclagan, 1999). Many researchers—for example Deegan and Rankin (1999) and Lungu et al.
(2009)—proved the existence of a gap between those who are responsible for producing social and environmental information (managers), and the users of this kind of information. Thus, much attention has been paid (see Adams, 2002; Belal & Cooper, 2007; Belal & Owen, 2007; Buhr, 1998, 2002; Ferreira, 2014; Kuasirikun, 2005; Larrinaga-Gonzalez & Bebbington, 2001; Larrinaga-Gonzalez et al. 2001; Lodhia, 2003; O'Dwyer, 2002, 2003; Rahaman, Lawrence, & Roper, 2004) to examining and discussing the perceptions, motivations and attitudes of the managerial group in regard to social and environmental issues related to firms’ activities, hoping that the findings gained might help in explaining and bridging that gap. The importance of managers to the degree of social and environmental disclosure can be noted in that all factors that have been discussed previously; these will now be discussed in terms of their influence on managers’ decision-making pertaining to this issue. In line with this, the related decisions might be classified into two categories: (1) decisions taken as merely a response to (and a result of) legislation enforced by law and interventions of governmental bodies, financial markets, and professional associations and (2) decisions taken in a voluntary environment where managers have the final say in disclosure matters. In the latter case, it seems more worthwhile and important to pay particular attention to what might have an impact on managers’ decisions to disclose the result of the interaction process between firms and environment and society at large. Healy and Palepu (2001) state that “management motives for making voluntary disclosure and their credibility are, therefore, interesting empirical questions”, and Khan (2010) suggested that “future research which emerge to be worthy of exploration is to find out the motives and opinions of management towards reporting CSR information”.

Managers are assumed to gain many benefits from communicating social and environmental information. The information gap between managers and investors can be reduced (by managers) by providing investors with adequate and related information (Cormier & Magnan, 2003a). These researchers argued that this will enable managers to obtain users’ trust and bring many benefits to a firm such as allowing it to lower its cost of capital, raising its stock valuation multiples, increasing stock liquidity and enhancing interest by institutional investors. The authors mentioned confirmation of a Canadian study which considered the case of large firms, and concluded that such incentives do influence managers’ decisions about environmental disclosure. In discussing the motivations for voluntary disclosure, Healy and Palepu (2001) pointed to some goals that managers attempt to achieve from disclosing voluntary information, such as raising their chances of obtaining and increasing compensation. However, this result is
opposite to that of a study conducted by Francis et al. (1994), which dealt with the avoidance of litigation that might occur in the case of negative news (Skinner, 1994, 1997).

Nevertheless, there are many reasons behind the weak or even negative role of managers in social and environmental disclosure. Lack of knowledge in the field of non-financial disclosures—and in particular, how to gauge, produce and release information on the results of interactions of firms with the environment and society—seems to be a real obstacle; it is also one that causes low levels of disclosure and even an absence of such disclosure. Belal and Cooper (2007) investigated the reasons behind several Bangladeshi companies’ lack of disclosure on three subjects: child labour, equal opportunities and poverty alleviation. The researchers surveyed the opinions of 23 senior corporate managers by using interview methods. Lack of knowledge and awareness were found to be one of four reasons causing the very low level of disclosure regarding those issues. The authors pointed out that such findings are more relevant to the case of developing countries, where managers do need training programs to provide them with the necessary knowledge and skills to implement and succeed in social and environmental activities. Lungu et al. (2009) confirmed the need for qualified personnel in this area. They stated: “In areas such as scope of reporting, consistency of methodological approaches as recognition and measurement policies and timeliness of reporting, we believe that improvements in quality are required”. It is obvious that such quality needs certain qualifications or special training programs, which might not be found or even considered in the case of developing countries. In Qatar, a study conducted by Al-Khater and Naser (2003) revealed that one possible reason for not disclosing corporate social information is a lack of knowledge available in companies regarding this kind of information. Belal (2001) mentioned an under-developed corporate culture as one of many factors causing the unsatisfactory level of social disclosure by Bangladeshi firms. In line with this result, and in the same country (after some years), Sobhani et al. (2009) highlighted a good corporate culture in the banking sector as one of several reasons for superior disclosure practices of banks amongst 19 industry groups.

The previous shortcoming is compounded by the misunderstanding of some managers about CSED. Non-financial information is considered as a means to build the reputation of firms and managers rather than a way to discharge and enhance a firm’s responsibility to the environment and society (Trueman, 1986; Owen et al., 2001).
Furthermore, the involvement of a firm in issues related to the environment, society and ethics is likely to affect its image in people’s eyes (Al-Khater & Naser, 2003), and enhancing this image has become a major goal for some managers, instead of benefiting people and society at large. Some firms disclose social and environmental information to their stakeholders to satisfy their needs and promote a favourable image (Haniffa & Cooke, 2005; Sobhani et al., 2009). In a study of Islamic banks by Maali et al. (2006)—which may be focused more on their influence on the environment and society—the researchers found that most of the banks did not perceive social issues as an important concern that needed to be taken care of; rather, banks used social disclosure as a tool to create a positive image. Brown and Deegan (1998) assumed that some managers use environmental disclosures in particular ways to shape or alter the perceptions of information users.

Following this vein of thought, it is reasonable to assume that managers may go further to produce only positive information, and omit negative material. Many studies mentioned at the beginning of this chapter support this trend. Managers are afraid of the negative impact of releasing bad news on the price of their firms’ shares, and the future of such firms. Thus, they deal with it cautiously. The respondents in Al-Khater and Naser’s (2003) study considered social information as being sensitive. However, releasing only positive information may lead to unexpected and unwanted results. Releasing information that is too self-serving increases the possibility of the information being viewed as lacking in credibility from an investor’s point of view (Cormier & Magnan, 2003a).

The disposition of managers towards risky investments can also affect their desire to release more information. Nier and Baumann (2006) pointed out that investors will punish banks that choose risky investments, and such reaction is likely to not happen, or to be weak, in two cases: lack of knowledge of investors about the risk profile of the bank (in the former case), and releasing limited information regarding the matter (in the latter one). Based on Nier and Baumann’s (2006) argument, one can assume that management, when choosing risky investments, tends to conceal, partly or entirely, the information related to these activities; and since some risky investments can be attributed to environmental and social effects, the level of social and environmental disclosure made by such management can be low, and the content of this disclosure might be questionable.
The weak or even negative role of managers in social and environmental disclosures can also be attributed to the continuous consideration of economic objectives as the only goal of firms, and is another example of the lack of awareness by some managers regarding social and environmental issues and changes in the business world pertaining to the positive role of entities in society. One of the results from Al-Khater and Naser’s (2003) study, which considered the opinions of four groups, including bank officers, underscores the importance of economic performance rather than social performance as a goal of companies. As such, even managers’ time devoted to discussing social and environmental issues is expected to be limited. Cormier and Magnan (2003a) criticized financial statements for being inadequate in terms of the cost of environmental performance of firms. They suggested three steps to render financial statements more accurate and dependable; one of those steps is to extend the time dedicated by managers to discuss environmental issues related to their firm’s activities.

There is another obstacle to disclosing social and environmental information at an acceptable level: although some managers accept that CSED is a necessary and important activity to ensure the continuation of their firms in the highly competitive economic world, they remain unconvinced of its greater importance—to inform society, which has the right to know, whether their firms are fulfilling their responsibility to society and the environment. The study by Belal and Owen (2007) revealed that social disclosure by Bangladeshi firms was a response to pressure from powerful stakeholder groups, especially outside forces such as international buyers and parent companies, without any real changes in the behaviour of firms regarding social issues. Such observation confirmed the findings of other studies such as those of Larrinaga-Gonzalez and Bebbington (2001) and Larrinaga-Gonzalez et al. (2001). This situation seems to be prevalent, not just in the case of those who produce social and environmental information, but also in the decision-making processes of those who use such information. Thompson and Cowton (2004) investigated the case of banks in the UK in terms of the linkage between environmental information and lending decisions; they found that the importance placed by banks on environmental information was solely for its relationship with managing risks associated with lending decisions, rather than implementing their social responsibility. It is important to realise that the difference between conceiving social and environmental disclosure as a necessary response (firms must give) to stakeholders and considering such disclosures as the right of society in general is a difference that firms should respect. Deegan et al. (2002) stated that disclosure decisions driven by the desire to be legitimate are not the same as disclosure
policies driven by a management view that the community has a right to know about certain aspects of an organisation’s operations. One motivation relates to survival, whereas the other relates to responsibility. It is obvious that the latter is more likely to be lasting, and to represent the real meaning of responsibility.

Even for those managers who are aware of the importance, necessity and benefits of disclosing social and environmental information, there is another issue which might emerge and prevent them from disclosing such information at an acceptable level, and that is cost-benefit measurement. The issue of whether disclosing information is, economically, a right decision is one of the three main research problems in the academic field (Hossain & Reaz, 2007), and the cost of such information is suggested, by prior research, to affect corporate disclosure (Cormier & Magnan, 1999). The results obtained from investigating 33 Canadian firms during the period 1986–1993 by Cormier and Magnan (1999) also confirmed that the cost of environmental information is one of the main determinants in disclosing it. The possibility that such cost might exceed the benefit of information disclosed was considered in the study by Al-Khater and Naser (2003). This study revealed the opinion of university lecturers, accountants, external auditors and bank officers that the cost of disseminating social information outweighs the benefits expected, and this might be, inter alia, one cause of not disclosing such information. Hossain and Reaz (2007) agreed that low levels of disclosure, or even no disclosure, might be the result of the interaction between benefits and costs of information disclosure, although such a relationship was not found for social disclosure in the study by Cormier and Gordon (2001). Cormier and Magnan (2003a) specified some aspects of the cost of environmental disclosure. They mentioned the likelihood of using such information by external groups (such as competitor firms and pressure groups) to cause damage to the disclosing firm in many ways, such as harming its reputation, and even emphasising the bad news released, to be an excuse for the intervention of governmental bodies. Such a scenario might push the firm in question to filter the information intended for release, in order to stop being taken advantage of. Nevertheless, Cormier and Magnan (2003a) stated that “in most cases, such value creation is greater than any potential reduction in value resulting from the release of negative environmental information. Most studies on other countries provide similar evidence (US, France).”

Accomplishing personal and specific interests can be another reason for not practising CSED in an efficient way. The absence (or weakness) of such practices can be
construed as a wilful action to serve interests of some powerful stakeholders such as shareholders and managers (Guthrie & Parker, 1990; Belal & Cooper, 2007). In regard to managers’ interests, the relationship between both ownership structure and board composition, and voluntary disclosure made by 158 financial and non-financial Singaporean companies (listed on the Stock Exchange of Singapore) in 1995, were examined by Eng and Mak (2003). The authors expected a negative relationship between voluntary disclosure and managerial ownership. They justified their expectation on two grounds: (1) by arguing that low managerial ownership implied that managers would find motivation to consume perks and decrease incentives to maximize job performance (Eng & Mak, 2003), and (2) by claiming that this would lead to increased monitoring (and cost as a result) of managers to prevent such behaviour. The researchers suggested that voluntary disclosure might work as a substitute for this costly process. The result of the study confirmed such a suggestion: the increased level of voluntary disclosure was found to be correlated with lower managerial ownership. The negative relationship between disclosure and managerial ownership was also found in a previous study conducted by Ruland et al. (1990).

Imitation behaviour has also been argued to be a determinant of disclosure level. Firms' managers, in producing environmental information, keep their eyes on the level of disclosures made by their counterparts to ensure that they are all on the same page (Cormier & Magnan, 2003a). By attempting to improve the understanding of the factors that influence social disclosure in the Malaysian context, Haniffa and Cooke (2005) found that a “bandwagon effect” was one of several reasons behind social disclosure practices. The problem with such behaviour is that, in case of voluntary disclosure, low levels, or even absence, of disclosure is likely to be recorded, especially when social disclosure practices are undeveloped or flawed. Furthermore, this behaviour can turn disclosing information into a routine process. With such a process, the same information is potentially produced each year, regardless of the changes in circumstances of both firms and information users, so that the opportunity of using disclosure as a tool for creating value is likely to be missed (Cormier & Magnan, 2003a).

The last point to be made here is the fact that social and environmental disclosure practices are normally not considered in the process of evaluating the performance of managers and this, in turn, will downplay the desire by managers to be involved in such activity. It is reasonable to assume that managers, and even normal employees, are motivated to meet the standards that were set to give indicators of good performance by
personnel. Considering the quality and the level of social and environmental reports as norms in evaluating managers’ performance would improve such reports, and benefit firms and their stakeholders alike.

3.2.3 General Contextual Factors

In an attempt to gain a better understanding of social and environmental practices and what affects their quality, many studies have been focused on particular factors termed external factors or so-called general contextual factors. External factors are those elements that are out of a firm’s control, but at the same time might affect its performance, and even its existence. They include factors such as political, economic and cultural contexts (Fifka, 2013) which, it is argued, can be influential to the activities conducted by firms. Hence, the practices of social and environmental disclosure as a medium for disseminating information about the interaction of economic entities with society and the environment are assumed to be influenced by such mixed contexts. Social and environmental disclosure is simply a communication tool between all interested groups and, in order to evaluate the effectiveness of such a tool, general contextual factors should be taken into consideration in evaluating a firm’s performance.

In a study by Belal (2001), social disclosure made by public and private Bangladeshi companies was found to be only positive, descriptive, and very poor in volume. The researcher provided a list of factors that caused Bangladeshi companies to produce such weak disclosure, including political problems, the ineffectiveness of the regulatory framework implemented, the weakness of the law and punishment system, intervention of the social elite, the prevalence of corruption, a lack of social awareness and organised social groups, the newness of the stock market, weakness of corporate culture, and non-existence of independent verification. It can be noted from this result that some factors mentioned as reasons for weak levels of disclosure are related to political, economic and social context of the country in which firms work. The researcher argued that social, political, regulatory and economic contexts should be taken into consideration to gain a better understanding of social disclosure practices.

However, it is argued that globalized stock markets may downplay the effect of differences between countries on disclosure matters (Cormier & Magnan, 2003b). Branco and Rodrigues (2008a) pointed to this argument as justification for the similarity found between some results of their study and those conducted in other countries. These researchers believe that their results may question the importance of general contextual
factors in affecting the disclosures made by listed companies. Branco and Rodrigues (2008a, p. 699) stated that “there is no reason to expect that companies in the less developed capital markets will behave in a significantly different manner than companies in more developed capital markets”. Yet the studies of both Branco and Rodrigues (2008a) and Cormier and Magnan (2003b) include a recommendation to conduct further studies to validate this idea.

A study by Sobhani et al. (2009) rejected such claims, and ascertained that the level of development in the country in which firms conducted their activities has an influence on disclosure practices. This study indicated that companies operating in developing countries (such as Bangladesh and Malaysia) seem to have similarities in their focus on disclosing more information about their employees, while there is disagreement about the importance of consumers between Bangladeshi companies (which deemed it less important) and their counterparts in developed countries such as the UK and USA. It is obvious that such differences will result in differences in social disclosures, at least in the content of the reports.

Differences are also evident between developed countries themselves. Golob and Bartlett (2007) alluded to some studies (see Owen, 2003; Van der Molen, 2005) which indicate that information on employees, environment and services is more prevalent in social reporting in European countries, while Australian companies are more focused on products, management and financial performance. The researchers interpreted such differences as a reflection of social and economic circumstances prevalent in those countries. This interpretation confirmed the claim of authors such as Deegan (2002) and Guthrie and Parker (1990) that country is one of the factors influencing reporting practices. Simnett et al. (2009) analysed sustainability reports (published voluntarily) of a large sample (2113 companies from 31 countries) and found that taking into consideration country-specific factors is not just an important assurance issue, but an accounting issue generally.

The meaning of the term country includes a vast range of circumstances which discriminate one group of people from others. This involves factors such as history, geography, natural environment, language, culture, and economic and political systems, which together affect, directly or indirectly, any kind of activity people are engaged in. As a result, each country is, even partly, unique. For this reason, and as a micro-example, there are still difficulties in implementing unified standards in accounting practices worldwide. As such, it seems hard to believe that social and environmental
disclosure practices are not affected by circumstances of countries where such practices are implemented. In supporting such a claim, this thesis discusses some general contextual factors in terms of their effect on the practices of social and environmental disclosure.

**Political systems**

The influence of political systems can be represented by several important factors, including legal factors and regulations, the effect of a central bank, professional bodies and the political environment. These will now be discussed in detail.

**Legal factors and regulations**

There is no doubt that law has an effect on economic relations (Fifka, 2013). Contracts, transactions, and every economic action are often controlled by rules in order to be considered legal. As such, since relations between firms and their stakeholders and society as a whole can be seen as economic action, it can be argued that laws and regulations have a role to play in the process of releasing information about such relations. Inchausti (1997) stated: “Legislation appears to produce a strong increase in disclosure”.

In a study by Tsang (1998) which considered social disclosure of Singaporean companies (including banks), this kind of disclosure was found to have increased during the period from the late 1980s to 1993, then remained at a stable level until 1995. The researcher justified the increased level by describing, inter alia, steps taken by the Singaporean government, including training workers, launching campaigns regularly to save energy and water, and implementing further legislation relating to environmental issues. The impact of government efforts has also been highlighted by the study by Amran and Devi (2008), which found that social and environmental disclosure practices of firms that depended on government or were owned significantly by government, as well as those seeking governmental contracts, were influenced by the perception of the Malaysian Government on social and environmental matters. This confirmed the result of Baskin’s (2006) study which considered the case of 1827 companies around the world. This international study demonstrated that firms are strongly affected by laws implemented where they operate, and government does have the power to promote corporate responsibility. A significant impact of regulatory change, on nature and extent of CSED, was also observed by Ullah and Rahman’s (2015) study, which considered the case of commercial banks in Bangladesh.
Notwithstanding regulations that are normally seen as the main tool governments use to prevent some actions and to prompt others, there are some arguments as to whether social and environmental disclosure should be mandatory or voluntary. Accordingly, in investigating the determinants of corporate disclosure, there have been many studies that have focused on mandatory disclosure, while others concentrated on voluntary disclosure (Barako & Brown, 2008).

It is important to recognise the differences between mandatory and voluntary disclosure; in the latter, some factors such as attitudes and perceptions of managers should be given more attention and focus in order to gain a better understanding of social and environmental disclosure practices. Yet this assumed importance may not be found at the same level in the case of developing countries, where the effects of laws, regulations and enforcement mechanisms might be questionable due to the influence of other dominant factors such as the political situation or levels of corruption.

However, it is argued that companies make disclosures in response to formal regulations issued by governmental bodies (Boden, 1999; Jacobs & Kemp, 2002). Moreover, the absence of these regulations is more likely to result in weak disclosures or the absence of disclosure altogether. This argument is supported by Jacobs and Kemp (2002). In answering the question “Why do we need accounting information?”, the authors offered many possible answers, and “absence of governmental bodies’ demand of accounting information” was found to be the potential cause for the lack of such information. A study by Belal (2001) demonstrated that weaknesses in the law and punishment system, and ineffective regulations generally, contributed to the weak levels of disclosure by Bangladeshi companies. This lends support to the findings of Imam’s (2000) study, which established that the relevant laws, inter alia, are a possible factor for the low level of social and environmental disclosure made by Bangladeshi companies in the period 1996–1997. Similar results emerged from the study by Belal and Cooper (2007), where the lack of legal requirements was one of the main reasons for not disclosing information on some social responsibility issues (investigated in the study); namely, child labour, equal opportunities and poverty alleviation. In studying the Chinese government’s formal institutional influence on corporate environmental management, Rowe and Guthrie (2010) confirmed the fact that Chinese firms disclose environmental information mainly to reduce concerns from the Government. Furthermore, they found that senior managers and executives in Shanghai believe that greater government coercive regulatory instruments are the preferred strategy to encourage Corporate
Environmental Management. In another study, Kolk (2003) analysed the sustainability reporting of the Fortune Global 250 companies in 1998 and 2001. His analysis revealed that there was a continued and significant increase in sustainability reporting. The researcher found that, in addition to the impact of some international initiatives such as GRI, government regulation and encouragement is likely to have positive impact upon both the quantity and quality of sustainability reporting. He stated that sustainability reporting is “driven by public and government pressure, and something that is likely to fade away when these forces recede (Kolk, 2003, p. 289). He concluded that “The existence of legislation, originating primarily from Europe and perhaps Japan, contributes to maintain a certain level of sustainability reporting, both in quantity and quality (Kolk, 2003, p. 290).

Voluntary social and environmental disclosure practices tend to be influenced by orientations. In the absence of related regulations, companies are more inclined to disclose positive information (Belal & Cooper, 2007). This viewpoint is supported by Deegan and Gordon’s (1996) study, which demonstrated that managers’ objectivity was questionable when regulations were absent. The study revealed that environmental information disclosed in annual reports of Australian companies was self-laudatory. Such information may be deemed by investors as too self-serving and lacking credibility (Cormier & Magnan, 2003a). Contrastingly, with the existence of unfavourable information, companies may choose not to disclose it, as releasing such information might damage their value in the stock market (Cormier & Magnan, 2003b). Wiseman (1982) evaluated voluntary environmental disclosures of 26 companies and demonstrated that these disclosures were either incomplete or inaccurate. Moreover, voluntary disclosure motivates managers to use cost–benefit measures (Cormier & Magnan, 2003a); that is, in the case of voluntary disclosure, decisions on disclosing information may become based on the result of evaluating the costs and benefits of such action. As such, decisions are more likely to be taken not according to the interests of society and the environment, but rather according to priorities that serve the interests of management and the company. Such actions take firms many steps backwards by restoring the traditional objective of the company, which is no more than maximising profits. Another point to be made in respect to voluntary disclosure is that it may not encourage firms to go further when they reach a certain level of disclosure, due to imitation behaviour found in the conduct of some firms. Tsang (1998) justified the stability of the level of social disclosure made by Singaporean firms during the period 1993–1995 by stating: ‘One reason may be due to the voluntary nature of CSR. Once
The companies attained a certain level of disclosure, they were not motivated to go further.

Based on the above, a considerable number of researchers are in favour of mandatory disclosure, and results of many studies underscore the importance of making disclosure mandatory in order to be practised by companies in a proper way. Potential conflicting interests between managers and investors, imitation behaviour conducted by many firms, and trust of investors in disclosures made in accordance to mandatory rules are all matters creating a need for implementing legislation regarding disclosures (Cormier & Magnan, 2003a). Legislators and policymakers of environmental information and the users of such information—who disagree with each other on many points, as revealed in the study by Deegan and Rankin (1999)—both agree that legal obligations are the most influential element in disclosure decisions.

It is argued that legislation pertaining to social and environmental disclosures is one of the factors causing an increase in such kinds of disclosure in some developed countries (Haniffa & Cooke, 2005). For instance, the percentage of French firms that disclose environmental information increased dramatically from 4% in 1999 to 21% in 2002, due possibly to the trend of making environmental disclosure mandatory and imitating policies (regarding environmental issues) implemented in some European countries such as Denmark, Norway, Sweden and the Netherlands (Owen, 2003). Not only did the level of reporting increase, but the quality of reporting also improved as a result of introducing more regulations on social reporting. A study by Crawford and Williams (2010) compared the case of French banks and that of US banks in respect to country context and its impact on the quality of social reporting; the study was an attempt to answer the following question: Should corporate social reporting be voluntary or mandatory? Findings of the study demonstrated that quality disclosure (on average) was higher in France, which represents a case of countries with higher regulative pressures; that is, the more regulation implemented, the higher the quality of disclosure. This result confirmed the claim of Cormier and Magnan (2003a) (which resulted from evaluation of environmental disclosure made by Canadian firms) that implementing tough regulations on environmental disclosure leads to the quality of such disclosure being enhanced. From another angle, since firms want to add credibility to this high quality information, they require auditing services provided by auditors; supporting this, the study by Simnett et al. (2009) demonstrated that the demand for auditing services is higher in those countries which have a strong legal system.
However, the impact of legislation and regulations on the level and quality of social and environmental disclosure is not as strong as it should be worldwide. Belal (2001) found that more than half the firms investigated in his study did not disseminate mandatory information, such as information required on foreign currency transactions. The researcher pointed to the weakness of regulatory frameworks as a cause, and also mentioned the negative impact of social and economic factors such as corruption or an unstable political situation. This study shows that the effect of some factors, such as law, can be undermined by political and social situations. In this sense, issuing more legislation, especially in developing countries, may not improve social and environmental disclosure practices.

The above discussion may add more support to the argument that analysing the association between disclosure practices and general contextual factors is more difficult than analysing other factors. This can be attributed to the difficulty in isolating the contextual variables and the complex links between them (Adams, 2002).

Central Bank

In the case of investigating social and environmental disclosure made by banks, it is necessary to discuss, even briefly, the role of the Central Bank as it has the highest authority and is the dominant player in banking systems. Due to regulatory and supervision authority, the Central Bank’s activities are directly influenced by policies and regulations issued and imposed. As such, the process of considering social and environmental issues in the daily work of banks, and disclosing information about the impact of banks on society and environment can be improved by the Central Bank (Amin, 2014). After investigating the case of social and environmental disclosure by 100 Bangladeshi listed companies (operating in 19 different industries), Sobhani et al. (2009) found that banks were the most disclosing firms, achieving the highest level of CSED in all aspects, even in environmental topics. The researchers justified such findings by highlighting the important role of the Bangladeshi Central Bank in implementing strong monitoring and control procedures on other Bangladeshi banks, leading to a good corporate culture in the banking sector and, as a result, an increased awareness by banks regarding social and environmental issues. The results of this study and the explanation provided by the researchers were also confirmed in studies by Khan (2010) and Khan et al. (2010), which focused exclusively on Bangladeshi banks.

Having a good culture with regard to the impact of banks’ activities on the environment and society, and being aware of factors positively influencing social and environmental
disclosures made by banks, the Central Bank is more likely to encourage steps in improving and consolidating the performances and disclosures of other banks. Barako and Brown (2008) studied corporate social disclosure by Kenyan banks, and investigated some factors that might influence this kind of disclosure. Their findings revealed that, inter alia, a high level of non-executive directors on a bank board enhanced bank disclosure. The researchers indicated that this was a result of a long-standing Central Bank policy of encouraging Kenyan banks to increase the number of independent directors on their boards.

The relationship between the Central Bank and other international financial organisations has also been argued to have a positive impact on the direction of improving social and environmental disclosure practices. Khan et al. (2010) examined the sustainability reports of major Bangladeshi commercial banks by using the indicators included in GRI. It was found that social disclosures practices of these banks could be improved by being more holistic, and this improvement was conditioned by the participation of the Central Bank as a regulatory agency. The researchers mentioned that the Bangladeshi Central Bank had a partnership relationship with some global partners such as the IFC, a member of the World Bank Group, and such relationship affected—through the process of monitoring or encouragement—the way Bangladeshi banks conducted their activities. It encouraged them to become more positive in terms of their effect on society and the environment, and to release information beyond their financial performance. The authors argued that regulatory requirements of the Central Bank and its financial partners are a main motivation for Bangladeshi banks to discharge their responsibilities to the environment and society at large.

*Professional bodies*

Pressures from both market and regulatory bodies are influential factors in accounting information (Inchausti, 1997). Regulatory bodies, in terms of their impact on the process of disclosing information, can be divided into two categories: governmental agencies and non-governmental agencies (Belal & Cooper, 2007). The accounting profession is included in the last group (non-governmental bodies). Deegan and Rankin (1999) demonstrated that information users such as shareholders, academics and reviewers of organisations were more likely (compared to information producers) to consider the accounting profession (in addition to government) as an appropriate body to issue guidelines for environmental reporting. As well as standards, this includes the development of accounting objectives and practices, which are both influenced by the
accounting profession (Radebaugh, 1975). Furthermore, Deegan and Rankin (1999), whose study revealed the existence of a gap between environmental reporting policymakers and users, recommended professional bodies (beside institutions of higher education) as a tool to remedy the problem.

The accounting profession is believed to have an important role to play in the matter of social and environmental disclosure. This role can be performed by accounting associations in many ways. Firstly, accounting associations can issue particular regulations mandating the kind of information that should be published in company reports, and what means should be used in the disclosure process. In addition, a continuous revision should be applied to current practices in order to ensure their suitability for social and environmental issues. Cormier and Magnan (2003a) argued that financial statements have a weakness in terms of environmental information and liabilities, and suggest some ideas to address this weakness, such as “a revision of accounting recognition and measurement in order to restrict the freedom of management and auditors to refrain from reporting environmental liabilities due to the uncertainty about their magnitude”. Secondly, there are several methods that can be adopted, including the introduction of social and environmental awards. Such initiatives should encourage companies to act in a positive way regarding social and environmental issues related to their activities, and to publish their social and environmental information at an acceptable level. Thompson (2002) mentioned the positive impact of the ACCA’s UK Awards Scheme in promoting environmental disclosure practices—which stimulated other countries such as Singapore and Malaysia to adopt similar initiatives. Thirdly, the accounting association has a responsibility to enhance the abilities of its members via, for example, the use of training programs pertaining to understanding and applying new perspectives, methods and approaches to improve the process of decision making by providing high quality information. Fourthly, suitable methods should be developed and implemented to raise awareness in society in respect to the required role from banks in social and environmental issues, and how society can support this role.

Political environment

Corporate social and environmental disclosure is simply a tool of communication between firms’ managers and a variety of information users. Thus, since interactions between people is likely to be influenced by the environment in which they live, it is reasonable to assume that such communication processes are also affected by this environment. The political environment, represented by political rights, civil liberties
and the type of political system, is argued to be influential in disclosure issues. Political rights (such as voting rights) and civil liberties (being free from the control of the state) are likely to have an impact on the communication process between individuals and organisations alike (Belkaoui, 1983). Belkaoui (1983, p. 209) proposed that “violations of political rights and civil liberties associated with various forms of political structure may restrict political freedom in general and may act as a hindrance to tradition of a full and fair disclosure”. This study was conducted to examine the validity of this proposition and other assumptions related to the economic and demographic environment in more than fifty countries.

Archambault and Archambault (2003, p. 192), investigated the case of a large number of firms (more than 500 firms in more than 31 countries) in terms of their financial disclosure, and found that such disclosure was affected by many systems, including political ones. The researchers argued that “disclosure is influenced by factors from a broad range of social systems: cultural, political, economic, and corporate”. More explanation of the association between disclosure and the political system can be found in the study by Deese (1998), which demonstrated the existence of a relationship between political freedom and economic freedom—a relationship that is likely to influence the process of disclosing information by firms.

Regarding social and environmental disclosure, Williams (1999) considered the case of 356 listed firms operating in Australia, Singapore, Indonesia, Malaysia, The Philippines, Thailand and Hong Kong, and confirmed that the quantity of social and environmental disclosure made by these firms was significantly influenced by political and civil systems. Haniffa and Cooke (2005) also mentioned politics as one of the many factors behind the increased level of social disclosure.

Even though a significant relationship between the political system and accounting groups was found (Goodrich, 1986), the reciprocal relationship between firms, individuals, accounting system and political environment, which affect the disclosure process, can be seen from different angles. The respondents to the questionnaire distributed by Al-Khater and Naser (2003) believed that corporate social disclosure should be encouraged instead of being enforced by authorities. These researchers saw such disclosure as a reflection of “the government’s participative style of leadership that encourages public freedom and ensures openness and transparency” (Al-Khater & Naser, 2003, p. 547). They assumed that such opinion “may reflect the nature of the Qatari society, which is moving towards democracy”. On the other hand, Matten and
Crane (2005) highlighted the significant role of corporations in affecting and shaping social, economic and political situations in countries and the rights of their citizens. Regardless of who has an impact upon the other, what can be understood is that the political situation affects social (and environmental) disclosure.

The study by Amran and Devi (2008) established the significant influence of the Malaysian government on the level of corporate social reporting (provided by companies operating in seven sectors, including a financial one). The explanation for the positive impact of government on social disclosure issues was that the ruling party was using the issue to enhance its position and image, locally and internationally, and to be distinguished favourably against its competitor parties. This justification shows that the practices of social and environmental disclosure can strengthen under some political systems. In line with this kind of reasoning, one can assume that in countries where there is just one ruling party, or one person controls political life, there is no need for social and environmental disclosure to be used to enhance the position of that political system. Hence, social and environmental disclosure practices are likely to be negatively affected in countries that are controlled by such kind of political systems.

From another angle, there is a belief that social accounting might encourage democratic practices, if not in a general sense, at least for information users (such as stakeholders—as mentioned by O’Dwyer (2005)). Thus, a correlation might emerge between the existence (or absence), and the level of democracy in a country from one side, and social and environmental disclosures made by firms operating in that country from the other side. In other words, levels of oppression or freedom or political instability in a country formulate communication tools including firms’ reports, which comprise social and environmental information.

Belal and Cooper (2007) indicated instability in political situations and military coups as a reason, inter alia, for low and unsatisfactory levels of social and environmental disclosures. Such political situations create—among other factors—corruption, described by the World Bank as a situation that “increases wealth for the few at the expense of society as a whole” (Neu & Gomez, 2006, p. 5). Corruption in Bangladesh was described by Belal and Owen (2007) as being widespread and reaching Bangladeshi companies, resulting in illegal actions such as bribery, tax evasion, loan defaults and share scandals. As such, the “few” mentioned in the statement of the World Bank can be firms which do anything, legally or illegally, to make profits at the expense of society and the environment. In such cases, companies are not interested in producing social
and environmental information voluntarily or even mandatorily. Belal (2001) indicated that half of the Bangladeshi companies he surveyed did not disclose the required information. As a result, it can be assumed that the low level of social and environmental disclosure by Bangladeshi firms can partly be seen as a natural result of the political situation.

Political repression also has been highlighted by many researchers to be negatively influential on disclosure practices. Companies operating in repressed countries where civil rights and freedom as a whole are absent or at low levels are more likely to be conservative, or not active, in regard to communicating information pertaining to their effects on the environment and society. In such societies, some specific trends can be noted concerning the press and societal interest groups. For example, the press—as a tool for disseminating all kinds of information (that citizens might be interested in), and as a means of highlighting the importance of some issues which touch the daily lives of people (such as social and environmental issues)—seems to lose its capacity to be influential. This is because the activities of the press are more likely to be restricted by repressive governments (Farook et al., 2011). Consequently, the assumed role of the press in raising awareness of social and environmental matters in society and putting pressure on companies to be socially and environmentally responsible is more likely to be questionable. This situation could also apply to societal interest groups: in repressed environments, societal organisations and groups (such as environmental groups) appear unable to criticise the harmful conduct of some companies (Farook et al., 2011), which results in negative consequences on society and the environment. This confirms the arguments of Gastil (1990) in that the impact of societal interest groups and human resources organisations (such as trade unions) is likely to be downplayed when repression and political and civil violations increase. Thus, the weak role of both the press and societal groups results in a low level of social expectations and pressure on companies in countries controlled by repressive governments (Williams, 1999) and, as a result, a low level of social and environmental disclosure practices.

In a study conducted in another African country, Wiig and Kolstad (2010) investigated the interaction between multinational corporations (oil companies) and host country institutions represented in Angola during the year 2004. It was intended to establish whether social and environmental responsibility issues played a role in the competitive process to acquire licenses and contracts, and the impact of that on corporate social responsibility activities of multinational companies. Results of the study indicated a
relative insignificance of social and environmental responsibility in the issue mentioned. The researchers found that democratic accountability in Angola is very limited, and argued that this was the main cause of the poor social and economic situation in the country. Many contributing factors have been presented in this study, such as a lack of transparency (representing a culture of secrecy which, in turn, was the result of a long civil war), a weak role of civil society in Angola (because of governmental policies, which discourage civil movements in adopting and practising more responsibility in social and environmental issues), and the wide authority concentrated in the President’s hands (which reflects limited freedom practices, even at organisational levels). Wiig and Kolstad (2010) argued that this was the case in some African oil countries. Ite (2004) confirmed these arguments by stating that underdevelopment in the Niger Delta region was the result of “corruption, poor governance (political and corporate) and lack of accountability on the part of the Nigerian government, its leaders and statutory agencies”.

In the case of the banking sector, Farook et al. (2011) studied the case of Islamic banking by analysing the annual reports of 47 Islamic banks in 14 countries in order to gauge the level of social disclosure and determine the factors influencing levels of disclosure. One of the hypotheses of the study presented a prediction that the level of social disclosure by Islamic banks would be affected negatively by the level of political and civil repression existing in the countries where these banks were operating. The result of the study confirmed this prediction.

More confirmation of the influence of the political environment on disclosure practices, and social and environmental disclosure in particular, came from another country with more freedom. In the study by Tagesson et al. (2009), which considered the case of Swedish companies, it was found that companies owned by the government disclosed more social and environmental information on their websites than privately owned companies. The researchers attributed the finding to the scrutiny and pressure of the Swedish government and the Swedish media regarding the effect of companies’ activities on the environment and society. National culture in Sweden was highlighted in this study as a main cause of the improvement of social and environmental disclosure made by public companies. It was stated that:

In Sweden there is a long tradition of transparency in the public sector, which is also legally regulated in the principle of public access to official records. This principle gives all Swedish citizens the right to inspect state documents (Tagesson et al., 2009, p. 361).
Having the right to investigate state documents by Swedish citizens reflects the political environment and the atmosphere of freedom Swedish people enjoy. In addition to social and environmental disclosure practices, social and environmental disclosure policies were also shown to be affected by democracy. Welford (2005) investigated the case of companies operating in 15 nations in three continents (Europe, North America and Asia) by considering the written policies of these companies in terms of their corporate social responsibility, and stated, “We find CSR policies more common in countries with a social democratic tradition such as Germany, Norway and Canada” (Welford, 2005, p. 52). This lends further support to the argument of Williams (1999) that companies operating in more open societies with greater levels of freedom may need to prove their eligibility and competence if they are to continue conducting their business. This can be achieved by providing more information about their interaction with the environment and society. Farook (2011) agreed with Williams’s argument and emphasised the case of Islamic banks, which are assumed to provide more social and environmental information as a result of operating in such open societies.

From the above discussion, one can conclude that the social and environmental disclosure practices of companies are likely to be influenced by the political environment. Thus, the level of social and environmental disclosure may vary from country to country depending on the level of freedom. This conclusion obviously contradicts the result of Belkaoui’s (1983) study, which hypothesised the existence of a relationship between freedom and corporate disclosure, but revealed no significant relationship between the two. Belkaoui (1983, p. 216) justified this non-significance by providing some possible causes “such as misspecification of the disclosure adequacy scores, and the economic, political and civil indicators, and misrepresentation of the countries included in the sample”. Further explanation for that finding rests in the limitations of his study, which included (a) possible bias in regard to a notion of accounting adequacy (used in the study), which was more appropriate to developed countries than developing countries, and (b) confining the indicators of political, civil and economic factors to Gastil’s indices rather than other alternative indicators. Lastly, it may be worth mentioning that his study considered only financial statements, not social and environmental information.

**Economic factors**

Research into the influence of economic factors on the connection between economic environment and accounting reporting has produced mixed results. Some studies have
failed to show the connection; for example, Belkaoui (1983) hypothesized that economic environment, inter alia, is likely to have an impact on reporting and disclosure adequacy, but failed to find an association between the respective variables. Moreover, García-Sánchez et al. (2013) found that economic level did not seem to have a significant impact on the disclosure of sustainable practices. On the other hand, Belal (2001) argued, and showed, that economic context—besides some other contexts—should be taken into consideration in order to have a better understanding of social disclosure matters. Adams (2002) also stated that an association does exist between such context and the nature of reporting since economic factors, inter alia, can influence other factors such as firms’ characteristics and corporate governance. In line with that, Archambault and Archambault (2003), who studied the determinants of corporate disclosure made by more than 500 firms in more than 31 countries, underscored the effects of economic systems on the relation between firms, investors and information disclosed.

A number of conceptual studies (e.g. Choi & Mueller, 1984; Arpan & Radebaugh, 1985) have examined economic factors as being influential on the development of both accounting and disclosure. Regarding the latter, many factors have been investigated in order to show the correlation between the economy and disclosure practices. For instance, Adhikari and Tondkar (1992) focused on the degree of economic development, type of economy, size of equity market, activity on the equity market, and dispersion of stock ownership; while Archambault and Archambault (2003) chose economic development, capital markets and inflation as representatives of economic factors to investigate. As an example, more explanation is provided regarding one of these factors.

*Degree of economic development*

Economic development can be defined as:

…a country’s ability to increase its per capita income or production—i.e. a transitional process between economic stagnation and economic progress; and the ability to execute a series of structural, social and economic changes and developments—a transformation process, e.g. more equitable income distribution, improved medical services and housing, enhanced education and training, and greater employment” (Nobes & Parker, 1991).

Based on this notion, it is reasonable to conceive how much the role accounting can play in this process. By the same token, accounting development in a country is also affected by the stage of development in that country (Adhikari & Tondkar, 1992),
because the priorities of each country differ from those of other countries as a result of the differences in many aspects including economic development (Rock, 2002). Elijido-Ten (2004) stated, “We cannot generalize the findings from one country to another specially if the countries are of different culture and of different stages of economic development”. The root of such argument can be found in many studies (e.g. Adhikari & Tondkar, 1992; Ahmed, 1995; Archambault & Archambault, 2003; Cooke & Wallace, 1990; Salter, 1998; Williams, 1999) which have paid attention to the impact of the stage of economic development on disclosure practices.

One explanation that may be provided to justify the relationship in question is that in countries with high levels of economic development there is a diversity of economic activities (Haniffa & Cooke, 2005) and, as Archambault and Archambault (2003) mentioned, a trend in the companies to raise more capital. As such, there is a great need to report the results of these activities to many interested groups such as investors. Furthermore, the resources owned by developed countries leverages the opportunity that such tasks are more likely to be achieved successfully (Adhikari & Tondkar, 1992). Belal and Cooper (2007) named the lack of resources as one of the main reasons for not disclosing some social information. From another angle, development of the economy in a country results in an increase in the demand for improved living standards and work conditions (Gordon, 1990). This, in turn, creates more pressure by some groups such as labour unions and consumer bodies on companies to take environmental and social issues into consideration in their activities, and to show their commitment in their reports (Williams, 1999).

The case of many developing countries adds more support to the above discussion. Abu-Baker and Naser (2000) argued that moving the economy to rely more on heavy industries (which have a more obvious impact on the environment) will make social disclosure more relevant to information users. This confirms the marginal assurance found in Adhikari and Tondkar’s (1992) study that disclosure of agricultural economics is low. In Nigeria, Ite (2004) found that the social efforts of multinational companies in their commitment to their social responsibility were affected negatively by many factors such as lack of macro-economic planning. This deficiency was also documented by Belal and Owen (2007) who found that lack of a sustainability development plan was one of the reasons for the low level of social disclosure in Bangladesh. Many programmes have been implemented to change this situation. For instance, Amran and Devi (2008) mentioned that the Malaysian government started to rely economically on
foreign affiliates (from developed countries), and follow international business orientations (in developed countries), including those pertaining to social disclosure. Privatization programs and developing private sectors are also some examples of reform steps taken by governments in developing countries to improve their economies and affect positively disclosure practices as a result, and social and environmental practices in particular (Sobhani et al., 2009).

Nevertheless, some studies have provided alternative results. Adhikari and Tondkar (1992) investigated the association between stock exchange disclosure requirements of 35 stock exchanges operating in different countries and five environmental factors, including the degree of economic development. They hypothesized that in states with higher per capita GNP, stock markets may have more rigorous levels of disclosure requirements, but the result of their investigation did not offer support for such an expectation. However, the researchers justified the result by arguing that this might be attributed to the fact that the sample of their study encompassed countries that have stock exchanges, which reflects a certain level of economic development in all the countries investigated. The researchers suggested that considering other factors such as cultural and regulatory environments may offer better explanations in such cases. The last note on this study is that what has been investigated are disclosure requirements of stock exchanges, rather than the actual disclosure made by the companies themselves. In this case it is worth mentioning that many studies, including that by Welford (2005), emphasize the fact that the existence of codes does not always mean implementing them and, at the same time, some social and environmental activities might be conducted in a responsible manner even though they are not stated in policy documents. Thus, the result of Adhikari and Tondkar’s (1992) study should be interpreted with caution.

In another study, Williams (1999) investigated the case of seven countries and found that the level of economic development was insignificant in explaining the differences in the quantity of social and environmental disclosure (which is voluntary in nature). The researcher justified this result by mentioning the opinion of Patten (1991; 1992) that social pressure, not economic pressure, is the cause of releasing social and environmental information voluntarily. Williams (1999) proceeded to justify the difference in his study from that of Salter (1998) by arguing that the focus of the latter was exclusively on financial disclosure rather than social and environmental disclosure. However, what can be noted from the results of Williams’s (1999) study is that all of the 356 companies investigated in his study were listed companies. This may render the
result of this study less accurate—as Adhikari and Tondkar (1992) suggested beforehand. Furthermore, another assumption that can be provided here to justify these findings is that some other factors which were not investigated in these two studies may have an effect on the results. Cooke and Wallace (1990, p. 79) pointed to the arguments of some researchers that “accounting practice is a function of inherent national characteristics: the interaction between the levels of political, economic, educational, and technological development of each country”.

In line with common beliefs about the impact of economic development, many studies have supported the idea that the stage of economic development is an influential factor in the issue of disclosure practices. In a study by Frank (1979), the sample included thirty-five countries, and the results demonstrated that economic environment of a country is influential in regard to accounting principles and reporting practices implemented in that country. Confirming such results, the study by Cooke and Wallace (1990), which investigated the relationship between the level of corporate financial disclosure regulation and some national and international factors, demonstrated a difference between developed and developing countries. It revealed that some factors, including the stage of economic development, are more likely to affect the level of corporate financial disclosure regulation in developed nations. The authors concluded that “It is probably true that a nation’s accounting profile is a function of both internal and external environmental factors, which may be cultural/anthropological as much as political/economic” (Cooke & Wallace, 1990, p. 103). This study, along with those of Doupnik and Salter (1995) and Salter (1998), have been mentioned by Williams (1999) as studies emphasising the importance of the level of economic development in accounting practices. In the study by Salter (1998), the first research question was about whether there is a difference in the levels of disclosure made by companies in emerging market economies compared to the disclosure of companies acting in developed markets. The result of the study revealed that in the period of the study (1989, 1991 and 1993), the higher mean level of corporate financial disclosure was achieved by companies operating in developed market economies, and the difference compared to companies in emerging market economies was significant.

The importance of the degree of economic development in disclosure issues is also shown in respect to social disclosure. Written policies of firms in 15 nations in three continents (Europe, North America and Asia) were investigated by Welford (2005) in relation to the issue of corporate social responsibility. In this study, this responsibility
was found to be partly linked to the economic development of countries investigated. Welford (2005, p. 52) stated, “Generally the more developed the country the higher the incidence of policies in the area of CSR”. Moving from written policies to actual disclosure, a comparative study between companies (including banks) in Hong Kong and the UK was carried out by Xiao et al. (2005) and established that social and environmental disclosure made by UK companies was significantly more than that of their counterparts in Hong Kong during the whole period investigated, which was five years. The researchers concluded that the findings of their study underpinned social and economic development being an important reason for the differences in social and environmental disclosure practices between companies in the two countries. In another study, the result also lent support to the argument that the stage of economic development is a significant issue in non-financial disclosure, not just in the international context but also between different parts of the same country. Liu and Anbumozhi (2009) analysed annual reports, separate environmental reports and the websites of 100 companies operating in industrial sectors in the year 2006. One of the findings of this study was that companies acting in regions where the economy was more developed (eastern coastal regions) were found to be the most disclosing companies in regard to emissions, compared to those operating in other regions.

**Cultural factors**

Many definitions have been provided by researchers for the term *culture*. Hofstede (1980) defined it as “the collective programming of the mind which distinguishes the members of one human group from another”. In more detail, Harris and Johnson (1987, p. 6) describes it as “the learned, socially acquired traditions and life style of the members of a society, including their patterned, repetitious way of thinking, feeling and acting”. Furthermore, culture can refer to “that complex whole which includes knowledge, beliefs, acts, laws, morals, customs, and any other capabilities acquired by man as a member of society” (Schulte et al. 2014). From these definitions, it can be noted that the behaviour of humans and organisations is, at least partly, a function of culture. Archambault and Archambault (2003) argue that culture has an impact on the way people perceive and evaluate situations that they encounter in their lives and businesses. Regarding the case of companies, since accounting is a social activity involving human thought and work, companies’ activities (including disclosure activity) are affected by culture (Haniffa & Cooke, 2002; Mathews, 1993; Tsang, 1998). As a result, findings of studies conducted in a country cannot be generalized to other countries which have, inter alia, a different culture (Elijido-Ten, 2004).
Based on this, researchers in the accounting field tend to pay more attention to the influences of culture on both groups: managers, whose decisions affect financial disclosure; and information users, who react to such disclosure (Hope, 2003). Adams (2002), who argued that a relationship does exist between culture and reporting, presented an explanation of how the first group is affected by culture. He argued that as moral values are influenced by culture, a decision on the kind of information to be released will be influenced as well. An empirical confirmation of such claims can be found in the study by Welford (2005), who investigated corporate social responsibility in three continents. His study indicated that, in Asia, national culture is likely to influence firms that often consider needs of stakeholders in their own nation. Another confirmation can be also found in the study by Lau and Caby (2010) which verified the impact of national culture on managers’ attitudes.

In the literature, many studies have provided support to the idea that culture is an influential factor in disclosure. In the study by Williams (1999), which covered the case of seven Asia-Pacific countries, culture was found to be significant in determining the quantity of corporate social and environmental disclosure. The researcher pointed out that his study not only lent support for the theoretical framework developed by Gray (1988), but also proved its validity in social and environmental disclosure. The same result was found in the study by Hope (2003), which considered the case of financial disclosure made by companies in 39 countries. The researcher demonstrated that it is a mistake to ignore the impact of culture on firms’ disclosure choices. He concluded that cultural factors should be taken into consideration in accounting research. As his study was confined to the first half of 1990s, the researcher suggested investigating whether cultural factors still play an important role. This importance has been emphasized in many other studies.

In the study by Archambault and Archambault (2003), the influence of a wide range of factors (including political, economic, financial, and operating systems, and national culture) on the financial disclosure practices in 37 countries was tested. In this study, culture, inter alia, was also found to be an influential factor in disclosure matters. This result did not differ when it came to written policies (in regard to corporate social responsibility) of companies operating in 15 countries in Europe, North America and Asia. The study by Welford (2005) indicated that many corporate social responsibility policies were influenced by cultural traditions. Moving from policies to practices, the study by Haniffa and Cooke (2005), which was carried out in Malaysia, revealed the
existence of an association between culture and corporate social disclosure, and contended that the latter cannot be culture free. This was the case also in Egypt, where the result of Dahawy and Conover’s (2007) study showed a low level of disclosure practices conducted by firms listed on the Egyptian stock exchange. Thirty-nine per cent of the disclosure requirements of the Egyptian capital market authority, which is based on international accounting standards, were not met by companies. The researchers attributed this to cultural reasons, and indicated that inconsistency did exist between such standards and Egyptian culture. In line with this result, Mwaura and Nyaboga (2011), in discussing the case of Middle Eastern and North African countries, described these countries as having a unique culture and stated:

Due to the diversity of the region and its individuality when compared to the rest of the world, there are many obstacles that stand in the way of total IFRS (International Financial Reporting Standards) integration. Culture, legal systems, tax, and the business practices of the companies themselves all need to be addressed” Mwaura and Nyaboga (2011, p. 37).

Returning attention now to some comparative studies: Golob and Bartlett (2007) investigated the issues of corporate social responsibility reporting in Australia and Slovenia, and showed the existence of differences in national culture which, in turn, led to differences in social expectations and differences in kinds of information released in firms’ reports. In another study, the case of 600 large firms in 22 countries (in 10 sectors including financial ones) was investigated by René (2010) in order to establish whether corporate social disclosure and national culture were correlated. Findings of the study indicated that national culture is likely to have an influence on corporate social disclosure. René (2010) concluded that such results could be useful to managers of multinational companies, who should take the national culture into account when preparing the corporate social disclosure documents of their companies.

In the same vein, it can be said that researchers should also take cultural factors into consideration when investigating the factors influencing social and environmental disclosure practices. In doing so, many factors can be used as proxies of culture such as ethnic background (of directors, shareholders, etc.), religious values and cultural dimensions (Haniffa & Cooke, 2005), and education (Archambault & Archambault, 2003). The following is an extended explanation regarding the last suggested factor.

Education
Since individuals are the operators of the companies they work for, it seems a plausible assumption that positively changing individuals’ behaviours and attitudes to
environmental and social issues is an important and necessary step to change companies’ attitudes to be more responsive to the needs of the environment and society at large. In changing people’s attitudes and then behaviour, education is likely to be proposed as a key tool. Education can play a key role in helping to solve the environmental and climate change problems (Pavlova, 2013). Babcock (2009) emphasized the need for norms in order to modify people’s behaviour to be environmentally more responsive, and he mentioned an effective public education campaign, inter alia, as a necessary means for the effectiveness of the suggested norms. He stated, “One thing by now should be apparent, and that is that public education must be a central part of any effort to change behaviour” (Babcock, 2009, p. 175). Notwithstanding that he was addressing the action of individuals in their daily life, there is no reason to not generalize his argument in the case of companies.

The level of education one might have reflects a person’s knowledge and skills (Hambrick & Mason, 1984) and, as such, the quality of accounting work is likely to be influenced by the level of accounting (and finance, as well as business) education the accountants and managers receive. Education is one of the institutional consequences influencing accounting systems (Gray, 1988) and, as a result, disclosure practices can be affected. A study by Behn et al. (2010) documented that even in non-profit organisations, the most disclosed organisations are those distinguished, inter alia, as higher education. They willingly disclose their audited financial information. By the same token, managers with an academic background are assumed to play a positive role in disclosure issues, as Hambrick and Mason (1984, p. 200) suggested: “The amount, but not the type, of formal education of a management team will be positively associated with innovation”. As such, there is no reason for not assuming that the same case applies to those who are responsible for preparing the reports (in financial departments or other departments) and releasing the information required. The lack of necessary competence is likely to have a negative consequence on accounting practices, such as that found in the study by Lodhia (2003). In this study, environmental accounting practices (including reporting) in Fiji were found to be weak. The author attributed this finding to the voluntary nature of such practices and the lack of qualified staff to master this kind of accounting. The solutions suggested by the author to improve this situation included, as expected, educating accountants in environmental accounting.

The study by Deegan and Rankin (1999), which showed the existence of a gap between environmental reporting and users, also recommended education as a remediating force
for the problem. The study suggested modifying teaching programmes (by professional bodies and institutions of higher education such as universities), not just for both accountants and responsible managers, but also for commerce students to enhance awareness of environmental (and social) issues in relation to firms’ activities. What can be added to this suggestion is that education (or training) abroad for those in developing countries can be more effective in improving corporate disclosure practices (Ahmed & Nicholls, 1994) since issues of corporate disclosure are more advanced in developed countries. Baskin (2006) found no significant difference (in reporting corporate responsibility) between emerging-market companies and companies in developed economies, and noted that the first group was likely to give importance to the continuous training of their employees.

Despite the above argument, some studies have presented contradictory findings. Haniffa and Cooke (2002) examined the impact of many factors relating to corporate governance and culture on the extent of voluntary disclosure, and education (in addition to race) was chosen as a proxy of culture. Two hypotheses were stated, which expected a positive relationship between the extent of voluntary disclosure and (a) trained (and educated) directors on the board (in business and/or accounting) and (b) finance directors (in accounting or finance). The results did not identify a relationship with these two variables. This lent support to the study by Parry and Groves (1990) who did not find a significant association between employing qualified accountants and the quality of financial reporting. A possible explanation is that high quality information is unlikely to be provided in the case of not implementing laws and regulations regarding information provision and (more importantly) in light of the absence of the demand for such information (Haniffa & Cooke, 2002). This was clearly stated by one of the interviewees in the study by Belal and Owen (2007), who regarded social disclosure as superfluous and irrelevant due to the absence of some necessary factors. They stated, “Until awareness increases, literacy levels rise and the agenda is thrust from the government level, I don’t see any point in it (social disclosure)” (Belal & Owen, 2007, p. 481).

Apart from the possibility that some other factors that might affect the result of investigating the case of voluntary disclosure, the disclosure process is simply an interaction between sender and receiver, and judging the effectiveness of any factors that influence this process by focusing solely on their impact on one of them (sender or receiver) might lead to flawed results. The impact of education is more likely to be
captured if the educational level of both information preparers and information users were evaluated alike. The study by Haniffa and Cooke (2002) investigated the impact of educational level of those who were responsible for producing the information, but did not consider the educational level of information users. Low level of education, and awareness as a result, among the expected information users and society at large will lead to both a lack of demand for social (and environmental) information (which the 2002 study by Haniffa and Cooke mentioned) and low level of corporate disclosure in regard to such information (see for example Al-Khater & Naser, 2003; Belal, 2001). As such, taking both sides into account can cast more light on the real impact of education upon disclosure issues. Deegan et al. (2002, p. 335), in the conclusion to their study, stated that “higher levels of disclosure will only occur when community concerns are aroused, or alternatively, until such time that specific regulation is introduced to eliminate managements’ disclosure discretion”. In line with this, it is reasonable to conclude that education is an effective way to achieve the first possibility and facilitate the second.

The impact of the awareness of society about social and environmental issues (raised mainly by educational programmes) can be felt in its influence on corporate social and environmental disclosure practices. Deegan and Gordon (1996), in analysing the case of some Australian companies (operating in 16 industries), found that there was a significant increase in environmental disclosure, and that such increase can be seen as a result of an increase in awareness of society pertaining to environmental issues. Haniffa and Cooke (2005) also pointed to societal awareness as one of the reasons explaining the increased level of corporate social disclosure. This argument gained confirmation at international level in the study by Baskin (2006) who did not find a significant difference between social and environmental disclosure made by companies in developed economies and that provided by leading emerging-market companies. The author listed some conditions that exist in countries where the last group of companies is operating, and one of those conditions mentioned was the interest and activity of civil societies in social and environmental issues. The many possible explanations for such relationships between improvement of social and environmental disclosure practices and the awareness of society regarding such issues can be attributed to the impact of the awareness on the effectiveness of stakeholders’ roles. Van der Laan Smith et al. (2005, p. 132) stated that in “a society concerned with social issues, we argue stakeholder groups will have more power, possess greater legitimacy, and have their claims viewed with greater urgency”. They added, “Managers in countries that exhibit strong concern
with social issues would be more cognizant of and attach greater importance to stakeholder claims”.

3.3 Stakeholders

The term *stakeholder* has been defined in several ways. In 1995, Clarkson defined stakeholders as:

persons or groups that have, or claim, ownership, rights, or interests in a corporation and its activities, past, present, or future. Such claimed rights or interests are the result of transactions with, or actions taken by, the corporation, and may be legal or moral, individual or collective. Stakeholders with similar interests, claims, or rights can be classified as belonging to the same group: employees, shareholders, customers...investors and suppliers (primary stakeholder groups), and the governments and communities (the public stakeholder group) (Clarkson, 1995, p. 106).

In a more general sense, Gray (2001, p. 11) identified stakeholders of an organisation as “anyone who can influence or is influenced by the organisation”. Van Der Merwe and Puth (2014, P. 140) define stakeholders as “any person or group, who has a direct interest, involvement or investment in an organisation, who can affect … or who can be affected by the organisation, its decisions and operations”. As such, it is reasonable to assume that they have the right to be informed of the impact of organisations’ activities, not just financially, but also socially and environmentally. On the other hand, knowing stakeholders’ needs is essential information that organisations must hold to meet these needs and have a fruitful relationship with these important players in the business world (Frankel & McNichols, 1995).

It is widely believed that stakeholders have the ability to influence firms’ practices in relation to social and environmental performance and disclosure. Deegan and Rankin (1999) argued that the expectation gap between the users and preparers of environmental reports can be reduced, and the quality of environmental disclosure in Australia can be improved via industrial initiatives. As an example, the authors mentioned the code of environmental management issued by the Minerals Council of Australia (MCA), which included some requirements that companies should satisfy regarding environmental reports. Other researchers such as Cormier and Magnan (1999) emphasised the impact of public pressure on environmental reporting strategies adopted by firms, and argued that such pressure directly influences political costs that firms might encounter in their environmental performance. Corporate social disclosure, at large, is also found to be influenced by many factors including ethical investors and
pressure groups (Haniffa & Cooke, 2005). Regarding the latter group, this finding confirms the main conclusion of Tilt’s (1994) study in that pressure groups are among the main users of corporate social disclosure. Popa et al. (2009) concluded that commencement and production of social and environmental reports by companies in Western European countries was mainly the result of pressure applied by stakeholders.

There are many studies that lend support to social and environmental disclosure being affected by stakeholders. For instance, Deegan and Gordon (1996) analysed the environmental disclosure practices of some Australian companies to investigate certain issues, including the possibility that such practices might be influenced by environmental groups. The study revealed that increased societal concerns about environmental issues had an obvious effect on the increased levels of environmental disclosure. A positive relationship was also found between the extent of this kind of disclosure and the pressure of environmental lobby groups. At the individual level, Babcock (2009) argued that such groups function as the norm, and demonstrate to people how some of their actions might contribute to damaging the environment.

In another study, the impact of stakeholders was also established in regard to social disclosure. Belal and Owen (2007) surveyed the attitudes of senior managers of 23 Bangladeshi companies (multinational, domestic, private and public) pertaining to social reports in Bangladesh. Managing powerful stakeholder groups was found to be the underlying cause for providing social information. Specifically, instructions of parent companies, demands of international buyers, and pressure from international agencies such as the World Bank were the major elements that compelled companies in Bangladesh to conduct social disclosure practices, and to continue practising such activities in the future. This study shed light on the impact of pressure from international forces that place a higher value on social and environmental issues in corporate practices by companies acting in the local context. Stakeholders in developed countries have both an interest (in social and environmental issues) and the power to compel companies to be socially and environmentally responsible (Haniffa & Cooke, 2005), which seems not to be the case in the context of developing countries. Tan (2014) confirmed this result. She found that NGO disclosure initiatives improved the environmental outcomes, through the pressure that is exerted by some multinational companies. These companies use the online databases to monitor Chinese suppliers, and then exert pressure (through the international supply chain) on local companies in China to improve their environmental practices.
Nevertheless, in the case of developed countries, the importance of some stakeholder groups can vary from one group to another. Boesso and Kumar (2009) surveyed the attitudes of 244 managers and 72 firms operating in four industries (including financial services) in Italy and the US pertaining to firms’ interactions with five stakeholder groups; namely, the professional and industry group, the labour group, the customer group, the financial group, and the social and environmental group. The results of this study unveiled that the demands of each group were considered to be important and needed to be dealt with when managers perceived this group as a powerful player. As such, only three groups—labour, customer and financial—were found to be at the centre of managers’ interest and focus when they took their decisions to release voluntary information. Society-specific expectations were found to be a dominant determinant in deciding which group of companies should address their demands. The authors found that managers in the US and Italy confined their attention to those who are perceived, by their society, to have a high level of influence.

Building on the above arguments, it is reasonable to posit that absence, or weakness, of the stakeholder groups’ role will result in low levels of disclosure practices. Abu-Baker and Naser (2000), in considering social disclosure of Jordanian companies, found that companies confined their relations to only three stakeholder groups—shareholders, creditors and potential investors—and the absence of pressure groups influenced the inclusion of social information in the companies’ reports. In Bangladesh, the study by Belal (2001) established that a lack of organised social groups was, inter alia, a contributing factor to the low level of social information released by Bangladeshi corporations. In the Chinese context, Liu and Anbumozhi (2009), investigated the environmental disclosure of 100 Chinese listed companies and found the level of such disclosure marginal. The role of stakeholders (other than government) such as shareholders and creditors was described by the authors as weak. In the case of Islamic banks, the researchers were clearer in pointing to the impact of the pressure from external groups on the level of social disclosure. A study by Farook et al. (2011) indicated that the level of such disclosure (made by Islamic banks) was less than expected. The researchers affirmed that the level of both social performance and disclosure of Islamic banks depended on the influence of Islamic society.

The influence of stakeholders can be found to a greater extent in the reports of governmental organisations. Lynch (2010) examined environmental disclosure practices of 18 Australian state government departments (during the period 2000–2007), where
12 departments have a responsibility in environmentally sensitive areas. Despite the overall increased environmental disclosure during the period investigated, a reduction in providing such disclosure was noted in some departments. For example, the Western Australian Department of Agriculture did not disclose any information about energy consumption in 2006–2007. The researcher pointed to the possibility that such reduction might be attributed to a lack of pressure from external stakeholders. He mentioned institutional theory as an explanation for such behaviour. According to this theory, society’s expectations, it is argued inter alia, are influential in changing the conduct of organisations. Thus, in the case of the absence, or weakness of pressure from stakeholders, one might expect low levels of disclosure practices. The authors stated that “Department managers are aware of community expectations and change their disclosures accordingly” (Lynch, 2010, p. 41).

Another point to be mentioned in the discussion on the relationship between stakeholders and social and environmental disclosure is that misunderstanding by some stakeholders in regard to social policies and practices might ultimately lead to flawed inferences and decisions. For example, codes of social responsibility are assumed by many information users to be an indication that companies fulfil their social responsibility. Yet, the study by Bondy et al. (2008), which examined this assumption in three developed countries (Germany, the UK and Canada), demonstrated that this is not always the case. The authors suggest that stakeholders must be careful in seeing codes as a reflection of social responsibility commitments or behaviour. They advise investigating the content of these codes. What can be added to this point is that even in the case of comprehensive codes, having codes does not mean they are implemented.

Another possible attitude stakeholders might take towards social and environmental disclosure can be found in answers from interviewees in the study by O’Dwyer (2003). Stakeholders might focus exclusively on financial profits, and ignore the issues of social responsibility, a situation that may negatively affect disclosure practices. One of the interviewees commented:

One of the difficulties they [public companies] are forced into by analysts is the focus is always on short term results, you know, this year's profits, next year's profits….. the analysts look at what is today's EPS and what are they going to be next year and how does that relate to the share price and so on (NM) (O'Dwyer, 2003, p. 536).

Another stated:
I probably see about a hundred [fund] institutions a year, say over the last ten years, that's... about a thousand institutional visits, one on one meetings. The environment hasn't been raised by one ... there have been a huge range of topics, but never the environment (ODwyer, 2003, p. 536).

This point of view is observed also in the study by Belal and Owen (2007, p. 481), where one of their interviewees stated, “Very few companies make social and ethical disclosures in Bangladesh because shareholders and people in general are not interested”. He wondered “who is interested to know about the social and ethical activities of a company” and proceeded, “Most of the shareholders are only interested in dividends and financial performance.”

As a conclusion, it can be said that there is a symbiotic relationship between stakeholders and social and environmental disclosure. The former benefits from the latter in taking correct decisions and, at the same time, stakeholders put pressure on a company to produce such disclosure and enhance its credibility.

### 3.4 Banks’ use of CSED

In this section, three important topics related to the use of CSED by banks are examined. These are environmental information in lending decisions, social information in lending decisions, and the relationship between producing and using CSED by banks.

#### 3.4.1 Introduction

This section of the literature review is devoted to discussing the role of banks as a user, instead of only a producer, of environmental and social information released by companies applying for loans. This aspect distinguishes banks from companies acting in other sectors, such as industry. As Crawford and Williams (2010) mentioned, producing and using such information makes banks forefront players in the field of social and environmental disclosure practices. Due to their role in financing companies’ activities, they are able to stimulate companies to control environmental, social and economic impacts of their activities (Moyo & Rohan, 2006). In order to do so, banks “must integrate environmental and social impacts as part of core investment risk evaluations” (Barako & Brown, 2008, p. 312). As such, it is reasonable to think that some decisions made by banks are likely to be affected by environmental and social information released by companies seeking loans and this, in turn, influences banks’ performance and relation with their stakeholders.
3.4.2 Environmental information in lending decisions

Considering the issue of environmental disclosure, the relationship between banks and the environment can be seen through their correlation (both banks and the environment) with the economy. On the one hand, it is an indisputable fact that banks play a major role in economic sectors by financing companies acting in these sectors (Campbell & Slack, 2011). In providing their services as intermediaries between borrowers and providers of money, banks are the principal channel in providing such services (Jeuckken, 2001). Environment, on the other hand, is claimed to be vital to the existence of the economy itself and life at large. The economic system is derived from the ecological system, which provides natural sources to the economy and receives and accommodates waste material; consequently, taking environmental issues into consideration is very important to the continuity of economic activities and life itself (Jeuckken, 2001). As such, banks’ activities can be influential to, or affected by, the environment and this influence can be either negative or positive, on both banks and the environment. Since the 1980s, greater attention has been given to the negative or positive role that the financial sector can play in environmental issues (Thompson, 1998). Further, this aspect has received greater and stronger attention from many information user groups.

The impact of banks’ activities upon the environment can be in a direct or indirect way. The first happens by consuming energy, water, paper, etc. during the daily work of banks. Both banks and the environment can benefit from efforts of conservative use and reuse of resources, and waste disposal (Coulson & Monks, 1999). For example, Jeuckken (2001) cited the case of one UK bank which controlled its consumption of energy, reducing it to nearly 25% during four years; as a result, the bank saved about fifty million Euro. The second way that the environment can be affected by banks’ activities is through loans that banks provide to companies. Banks are capable of influencing the environment by providing or withdrawing loans to companies with activities that have positive or negative environmental consequences (Cowton & Thompson, 2000; Gray & Bebbington, 2001; Campbell & Slack, 2011). Bank lending can result in an environmental risk (Deegan, 2004) when loans are provided to companies that pollute the environment. On the other hand, banks can exploit their position as lenders to ensure that their loans benefit the environment and companies (borrowers), as well as the banks themselves. Providing loans to companies that consider environmental issues in their activities (for example, by financing the purchase of equipment designed to prevent pollution) benefit the environment (by preventing potential damage), companies (by
avoiding penalties and unfavourable reaction of customers), and banks (in the shape of a new and continuing lending). Thompson (1998) alluded to attempts by banks to encourage companies to engage in good environmental practices. For example, an initiative by Barclays Bank in 1997, which introduced an environment loan facility, encouraged projects that benefitted the environment directly or indirectly. Coulson and Monks (1999) mentioned the case of National Westminster Bank, which offered loans with competitive fixed rates to companies that considered the impact of their activities on the environment, and worked to prevent or lessen any possible damage.

In addition to environmental benefits from such initiatives, banks have some advantages in dealing with environmentally responsible companies. Thompson (1998) indicated direct and indirect benefits that banks might gain from a “green market”. Direct benefits can be generated from making transactions with companies considered to be concerned about the environment and/or environmentally responsible (which means less credit risk and loan loss), whereas indirect benefits can be gained by enhancing banks’ image in the eyes of the public as a result of banks being seen to be environmentally responsible. On the other hand, companies also have benefits to gain. Coulson and Monks (1999) highlighted the benefits that companies gain from taking environmental issues into consideration in bank lending decisions. Such benefits include “quick and easy loan provision, reducing costs of loan negotiations and more favourable loan conditions” (Coulson and Monks, 1999, p. 9). Another important advantage also mentioned is free advice on environmental management (provided by banks to companies), which potentially influences the quality of risk management and the success of companies as a whole.

Lending decisions are very important decisions, and they require assessing and managing credit risk. Assessing the potential risk of the credit is based generally on gathering and analysing information related, mainly, to the client seeking the loan. Financial information is traditionally treated as a major factor that banks examine and consider in the process of evaluating borrowers’ applications. However, environmental information has become (especially in developed countries) an essential part of risk criteria of many banks. Overall, it can be said that banks have the power to encourage or coerce companies to be careful with the environment (and disclose environmental information about their activities). As Gray and Bebbington (2001, p. 208) stated, “Ultimately, financial institutions have the greatest power over organisations, can greatly influence them in positive ways and profoundly hinder them in negative ways”.

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However, the question that might be posed here is whether banks are willingly interested in protecting the environment and whether they exploit their position as a money provider to compel companies to consider the environment in their activities.

In general, banks are not interested in playing the role of environmental regulators (Coulson & Monks, 1999) or environmental policemen (Thompson, 1998). In effect, they need to be aware of environmental consequences of their lending decisions because, since the environment is affected by such decisions, the environment, in turn, has an impact upon banks to the extent that it may constitute a real threat to their operations. There are three types of risks resulting from lending decisions that the environment can cause to banks (Thompson, 1998; Campbell & Slack, 2011). These risks are indirect risk, direct risk, and reputational risk. The first risk emerges where a borrower causes damage to the environment, and being exposed to increased costs as a result—including fines, costs of cleaning up contaminated sites, costs of complying with increased environmental legislation, and losing revenues because of having a bad reputation. These losses and costs will impair the ability of the borrower company to repay loans, and may end with the bank losing the loan. The second kind of risk that banks are likely to encounter because of their lending decisions affects the banks directly; this risk arises when banks incur the liability of cleaning up contaminated sites owing to insolvency of the borrower. This is the result of stronger legislation, which treats the lender who has taken security (such as land) in these cases as a responsible party for remediation cost. The problem is that, in some cases, banks do not lose just their loans—they have to pay the cost of remediation, which can be more than the amount of the original loan itself. The last risk that might result from lending decisions is reputational risk, where banks become known as irresponsible in regard to environmental issues because of their willingness to finance companies considered polluters of the environment. Such a reputation might generate unfavourable reactions from customers, media, pressure groups, and governmental bodies in some cases. This last kind of risk, it has been argued, is different from the other two risks, and more difficult to gauge in terms of its financial consequences, since its effect may take some time to develop, and may emerge in the future when a bank has lost its ability to attract new customers (Thompson, 1998).

Gray and Bebbington (2001) cited the case of Fleet Factors, where the lender was found responsible for cleaning up contaminated land. Specifically, the bank that participated in the financial management had been in a position to influence the company’s treatment
of hazardous wastes. The authors noted that becoming responsible did not even entail the bank exercising its capacity to influence the company’s decisions. This case is an example of the serious consequences that can result from ignoring the possible negative impact on the environment of bank lending. As such, considering these three risks related to lending decisions and their possible impact on the environment, the attitude of banks to the environment has developed considerably to become more cautionary and responsible. According to Coulson and Monks (1999), US bank surveys (following the case of Fleet Factors) indicated that banks had changed their policies in regard to their lending processes, and consequently have refused some loan applications on the basis of environmental considerations. Further, they have excluded some industries from their future operations because of the negative impact of the activities of these industries on the environment. At the international level, Gray and Bebbington (2001) reported the result of a worldwide survey on banks (conducted in 1995), where most of banks surveyed deemed environmental issues as being influential to their business, and claimed that they took environment risk into consideration in their assessments.

As a result of increased awareness by banks of the importance of environmental issues to their business, some steps were taken as a response. First, the banks included environmental issues in their financial negotiations (Coulson & Monks, 1999). The authors mentioned the case of Elm Energy companies as an example of this, where the company spent more than a year in its financial negotiation with a bank because of environmental concerns in relation to the company’s project. Second, banks applied a policy of refusing to finance projects that had the potential to damage the environment, as in the case of the co-operative banks (Thompson, 1998); further, in some cases they excluded particular industries from the list of potential borrowers due to the obvious negative impact of their activities on the environment. Third, the banks introduced standards for assessing environmental risks, as in the case of HSBC (Campbell & Slack, 2011). One good example of the steps implemented by some banks in evaluating funding requests has been mentioned in an article by Coulson and Monks (1999). These steps include (a) determination of whether land is involved (if there is a possibility that the land will be contaminated, and whether such contamination will cause harm, etc.), (b) appraisal of the client's processes (evaluating operations conducted by the company so as to discover any potential risk in such operations), and (c) assessment of the client’s management (how well the client manages all of these issues when discussing the business process), since some companies have good management, which can minimise the likelihood of any adverse consequences to their operations.
There are many studies confirming the increased interest of banks in environmental issues. Thompson (1998) examined the case of twelve UK banks in regard to their lending decisions and their relationship to environmental issues. The findings of the study indicated, inter alia, that the importance of environmental issue to banks’ lending decisions has been increasingly recognised by banks, and the main method to integrate environmental considerations and lending procedures is by changing the criteria of credit risk. In another study, with a bigger sample (57 banks in UK, including foreign banks), Thompson and Cowton (2004) tested the relationship between lending decisions and banks’ demand for environmental information; they found that banks did have some interest in environmental information released by companies seeking loans. A desire to see more developed information was evident, but on narrow bases rather than more comprehensive environmental disclosure. At an international level, Weber (2005) examined the case of 129 European banks and financial service organisations in terms of integrating sustainability into their policies, strategies, products, services and processes. Only so-called alternative banks (banks that are deemed, inter alia, to have a positive influence on the environment as one of their principal goals), were found to be integrating sustainability into their general business strategies. Therefore, all their products were in line with the notion of sustainability. The potential motivations for such conduct, as the author mentioned, can be financial motivation, personal concern, philosophical background, or the missions of public bank owners. On the issue of reporting, as it pertains to integrating environmental risks into corporate lending, the same author, Weber (2010), chose Canada as a country in which to conduct his study. He found that Canadian banks and financial institutions performed well in regard to both integrating environmental risks into credit risk management, and sustainability issues as a whole.

In contrast, the case in developing countries seems to be different. Financial information is still a core of banks' interest in regard to lending decisions. Walid et al. (2011) investigated the methods used by credit managers and analysts in credit facility administration at the Jordanian Commercial Banks (listed on the Amman Stock Exchange) to evaluate the credit worthiness of the credit facility demanders in the process of making lending decisions. He also investigated the limitations of financial analysis methods in enhancing such decisions. The sample of the study represented 84.6% of all credit managers and analysts. Findings indicated the increased use of some financial and accounting methods, indicators and models. The authors recommended taking the financial and accounting methods, indexes, and models into consideration in
the process of making lending decisions. Moreover, they highlighted the importance of using different kinds of financial ratios and financial failure prediction models so as to have a sound credit policy. However, this study did not address environmental issues in the process of appraising the position of the client seeking a loan, and whether it was in the interest of the bank (and the environment) to grant a loan to the client. No single indication was made about the impact of the environment on financial indicators, although many cases, mentioned in different articles, illustrated that relying exclusively on financial statements in lending decisions can be a big mistake. Coulson and Monks (1999), in highlighting the importance of addressing environmental information in lending decisions, mentioned a case of Acme Metals Limited, which applied for an overdraft from its bank. The bank analysed the financial information (business plan, projections, cash flow forecast, etc.) and non-financial information (track record, management quality, etc.). The result of the analysis was encouraging, and the bank agreed to the overdraft request. Some months later, the company faced financial difficulties, and the bank agreed to increase the amount of the overdraft. With another problem the company faced, it was decided to sell the site belonging to the company to repay the bank’s facility. During the selling process, it was discovered that the site was heavily contaminated, and the cost of the clean-up was estimated to be much more than the expected value of selling the site itself. The authors commented on this case by concluding that such a result was because of a bank oversight in considering environmental issues.

Based partly on the foregoing, it can be said that there are some explanatory factors behind the attitude of banks with respect to considering environmental issues in lending decisions. First, environmental laws and increased legislation is the main engine in the banking sector for considering the environment, especially in lending decisions. Refusing to lend to companies with environmental problems can be attributed to developments in environmental legislation (Coulson & Monks, 1999). Fear of losing their loans (indirect risk) and their reputation (reputational risk), as well as becoming responsible for the clean-up of the contaminated sites (direct risk), is the main reason why banks consider environmental information before reaching a final decision in the process of lending. Thompson and Cowton (2004, p. 215) stated that “the consideration of environmental issues in bank lending operations is prompted mainly by a concern to manage risk rather than to exploit lending opportunities or as a means of fulfilling their social responsibilities”. They argued that “banks are not so much interested in the impact of bank lending upon the environment as in the impact of the environment (as
filtered by regulators, etc.) upon bank lending”. A manager of a major retail bank, interviewed in the study by O'Dwyer (2003, p. 534) stated that “it had to be careful to manage environmental risk in lending”. Even though considering environmental issues in the business world offers banks opportunities (green market) for gaining financial benefits, banks focus more on risks than possible profits (Thompson, 1998).

Second, the mechanism of implementing environmental legislation effectively is a very important factor (especially in developing countries) in pushing banks to concern themselves with environmental issues. Without an effective mechanism, legislation is nothing more than just words. Third, pressure groups are a major party in constituting reputational risk to those banks that ignore environmental consequences of their lending decisions. The strength of the environmental group regarding environmental issues has an impact on the granting of environmentally conservative loans by banks. Fourth, there is no doubt that availability of environmental information and its quality are a precondition for any consideration of environmental information within lending decisions. There is not much for banks to do when accounting practices conducted by companies seeking loans do not include producing and releasing environmental disclosure, as is the case in some developing countries. This point is very clear in the comment of one of the corporate managers interviewed in the study by Belal and Owen (2007, p. 481) who stated: “In Bangladesh, where companies do not disclose basic financial information properly and credibly, I’m not sure whether we can talk about things like social disclosures”. This point leads to the fifth and last factor, which can influence the matter of taking environmental issues into consideration in lending operations. That is the lack of qualified employees in the bank in terms of how to address environmental information and use it in the process of leading decisions. From the studies mentioned previously in this review of the literature, it can be said that these factors seem to be on the negative side in developing countries, and this might provide an explanation for omitting or downplaying the importance of environmental issues in lending operations in these countries.

3.4.3 Social information in lending decisions
Thompson and Cowton (2004) concluded their investigation into UK banks (in relation to how they considered environmental information in lending decisions) by suggesting that future studies could examine the views of bankers about the usefulness of elements of social accounting in lending decisions other than environmental information. For example, the authors thought it would be interesting to know whether banks were
willing to use social information in their lending decisions. In other words: Is using social information as important as producing it? Posing such a question reflects the lack of studies that examine the materiality of social information produced by companies seeking loans to the lending decision-making process.

There are, however, some studies that make reference to interest being shown in social information. Solomon and Solomon (2006) considered the extent to which institutional investors integrated social, ethical and environmental disclosure into their investment and found, inter alia, that their results were in line with those of Miles et al. (2002) in that the mainstream financial community had become increasingly more interested in social, ethical and environmental disclosure. Weber (2005) found also that social aspects of sustainability had been considered by European banks. In contrast, Murray et al. (2006) questioned whether there was an association between social and environmental disclosure and the financial market performance of the UK's largest companies, and found no direct association between such disclosure and share returns. Campbell and Slack (2011) supported this finding after investigating the attitudes of UK sell-side bank analysts, since financial analysts are described as capital market gatekeepers, and one of the key stock market agents (Aerts et al., 2008). In the case of banks, a major “player” in stock markets (Deegan, 2004), Thompson and Cowton (2004) reported that although some interest in environmental information was found in lending decisions of this group, no interest had been expressed by the same group in gauging other aspects, including periodic net social contribution.

This inconsistency about the importance of social information is mentioned in the study by Milne and Chan (1999). In their article titled “Narrative corporate social disclosure: how much of a difference do they make to investment decision-making?”, they cited the results of some early studies (by Benjamin & Stanga, 1977; Deegan & Rankin, 1997; Teoh & Shiu, 1990) which showed that “bankers and investment analysts seem to be the most likely to state that social or environmental information has little or no importance for them” (Milne & Chan, 1999, p. 442). On the other hand, they also cited other studies (by Acland, 1976; Hendricks, 1976; Schwan, 1976) that demonstrated the influence of human resource information (that which supplemented financial statements, or was incorporated in them) on investment decision-making behaviour. In regard to the banking case particularly, Milne and Chan (1999, p. 442) referred to the study by Schwan (1976), which found that “bankers made significantly different decisions when provided with human resource information in the notes to the accounts.”
In regard to some other studies that showed an interest in social information (in terms of its use in investment and lending decisions) it can be said that their findings may be affected by failing to distinguish environmental information from other categories of social disclosure (i.e., using one kind of disclosure as a substitute for another). For instance, Deegan (2004) emphasised the increased demand by banks for social and environmental information, but when he proceeded to give an example of that, only environmental risk and liability were mentioned, and the companies’ concern was just:

…to demonstrate to a bank or other lender that there are no hidden environmental liabilities that could become the responsibility of the lender or that could diminish the value of the property or organisation” (Deegan, 2004, p. 93).

The other evidence which the author gave as an example of the demand for social and environmental information was also about the environment—specifically a study of the materiality of environmental risk to Australia’s finance sector. Finally, he concluded the sixth part of his article (about the changes in the market’s demand for, or use of, social and environmental information) by expressing his belief that there was clear evidence that capital market participants were demanding and using environmental and social performance information; however, although social information was mentioned, it tended to pertain only to environmental information.

Apart from environmental information, other components of social information—such as human resources and community involvement of companies seeking loans—are less frequently considered as factors that potentially influence bank decisions in regard to loans. It is rare for instance, especially in developing countries, to find a bank that has refused to finance a company because it is not involved in the community. There is a lack of studies focusing on the influence of social information (excluding environmental information) on bank lending decisions. Indirectly, some studies’ results can be construed as indicators of social and environmental information having been taken into consideration in lending decisions. For example, the study by Pessarossi et al. (2010) investigated whether the desire of foreign banks to participate in syndicated loans to corporate borrowers was affected by information asymmetries. In accomplishing this aim, the authors focused on tracking the influence of ownership concentration on the participation of foreign banks in a loan syndicate. The sample included syndicated loans given by 79 Chinese banks and 293 foreign banks to Chinese borrowers in the period 2004–2009. The study unveiled a negative association between the greater ownership concentration (of the borrowing firms) and the extent of foreign banks’ participation in
the loan syndicate. This result supports the possibility of taking, or being prepared to take, social and environmental information into account in lending decisions, since many studies have shown that the concentration of ownership increases information asymmetries, and has a negative impact upon the extent of social and environmental disclosure which, in turn, affects the company’s chance of being granted a loan. Another finding of Pessarossi et al. (2010) was that increased financial leverage did not encourage the participation of foreign banks. This finding can be interpreted as being similar to the previous one, as indirect evidence of the potential use of social and environmental information in lending decisions.

In order to understand why there is a lack of banks’ use of, or willingness to utilize, social information—at least to the same degree of using environmental information in their lending decisions—it might be useful to look back at the case of environmental information. Investigation should be made into why attention was paid to such information, what the motivations of that attention were, and the applicability of these motivations in the case of social information.

It has been seen previously that banks have an impact upon the environment directly (in the form of consuming energy, water, paper, and so on) and indirectly in the shape of loans provided to companies whose activities have environmental consequences. Banks disclose information about this impact for several reasons, as mentioned in detail in the previous pages. In the same vein, and as a result of its influence on decisions to provide loans, environment also has an impact upon banks’ business. The latter impact consists of three kinds of risk: indirect risk, direct risk and reputational risk. These risks constitute a real threat to a bank’s business, and can lead to its demise. Thus, banks pay great attention to such risks, and have no alternative option but to consider environmental information of their clients before taking lending decisions. It is obvious that law and legal legislation were behind the first two kinds of risk (indirect and direct risks). By law, banks not only lose their loans, but are also made responsible for the clean-up of contaminated lands—the cost of which can exceed the amount of the original loan. The last kind of risk, reputational risk, is more likely to be caused by parties such as pressure groups and the media. Such potential risks are likely to lead ultimately to an improvement in companies’ environmental performance and disclosure, as it is argued that banks, because of their position as money providers, have the power to exert pressure on companies to be environmentally and socially responsible (Crawford & Williams, 2010), and to improve the quality, and extend the volume, of
social information to the benefit of all (Thompson & Cowton, 2004); these outcomes, however, are due only to the banks’ focus on their own interest at the first place. This should be kept in mind in understanding the contribution of social information.

Thompson and Cowton (2004, p. 215) stated: “Indeed, it could be argued that banks are not so much interested in the impact of bank lending upon the environment as in the impact of the environment (as filtered by regulators, etc.) upon bank lending”. This argument seems to be applicable in the case of social information as well. Banks care more about the impact society can have on banks’ business, and whether such impact can cause a threat to their business. Similar to the case of environmental information, banks have an impact on society, directly (through community involvement, human resources, etc.) and indirectly (through loans provided to companies whose activities have social consequences). Banks produce information about their interactions with society and emphasise, as evidenced by many studies mentioned in this review of the literature, the positive role banks play in this regard. By the same token, society also has an impact on banks’ business, but this impact is not as severe as that of the environment. There are two risks that can result of failing to consider the social impacts that loans may have on society: (a) indirect risk resulting from a client being unable to repay the loan due to committing social violations and paying some costs such as compensations to his opponents and (b) reputational risk caused by some active groups in society. The first risk can be mitigated by taking over securities, while reputational risk is less likely to occur since financing companies are often not seen as a potential participator in the violations. It is obvious that direct risk does not exist in this case; the reason is that the absence of laws makes banks responsible for social liability, similar to environmental liability. The financial role of banks (as financiers of the offenders) is normally not considered in courts. Coulson and Monks (1999, p. 3,4) stated: “A primary issue for lenders has been their potential to be held liable for environmental damage attributed to their corporate borrowers”. As such, there is no primary issue for the lenders in the case of social information and, thus, receives little attention to the need to be cautious with the potential social impact of lending decisions.

Based on the foregoing, three reasons can be provided to explain the lack or absence of banks’ interest in considering social information in their lending decisions. Firstly, the absence of public awareness in recognising the role of banks as a third party in social violations committed by their clients downplays the materiality of any correlation that might link banks to any kind of responsibility. This has led to the absence of any
perceived pressure on banks to consider social issues in their lending decisions or at least to put pressure on their clients to provide more social information. It is argued that banks can encourage or induce their clients to behave in a socially responsible manner and to extend their social disclosures, but such a proposed role seems not to be in the minds of bankers. Banks are unlikely to be willing to play the role of social regulator, policeman or volunteer. This was made clear by one of the interviewees in the study by O'Dwyer (2003). The interviewee stated:

If we decide we are going to be proactive and do a decent thing (a community crime prevention initiatives), we are not doing it for moral reasons. We are doing it for business reasons…it is important that we get maximum benefit from it…otherwise we will not do it” (O'Dwyer, 2003, p. 534).

Moreover, in addition to the argument of Thompson and Cowton (2004) that banks are interested only when they are likely to be affected, there is also support for their notion that banks can obtain any extra information from their clients in a private way; thus, they are unwilling to put pressure on their clients to disclose more social information publically. The study by Solomon and Solomon (2006) revealed that when social, ethical and environmental disclosures were perceived by institutional investors as insufficient for their portfolio investment decisions; there was a development of private social, ethical and environmental disclosure channels between institutional investors and their investee companies.

The second possible reason for the lack or absence of banks’ interest in using social information in their lending decisions is the difficulties in measuring the damage that might result from financing companies that do not behave in a socially responsible way. This matter makes it difficult legally to hold banks accountable for financing such companies. In environmental issues, damages are basically material, measurable and can be expressed in numbers. In contrast, how can it be assumed that banks are damaging society by financing a company that exploits its employees (for example) or which fails to involve itself in society through donations, scholarships for students and so on? Further, how can the “damages” be measured?

Thirdly, and even more important, the absence of legal responsibility of banks in the situation of social violations committed by borrower companies can be deemed as a main cause of the issue discussed. It can be argued that there is a weakness in the capacity of laws in tracking all the elements that contribute to violations. It might be reasonable to think that banks financing a company which, for example, uses child
labour, should be considered as partners in such crime because they enable such a company to commit this violation. It seems that laws concentrate only on the last offender, ignoring the other actors who participated in the violation, but in a less obvious way. This method can be noted in many other legal cases. For instance, alcohol is found to be a cause of many crimes, such as rape, murder, theft, mugging, assault, domestic violence and vandalism, and also contributes to a high proportion of road accidents. However, the law does not punish companies producing alcohol; rather, it considers only the person who committed the crime. No responsibility can be tracked in regard to those companies. Another example of the weakness of law in judging some issues is the case of a pregnant woman who drinks alcohol, knowing that this may result in serious illnesses in the baby before and after birth. Such disorders include Foetal Alcohol Syndrome and Foetal Alcohol Spectrum Disorder, which cause many health problems and, in some cases, death. Yet there is no legal punishment for such behaviour. These are just examples reflecting what can be seen as points of weakness in legislation. Confining the responsibility to just one party (and sometimes no one), and excluding others who participate in one way or another in causing the problem may explain the attitude of banks to the idea of using social information in their lending decisions. Moving to an advanced position in this issue may not be easy by law. Other motivations such as religion can make a difference in this field, and Islamic banks can be offered as an example. There is a saying of prophet Mohamed (peace be upon him) outlining the view of Islam in regard to responsibility. The Prophet Muhammad (peace be upon him) said:

Allah has cursed Khamr (intoxicants – alcohol, wine etc.), the one who drinks it, the one who pours it for others, the one who sells it, the one who buys it, the one who makes it, the one who it is made for, the one who carries it, the one who it is carried to and the one who consumes the money from its sale” (Hadithaday, 2010).

This saying indicates that the sin includes all of those who participated, in one way or another, in drinking alcohol. Therefore, everyone is responsible who has contributed to the existence of the action. Applying such Islamic teaching, Islamic banks are not …involved or have material ownership in any prohibited business activities. These include alcohol, tobacco, pork-related products, conventional financial services (that is, *riba*-based financing), and the entertainment business (Gray & Ismail, 2007).

All of these activities mentioned include some social effects considered to be harmful to individuals and society at large, even though they can be considered profitable activities.
to borrowers and banks. As such, it can be said that Islamic banks consider social information in their lending decisions because of their different perceptions of responsibility.

At the end of this discussion, it is important to make a reference to an international initiative in respect to considering environmental and social issues in lending decisions. On 4 June 2003, ten principles, so-called Equator Principles (EPs), were developed by several commercial banks and the International Finance Cooperation (IFC), as a voluntary code to ensure that environmental and social issues are taken into consideration in the project finance industry. These principles provide project financers with guidance to prevent or minimise the possible negative environmental and social impacts of their projects. Equator Principles are “benchmark standards of the financial sector to judge, assess and manage environmental and social risks in project finance” (Liu & Zheng, 2013, p. 141). These principles were significantly revised in 2006 (EP II) and in 2013 (EP III).

Each bank accepts this initiative commits itself to the following ten principles (Mulder, 2010, p. 208):

Principle 1: Review and Categorization. Projects are categorized in relation to social and environmental impact and risks, with category A indicating the highest impact or risk and category C the lowest.

• Principle 2: Social and Environmental Assessment. For each project in categories A and B, the borrower must conduct a social and environmental assessment.

• Principle 3: Applicable Social and Environmental Standards. The assessment process must address compliance with relevant host-country laws, regulations, and permits.

• Principle 4: Action Plan and Management System. For projects in categories A and B, the borrower must prepare an action plan that addresses the issues raised in the assessment, including mitigation measures, corrective actions, monitoring measures to manage impacts and risks, and decommissioning.

• Principle 5: Consultation and Disclosure. For all category A and many category B projects, the borrower must have disclosed the project plan and consulted with affected people (in local language and a culturally appropriate manner) before project construction commences.

• Principle 6: Grievance Mechanism. For category A projects and many category B projects, the borrower ensures ongoing consultation, disclosure, and community
engagement throughout construction and operations, allowing facilitation and grievances to be addressed.

- **Principle 7: Independent Review.** The financing banks will be advised by an expert, independent from the borrower, to assess compliance with the assessment, the plan, and the consultation process.

- **Principle 8: Covenants.** The borrower pledges to incorporate several social and environmental covenants linked to compliance with the Action Plan; if they do not, it may constitute a default under such agreement and result in cancellation of the loan.

- **Principle 9: Independent Monitoring and Reporting.** The borrower is to retain external experts to verify its monitoring information, which will be shared with the banks.

- **Principle 10: Equator Principles Financial Institution (EPFI) Reporting.** Banks will report publicly about their EP implementation at least once a year.

These ten principles put social, environmental and human rights obligations on both the financial institutions which apply these principles and their clients, and these obligations are part of the loan documents or investment agreement between the institutions in question and their clients (Wörsdörfer, 2015). Yet, the number of the financial institutions accepting these principles and developing their internal lending policies accordingly has increased by time (41 in 2003, 55 in 2006, 70 by early 2011, and 80 by March 2015). In 2015, more than 35 countries adopted the EPs, and this represents over 70 percent of international project finance debt in developing countries and emerging markets (Wörsdörfer, 2015). As Mulder (2010) mentioned, the influence of EPs on lending practices has been highly significant in scale and scope.

This leads to the question of why these principles are adopted although they impose additional obligations on the financial institutions and their clients. EPs aims at “the protection of ecosystems and human rights, while at the same time not to lose track of economic rationales” (Wörsdörfer, 2015, p. 211). That is, although they focus on taken the environmental and social issues into account in the financial transactions, the Equator principles, at the same time; do not ignore the self interest of the financial institutions. There are some benefits, banks and other financial institutions aim to gain out of adopting the EPs, and these include "cost and risk reduction, the gaining of competitive advantages, the enhancement of organizational reputation and legitimacy as well as profit optimization" (Wörsdörfer, 2015 , p. 211). This confirmed the result of the study, conducted by Eisenbach et al. (2014), that the financial institutions adopting the
EPs got positive abnormal returns, and from a global perspective, those institutions tend to outperform non-adopters. This lends support to the result of Scholtens and Dam’s (2007) study that there is a significant difference between the financial institutions adopting the EPs and non-adopters, in terms of the social, ethical, and environmental policies. The study concluded that “there really are some distinctive features between the parties that did adopt the Equator Principles and those that did not, specifically, the social responsibility of the former is rated higher” (Scholtens & Dam, 2007, p. 1322).

In regard to the relation between risks and EPs, reputational risk, for example, is one of the risks financial institutions are trying to avoid by adopting EPs. In their study, Eisenbach et al. (2014, p. 390) found that the reputational risk is “one of the main drivers for adopting a voluntary code of conduct such as the EP”. Mulder (2010, p. 207) went further to argue that the EPs “were triggered by credit and reputational risks that banks increasingly faced in their project finance practice”.

The importance of non-governmental organisations (NGOs) in this issue cannot be omitted. These organisations have actively engaged, through their criticisms, commentaries and pressure, in drafting the different versions of the principles (Liu & Zheng, 2013; Mulder, 2010). For example, Mulder (2010, p. 208) pointed out that NGOs criticised the EPs for “vagueness; absence of enforcement mechanisms; limited coordination among the banks; indirect (or no) coverage of project bonds; consultation only (not consensus) with affected communities; and the implicit, indirect reference to human rights (just “socially responsible”).” This reflects the reality that NGOs function, in this matter, as watchdogs by "monitoring, comparing and contrasting individual Equator Principles financial institution efforts" (O'Sullivan & O'Dwyer, 2009, p. 572).

Confirming this fact, Conley and Williams (2011) found that one of the major themes, emerged from their study, was the related role of NGOs pressure and risk management in motivating the financial institutions, which implement EPs, to form this initiative. They stated that banks participate in the EPs “in response to NGOs pressure, real or threatened” Conley and Williams (2011, p. 567).

However, there are some shortcomings still attached with the EPs and their implementation. Confirming the criticisms mentioned above by Mulder (2010), Schepers (2011) while admitting that EPs are important in protecting environmental and social issues, he noted that their governance mechanism is in need of strengthening. Although the EPs were revised after that and the third version was issued in 2013, these principles are still criticised. Wörsdörfer (2015, p. 226) summaries the institutional
shortcomings and deficiencies of the EPs by stating that “the main points of criticism of EP III refer to the inadequate and ineffective governance structures of the EP framework, that is, its insufficient monitoring, enforcement and sanctioning mechanisms.”

3.4.3 Relationship between producing and using CSED by banks
Finding a correlation between the action of producing social and environmental information by banks, and using social and environmental information provided by companies seeking loans, entails looking at the motivations behind both of the two actions. Based on the discussion above, it is evident that there are differences between what motivates banks to produce such information, and what motivates (or compels) them to use it, and this difference is more obvious in the case of social information. Regarding environmental information, the gap between producing and using the information is less in countries where awareness of environmental issues is high, and where environmental legislation is more developed and strict, and the awareness of society is high. In developing countries the gap is expected to be less due to elements related to banks themselves, and due to the legal, economic and social context detailed in this literature review. In relation to social information, the gap seems to be wider in developed countries compared to environmental information. This is mainly because of the weakness of laws and legislation in determining the responsibility that banks should fulfil in their activities. In developing countries, the gap is likely to be less due to the weakness of the law and the absence of awareness of the society. Public awareness and internal motivations, encouraged by factors other than laws—factors such as religion—are suggested to close the gap between producing and using social and environmental information by banks.

3.5 Social and environmental disclosure in the Libyan context
There is a lack of studies in the field of social and environmental disclosure in Libya. The first Libyan study on corporate environmental disclosure was conducted by Ahmad (2004). He used content analysis and a historiography approach to analyse the disclosure of 10 of the largest industrial companies during the period 1998–2001. The result of his analysis was that there was no evidence of environmental disclosure, either in terms of its quantity or quality, especially if the health and safety category was excluded. However, the interesting thing that Ahmad (2004) found is that 40% of the companies in the sample used mediums other than annual reports to disclose information about the category mentioned. Moreover, the study showed that Libyan
companies had no problem in disclosing negative news in their reports. The researcher attributed this to the impact of political and economic systems implemented in Libya.

In another study, social disclosure was the topic (Mashat, 2005). This researcher focused only on annual reports of 56 Libyan companies (manufacturing, banks, insurance, and other service companies), covering the period 1999–2002. Findings indicated that there was social disclosure in all years, from all companies, even though its level was low, and only a few companies released environmental information. Regarding Libyan banks, the study indicated that there was no environmental information released by them. The study by Elmogla (2009) is an extension of Mashat’s (2005) study. The two investigations are almost identical except for the period investigated. The same results were reached, but Elmogla (2009) noted an insignificant change in social disclosure of Libyan companies during the period of five years (2001–2005), although there were some economic and social changes.

The study by Zubek (2008) was different from the other studies in terms of limiting its scope to one industry, and examining one topic (human resources) from the different categories of social disclosure. The results of analysing the annual reports of oil companies during the period 1996–2005 demonstrate the importance given by these companies to their employees. There was a large amount of information disclosed on human resources, and strong emphasis was placed on training programs.

An extension of Ahmad’s (2004) study was made by Ahmad and Mousa (2010). They analysed the annual reports of 18 large industrial companies during the period 2001–2007 and found that there had been an improvement in the quantity and quality of corporate environmental disclosure over the period investigated. In the study by Ahmad and Mousa (2009), the researchers used the perspective of political and economy theory to interpret the results of Ahmad’s (2004) study. They found that such theory offered a good explanation for the level of environmental disclosure made by Libyan companies. The last study to be mentioned is that of Emad (2010). This was conducted to investigate whether banks, operating in Benghazi city in Libya, used corporate social information in their lending decisions. The results revealed that social and environmental information had no effect on such decisions.

Some observations can be made on these studies. First, the level of corporate social and environmental disclosure was always low in general, and especially in relation to the environmental topic. Second, there was a focus on annual reports in measuring the level of disclosure, even though Ahmad (2004) noted that 40% of information disclosed was
released through tools other than annual reports. Third, there was just one study focused exclusively on the case of Libyan banks in terms of lending decisions, in addition to two studies that included banks in their sample. The problem with these two studies is that their scope was more general, and the implications of their results tended to be more limited in relation to the special characteristics of banks, which have a different set of contextual circumstances (Branco & Rodrigues, 2008b). Thus, such studies cannot undertake investigation of the common matters in different sectors while ignoring the distinguishing features of banks. For example, decisions about lending and its relationship with social and environmental information cannot be investigated in a sample that includes different sectors. Confirming this idea, Branco and Rodrigues (2008b, p. 166) stated, “Different sectors have different social responsibility priority because processes and products are different.” Many researchers (such as Aerts et al., 2008; Haniffa & Cooke, 2002, 2005; Hope, 2003) excluded financial institutions, especially banks, owing to their special circumstances—such as different statutory requirements and the different impacts on the environment compared to other sectors. As such, there is an advantage in confining a study to one sector, which is minimizing environmental heterogeneity (Moores & Yuen, 2001). Moreover, such an approach increases the validity of study results by conducting sufficient coverage of the sector in question (Campbell & Slack, 2011).

The fifth observation is that the years studied by the researchers (except those of Ahmad & Mousa, 2010; Emad, 2010) range from 1996 to 2005. Several major changes happened after this period, such as the establishment of the Libyan stock exchange and the entrance of foreign ownership being represented in BNP Paribas and Arab banks. As demonstrated by the literature, such changes have had an impact on social and environmental disclosure practices, and such impacts were not captured by the Libyan studies. The study by Ahmad and Mousa (2010) did record a slight improvement during the period 2001–2007, but that was in the industrial sector. Finally, no study considered the impact of a company’s characteristics (other than one study which focused solely on human resources disclosure) or a company’s board, notwithstanding it had been clearly shown that these factors have an important role to play in the story of social and environmental disclosure.

Based on the above, it is obvious that there is room for new studies in the Libyan context and this, keeping in mind the studies discussed in the literature review, leads the researcher to the gaps that the current study is aiming to fill.
3.6 Research gap

There are many reasons that create a need for the current study. First, there are differences in social and environmental disclosure practices conducted in different countries and sectors throughout the world (van der Laan Smith et al., 2005; René, 2010). These differences exist between developed and developing countries (Abu-Baker & Naser, 2000; Andrew et al., 1989), and between developed countries themselves (Boesso & Kumar, 2009; Cormier & Magnan, 2003a), as well as between one developing country and another developing country (Foo, 1988). Thus, it seems likely that the case of each country deserves to be investigated, and the results should be valuable, especially if there is a paucity of social and environmental disclosure studies in that country—which is the case in Libya. Second, most of the social and environmental disclosure studies were conducted in the context of developed countries (Khan et al., 2010), and it is dangerous to generalise their results to the case of developing countries (Azim et al., 2009). Third, there is a lack of studies on social and environmental disclosure practices in developing countries (Khan et al., 2010; Tsang, 1998), especially in the Middle East and Arabic countries such as Libya. As an example of the late attention to such issues in Middle Eastern countries, it is noted that, notwithstanding the considerable growing interest of researchers in the social responsibilities of corporations since just the 1970s (Sobhani et al., 2009; Ullmann, 1985), the first Corporate Social Responsibility Summit was held only relatively recently—in 2003—in the UAE (Kamla et al., 2006). This situation reflects a need to conduct more studies in those countries.

Fourth, there are fewer studies concerning disclosure practices of financial companies, compared to the number of studies on non-financial companies (Branco & Rodrigues, 2008b; Hossain & Hammami, 2009) and banks (Hossain & Reaz, 2007; Thompson & Cowton, 2004), which have received little attention in the field of social accounting, notwithstanding the importance of their role in financing economic activities conducted by companies (Thompson & Cowton, 2004). This is in contrast with the perceived importance of banks since a party can encourage, if not compel, companies to be socially responsible. Fifth, compared to the case of environmental information, there is a lack of studies that have investigated whether banks base their lending decisions on other social information (such as the involvement of the clients in community activities, information about clients’ employees, and so on) that is disclosed by their clients. Sixth, to the best of the researcher’s knowledge, no single study has considered the dual role of banks as producers and users of social and environmental information, and the
connection between the two activities. Conducting such a study could result in a comprehensive understanding of the position of banks in regard to social and environmental issues.

Seventh, Libya experiences unique political and economic systems, which are totally different from those of any other countries—developed and developing countries alike (Mohamed & Mousa, 2009), and this has resulted in a different system of accountability (Pratten & Mashat, 2009; Mohamed & Mousa, 2009). Thus, it would be interesting to establish whether such an environment has had an impact on social and environmental disclosure practices of Libyan banks, since it is argued by many researchers that such disclosure is a function of the political, economic and social environment in which companies operate. Finally, there has been scant attention paid by Libyan companies to social and environmental issues, and there are very few studies conducted in this field. In addition, none of these studies, except the study by Emad (2010), have focused exclusively on the case of Libyan banks. This appears to be unusual, especially since there is a trend recently towards implementing privatisation programs, and reducing the participation of government in economic activities (Mateos, 2005). Such neglect from companies and researchers does not suit the increased importance of Libyan banks in financing all of the economic sectors in the country.

3.7 Concluding remarks

In this chapter, the issue of social and environmental disclosure has been examined with special focus on the dual role of banks. Their role was discussed in terms of producing social and environmental information, similar to any companies that have an interaction with the environment and society, and also in terms of the use of such information provided by their clients who are seeking bank loans.

From the review of the literature, it can be concluded that: (1) Interest in the role of banks regarding the issue of social and environmental disclosure is increasing, especially in developed countries. (2) The level of social and environmental disclosure is generally improving. (3) International initiatives in regard to CSED practices have a positive influence on development of such practices. (4) Notwithstanding considering annual reports as a main tool of disclosing CSED, many studies showed that many other tools such as websites and stand-alone reports have become highly accepted as a major channel of communicating this information. (5) CSED is a function of a wide range of environmental factors related to banks themselves or external parties. (6) Factors influencing CSED practices, and which can be attributed to banks, fall mainly into two
groups: (a) banks’ characteristics, such as profitability, size, ownership, and listing in stock market and (b) the group related to corporate governance, such as chairman of the bank with multiple directorships, non-executive directorship on the board, foreign nationals on the board, and managers’ attitudes. (7) General contextual factors are those related to systems in the country in which banks operate. Among these systems are political systems, which include legal factors and the political environment of the country; and economic factors, which can be represented by the degree of economic development and cultural factors such as education. All these factors influence information users positively or negatively, depending on the nature of the factors and how strong they are. It can be seen that the importance of stakeholders in their communication process with banks is, to a certain extent, a function of those general contextual factors.

The other side of the CSED story is the role of banks as an important user of information disclosed by their clients. The impact banks can have on the environment and society is not confined to their direct impact as, for example, an energy consumer; rather, banks can considerably affect the environment and society through granting loans to companies polluting the environment or damaging society.

Banks, especially in developed countries, commenced utilising environmental information in lending decisions, but it seems that this was because of the increased amount of environmental legislation and penalties, rather than a real concern for the environment. This may explain why there is no interest in social information when banks undertake their lending decisions. However, while such behaviour might be understood from the banks’ point of view, it is somewhat hard to understand why researchers tend to overlook studying such a topic.
Chapter 4. The Theoretical Framework of Social and Environmental Disclosure

4.1 Introduction
This chapter provides an overview of corporate social and environmental disclosure (CSED) as a concept, and its associated features. In so doing, it discusses first the emergence of social accounting, its development and its reports. Then, in order to have a better understanding of CSED practices, the different factors that motivate companies to produce this type of disclosure are discussed. This entails explaining the reasoning behind three important theories, which offer possible justifications for managers’ decisions to release information about the impact of their companies’ activities on the environment and society. As such, this section, in brief, provides explanations of three points: why there is CSED, what kind of social information companies might disclose, and why (or why not) they do so.

The remainder of the chapter consists of five sections. Section 4.2 focuses on the meaning, emergence and development of social accounting. Section 4.3 discusses the reports produced by this relatively new category of accounting. Section 4.4 details the need to understand why some corporations provide these reports and why others do not, why there are differences in the content and the quality of these reports, and how this has led to the emergence of several theories—which are discussed in detail. Section 4.5 provides a conclusion to this chapter.

4.2 Social accounting
The world has clearly witnessed profound economic development in the last few decades. However, this development has often failed to resolve severe and common problems such as poverty, social injustice, and the increased rate of social problems in communities worldwide. In fact, some of these problems have been caused, to a large degree, by this economic development. Corporate activities and their focus on maximizing profits have sometimes been at the expense of the environment and societies. It has thus become clear that there is a need to steer economic development into better serving human needs, raising the level of living standards, and promoting social justice in communities. This has entailed corporations modifying their goals and focus to take into consideration the possible harmful effects of their activities on the
environment and society. As a result, the responsibility of corporations is no longer confined to maximizing shareholders’ wealth, but instead contemporaneously meeting their environmental and societal responsibilities.

Othman and Ameer (2009) argued that corporate social responsibility is an old concept, once seen as paternalism and philanthropy. As they explained,

Corporate paternalism was normally a function of employee/employer relationships; philanthropy was also extended to the wider community, and led to the founding of schools, hospitals and other services by successful businessmen” (Othman & Ameer, 2009, p. 299).

Therefore, the role of accounting in corporate social responsibility is essential. Cooper et al. (2003, p. 363), in addressing the role of accounting, stated that it “involves exploring not only how to account but also what to account for and why”. As such, some changes in the accounting profession have occurred, and a new branch of accounting called social accounting has emerged.

Many definitions have been forthcoming. Ramanathan (1976, p. 519) stated that:

social accounting is the process of selecting firm-level social variables, measures, and measurement procedures; systematically developing information useful for evaluating the firm’s social performance; and communicating such information to concerned social groups, both within and outside the firm.

Mathews and Perera (1996, p. 364) explained the meaning of social accounting by stating,

at the very least, social accounting means an extension of disclosure into non-traditional areas such as providing information about employees, products, community services and the prevention and reduction of pollution. However, the term “social accounting” is also used to describe a comprehensive form of accounting, which takes into account externalities...Public sector organizations may also be evaluated in this way, although most writers on the subject of social accounting appear to be concerned with private sector organizations.

Gray et al. (1987, p. 9) define the term as:

the process of communicating the social and environmental effects of organizations’ economic actions to particular interest groups within society and to society at large. It therefore involves extending the accountability of organizations (particularly companies), beyond the traditional role of providing a financial account to the owners of capital, in
particular, shareholders. Such an extension is predicated upon the assumption that companies do have wider responsibilities than simply to make money for their shareholders.

As noted from these definitions, the issues concerned in social accounting vary and include employees, customers, community and the environment. The responsibility of corporations has been extended from their narrow concern in respect to serving shareholders, to also serving other parties. Disclosing information on corporations’ actions in terms of fulfilling these responsibilities is an essential process in social accounting, and this information is directed to a wide variety of social groups in order to assist in improving the environment and society. Bebbington (1997, p. 371) asserted that social and environmental accounting is “exploring and developing new forms of accounting which are more socially and environmentally benign and which have the potential to create a fairer, more just society”.

The use of the broad term social accounting has led to researchers attempting to identify its main elements. Gray (2001) emphasized three types of social accounting; namely, the silent social account, the social audit, and the new wave of social accounting. Elsewhere, Mathews (1993) classified this type of accounting into the following four categories: social indicators accounting (SIA), which is used to discuss the measurement of social events; socio-economic accounting (SEA), which is used for evaluating publicly funded activities; total impact accounting (TIA), which is concerned with the negative effects of the organization on the environment; and social responsibility accounting (SRA), which produces financial, nonfinancial, quantitative and qualitative information on organisational activities in areas such as human resources, and accounting and industrial democracy issues (corporate social reporting). This thesis is primarily concerned with the latter.

Social accounting has been in its development process for decades. It has, to some extent, received considerable interest from accounting academics in both developed and developing countries. Its development was motivated mainly by pressure from both academics and interested stakeholders. Mathews (1997) reviewed 25 years of social and environmental accounting research and divided this period into three stages. The first stage covered the period 1971–1980. In this period, researchers focused more on social accounting, especially on employees and product disclosures. Environmental issues were not the priority, so were discussed as part of wider issues. The empirical studies were descriptive in their nature and relatively uncomplicated. Knowledge about this
new kind of accounting was not considered sufficiently significant to be included in educational programs for undergraduate students during this period.

The second stage of social accounting development occurred during the period 1981–1990 and was distinguished by some remarkable changes. The empirical studies were less descriptive and more analytical, and the issue of disclosing information on social and environmental accounting activities became a keenly debated philosophical topic. Moreover, the attention paid to environmental issues, accounting and disclosure has increased considerably since the second part of this period, and this has been at the expense of other topics in the sphere of social accounting. Lastly, some researchers, who started publishing related specialist textbooks, recognized the importance of educational institutions to the issue of social and environmental accounting.

The third and final stage mentioned in Mathews (1997) is the period 1991–1995. This period witnessed three significant features: the dominance of environmental accounting versus social accounting, relative lack of normative/philosophical accounting work, and incorporating social and environmental issues into educational curriculums. Subsequently, researchers (in addition to studying internalization of external environmental costs) began to employ theories such as political economic theory, stakeholder theory and legitimacy theory in order to understand social and environmental disclosure practices (Owen, 2008).

Recently, social and environmental accounting literature has been enriched and has developed rapidly with a significant number of related studies emerging due to the importance and recognition of this category of accounting. These studies addressed the subject of social and environmental accounting from different angles. Islam (2009) listed four areas of research. The first area addressed the issue of motivations for social and environmental disclosure; that is, what motivated a firm’s management to provide such disclosure. The second area of research can be considered a normative approach as it concerns investigating what firms should do to act ethically and be accountable to the various stakeholders. The third area is related to cost issues. Studies in this area investigated topics such as full cost accounting, accounting for energy, and life cycle costing. The last area of research focused on share price reactions to social and environmental disclosure.

Based on the above research outcomes, corporate social and environmental disclosure is now a major component in social accounting. Hossain and Reaz (2007) argued that one of the three most important problems that researchers encounter is identifying and
understanding the factors that influence managers’ decisions about issues of disclosure, and how these factors can be beneficial in the disclosure process.

4.3 Corporate Social and Environmental Disclosure (CSED)

In recent years the issue of disseminating social and environmental information on corporations’ activities has received increasing attention, from both teachers and organizations (Gray et al., 1995b). Researchers have provided several definitions of the related disclosure. For example, Guthrie and Mathews (1985, p. 78) considered corporate social and environmental disclosure as “the provision of financial and non-financial information relating to an organization’s interaction with its physical and social environment”. Gray et al. (1987, cited in Sutantoputra, 2009, p. 38) defined it as “the process of providing information designed to discharge social accountability”, and stated that this information could be provided by annual reports, special publications or reports, or socially orientated advertising. This disclosure is made for all interested groups. Radebaugh and Gray (2002, p. 119) stated that it is aimed at “society as a whole”. However, the question that might be asked is, “What function does this kind of disclosure have?”

Jenkins and Yakovleva (2006) answered by highlighting certain functions: to measure the effectiveness of corporate social responsibility programs; to evaluate the impact of these programs; to report on them; and to provide external and internal information systems to produce a comprehensive assessment of the impact of all corporate resources.

In regard to factors that served as a driver for providing CSED, there are many. First, the pressure by many stakeholders motivated corporations to produce and improve their CSED. Pressures come from several parties, including the public, consumers, employees, governmental agencies, non-governmental organizations and banks. These parties need such information to take decisions that influence their relationships with the corporations. For example, banks need to assess environmental information before granting loans to clients who might cause risks to the bank, such as direct risk, indirect risk or reputation risk. Othman and Ameer (2009) gave an example on the impact of government pressure in increasing social disclosure. They mentioned the study by Tsang (1998), which reported the increase in human resources disclosure compared to other types of disclosure. They attributed this increase to the priority given by the Singaporean government to training employees in order to enhance productivity.
Second, legislation such as that relating to the environment has been argued to be the main force behind providing related information, particularly in environmentally sensitive industries (Guthrie and Parker, 1990b). Third, CSED may provide companies with a competitive advantage. This occurs when there are information users who appreciate and use such information in their decision-making. Fourth, CSED, in some societies, can be an effective tool to gain and maintain legitimacy for corporations providing such disclosure. Fifth, there is a range of benefits firms can enjoy when they publish social and environmental information. Idowu and Towler (2004, p. 423) mentioned, in particular, the following benefits:

- increased customer loyalty,
- more supportive communities, the recruitment and retention of more talented employees,
- improved quality and productivity, and
- the avoidance of potential reputational risks which may arise from environmental incidents.

Confirming this point, Klein and Dawar (2004, p. 203) state:

Firms have been found to engage in socially responsible behaviours not only to fulfil external obligations such as regulatory compliance and stakeholder demands, but also due to enlightened-self-interest considerations such as increased competitiveness and improved stock market performance.

CSED might be more beneficial in the case of developing countries. These countries face numerous social and economic problems and such disclosure provides important information that can be used in understanding and resolving these problems. Mashat (2005, pp. 86–87) argued that information included in CSED can be used as a means for measuring

- Unemployment,
- safety at the workplace,
- the level of employee training,
- balance of payments,
- regional imbalances,
- income/wealth distribution,
- environmental pollution,
- problems of the neglect of the beauty and aesthetics of the country,
- energy and natural resource consumption,
- energy shortage,
- consumers/product related problems.

Mashat (2005) asserts that this information is of importance to different stakeholders in Libya, and it would result in informed decisions when endeavouring to resolve Libyan social and economic problems.

Having mentioned some information included in CSED, it is now useful to indicate the main categories of disclosure. In general, there are four categories on which the information will be provided (Deegan, 2002). These are environment, human resources, products and consumers, and community involvement.
Relying on the work of several studies (such as those of Adams et al., 1998, Gray et al., 1995b, Hackston & Milne, 1996), Branco and Rodrigues (2008a, p. 694) developed an index (see Table 4.1) to measure the level of social disclosure of Portuguese companies.

### Table 4.1 General index for measuring level of social disclosure

<table>
<thead>
<tr>
<th>Index items</th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Environmental disclosure</td>
<td></td>
</tr>
<tr>
<td>Environmental policies or company concern for the environment</td>
<td></td>
</tr>
<tr>
<td>Environmental management, systems and audit</td>
<td></td>
</tr>
<tr>
<td>Pollution from business operations</td>
<td></td>
</tr>
<tr>
<td>Pollution arising from use of product</td>
<td></td>
</tr>
<tr>
<td>Discussion of specific environmental laws and regulations</td>
<td></td>
</tr>
<tr>
<td>Prevention or repair of damage to the environment</td>
<td></td>
</tr>
<tr>
<td>Conservation of natural resources and recycling activities</td>
<td></td>
</tr>
<tr>
<td>Sustainability</td>
<td></td>
</tr>
<tr>
<td>Environmental aesthetics</td>
<td></td>
</tr>
<tr>
<td>Conservation of energy in the conduct of business operations</td>
<td></td>
</tr>
<tr>
<td>Energy efficiency of products</td>
<td></td>
</tr>
<tr>
<td>Human resources disclosure</td>
<td></td>
</tr>
<tr>
<td>Employee health and safety</td>
<td></td>
</tr>
<tr>
<td>Employment of minorities or women</td>
<td></td>
</tr>
<tr>
<td>Employee training</td>
<td></td>
</tr>
<tr>
<td>Employee assistance/benefits</td>
<td></td>
</tr>
<tr>
<td>Employee remuneration</td>
<td></td>
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<tr>
<td>Employee profiles</td>
<td></td>
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<tr>
<td>Employee share purchase schemes</td>
<td></td>
</tr>
<tr>
<td>Employee morale</td>
<td></td>
</tr>
<tr>
<td>Industrial relations</td>
<td></td>
</tr>
<tr>
<td>Products and consumers disclosure</td>
<td></td>
</tr>
<tr>
<td>Product safety</td>
<td></td>
</tr>
<tr>
<td>Product quality</td>
<td></td>
</tr>
<tr>
<td>Disclosing of consumer safety practices</td>
<td></td>
</tr>
<tr>
<td>Consumer complaints/satisfaction</td>
<td></td>
</tr>
<tr>
<td>Provision for disabled, aged, and difficult-to-reach consumers</td>
<td></td>
</tr>
<tr>
<td>Community involvement disclosure</td>
<td></td>
</tr>
<tr>
<td>Charitable donations and activities</td>
<td></td>
</tr>
<tr>
<td>Support for education</td>
<td></td>
</tr>
<tr>
<td>Support for the arts and culture</td>
<td></td>
</tr>
<tr>
<td>Support for public health</td>
<td></td>
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<tr>
<td>Sponsoring sporting or recreational projects</td>
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</table>

Branco and Rodrigues (2008a)

It is clear that this index suits industrial companies more than banks, as some items such as product safety are not relevant to bank activities (the subject of the current study), while other bank-related items are absent from the index, such as lending policies. Consequently, Branco and Rodrigues (2008b, p. 173) modified the index to better suit the banking environment (see Table 4.2).

### Table 4.2 Bank-environment index for measuring level of social disclosure

<table>
<thead>
<tr>
<th>Index items</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Environmental disclosure</td>
<td></td>
</tr>
<tr>
<td>Environmental policies or company concern for the environment</td>
<td></td>
</tr>
<tr>
<td>Environmental management, systems and audit</td>
<td></td>
</tr>
<tr>
<td>Lending policies</td>
<td></td>
</tr>
<tr>
<td>Conservation of natural resources and recycling activities</td>
<td></td>
</tr>
<tr>
<td>Sustainability</td>
<td></td>
</tr>
<tr>
<td>Conservation of energy in the conduct of business operations</td>
<td></td>
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<tr>
<td>Human resources disclosure</td>
<td></td>
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<tr>
<td>Employee health and safety</td>
<td></td>
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<tr>
<td>Employment of minorities or women</td>
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<td>Employee training</td>
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<td>Employee assistance/benefits</td>
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<td>Employee remuneration</td>
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<tr>
<td>Employee profiles</td>
<td></td>
</tr>
<tr>
<td>Employee share purchase schemes</td>
<td></td>
</tr>
<tr>
<td>Employee morale</td>
<td></td>
</tr>
<tr>
<td>Industrial relations</td>
<td></td>
</tr>
<tr>
<td>Products and consumers disclosure</td>
<td></td>
</tr>
<tr>
<td>Product quality</td>
<td></td>
</tr>
<tr>
<td>Consumer complaints/satisfaction</td>
<td></td>
</tr>
<tr>
<td>Provision for disabled, aged, and difficult-to-reach consumers</td>
<td></td>
</tr>
<tr>
<td>Community involvement disclosure</td>
<td></td>
</tr>
<tr>
<td>Charitable donations and activities</td>
<td></td>
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<tr>
<td>Support for education</td>
<td></td>
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<tr>
<td>Support for the arts and culture</td>
<td></td>
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<tr>
<td>Support for public health</td>
<td></td>
</tr>
<tr>
<td>Sponsoring sporting or recreational projects</td>
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</tr>
</tbody>
</table>

Branco and Rodrigues (2008b)
4.4 Theories applied in the current study

The emergence of social accounting and its subsequent reporting created a need to provide a theoretical framework that could be used to justify the attitudes of firms to social and environmental issues, particularly the issue of social and environmental information disclosure. The purpose of using a theoretical framework is to either explain the reasons for not disclosing such information, or justify the level of such disclosure (if provided), and its trend, change, quality and so on. However, there is no agreement that a single theory can be claimed to be the most appropriate one for explaining the social and environmental disclosure practices of each firm in each country. Haniffa (1988) believes that all of the theories applied in this field are logical and acceptable, but no theory can be chosen as the most appropriate one in explaining this phenomenon. Adams (2002) pointed out that each theory has been supported by results of some prior studies and rejected by others, and no single theory was consistently accepted or refuted. Gray et al. (1995b) explained why, by arguing that disclosing information on corporate social responsibility is a complex activity and, as such, cannot be explained or justified by the use of one single theory. Some researchers (such as Deegan, 2002) regard theories as being complementary to each other. For example, legitimacy, stakeholder and institutional theories have a similar perspective (Zunker, 2011). This led to some researchers (such as Deegan, 2009) to take different theoretical perspectives into consideration when analysing social and environmental disclosure practices. Such an approach is more likely to result in having a better understanding of these complicated practices.

Generally, there are two types of theoretical groups used in studying corporate social and environmental responsibility and related disclosures: normative and positive. The first group includes theories such as accountability theory and critical theory. These theories focus on a normative perspective and, as such, provide valuable insights. However, they do not cover the motivational factors behind social and environmental practices. It is more about what “firms should do” rather than “why firms did, or would do”. It is more about morality rather than real action. As such, Deegan (2009) argued that these theories cannot be empirically tested. Conversely, the positive theories include stakeholder, legitimacy, political and economy, institutional, agency and political cost theories. In contrast with the normative theories, the positive theories focus more on the motivations of disclosing corporate social and environmental information. Table 4.1 outlined the theories related to the social and environmental disclosure.
Table 4.3 Theories to Explain Motivation for Social and Environmental Disclosure

<table>
<thead>
<tr>
<th>Basis of analysis</th>
<th>Positivist Theories</th>
<th>Normative Theories</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Legitimacy Theory</td>
<td>Stakeholder Theory (Managerial branch)</td>
</tr>
<tr>
<td>Broad Overview</td>
<td>Evidence shows this theory provides considerable potential to explain social and environmental disclosures</td>
<td>Widely used in management and accounting literature. It also provides potential to explain the phenomena. Factors such as power should be considered</td>
</tr>
<tr>
<td>Research Methods Used</td>
<td>Content analysis, case studies, interviews or surveys can be applied</td>
<td>Content analysis, case studies, interviews or surveys can be applied</td>
</tr>
<tr>
<td>Prior Empirical Test</td>
<td>This theory has been used in much empirical research in social and environmental accounting</td>
<td>The insights provided can be empirically verifiable</td>
</tr>
<tr>
<td>Prior Application</td>
<td>Widely applied</td>
<td>Widely applied</td>
</tr>
<tr>
<td>Relevance to this Thesis</td>
<td></td>
<td>Relevant</td>
</tr>
</tbody>
</table>

Islam (2009, p. 48) with some amendments
Based on the above, and since this study aims to investigate the position of Libyan banks on disclosure and use of social and environmental information, it is obvious that the group of positive theories is suitable for explaining the case of Libyan banks. Taking into consideration the basic assumptions of other theories (in the same group), political and economy, institutional, and stakeholder theories are used to understand and justify the social and environmental disclosure practices of Libyan banks.

4.4.1 Political and economy theory
While agency theory is consistent with the economic incentives viewpoint, stakeholder theory and political and economic theory are consistent with a socio-political context (Farook et al., 2011). Political and economic theory proposes that social, political and economic factors have an impact upon corporate social and environmental disclosure (Gray et al., 1995a) and should be considered in social and environmental disclosure studies (Guthrie and Parker, 1990). In light of this theory, such disclosure is seen as a suitable means to deliver social, political and economic messages to many recipients, and companies choose voluntarily to make such disclosure as a positive response to social pressure and avoid intervention of regulatory bodies (Naser et al., 2006).

Many definitions have been put forward in political and economic theory. Gray et al. (1996) defines it as the social political and economic framework within which human life takes place. Jackson (1982) defined it as:

…a framework, political economy theory does not concentrate exclusively on market exchanges. Rather, it first of all analyses exchanges in whatever institutional framework they occur and second, analyses the relationship between social institutions such as government, law and property rights, each equipped by power and the economy, i.e. the system of producing and exchanging goods and services.

This theory helps in understanding social and environmental disclosures by considering the political and economic environment.

Compared to other theories—such as positive accounting theory, stakeholder theory and legitimacy theory—political and economy theory has much to offer in explaining corporate social disclosure practices (Gray et al., 1996; Guthrie and Parker, 1990). Xiao et al. (2005) believe that the impact of social and economic development on social and environmental disclosure is considered only by political and economy theory.

Consequently, this theory has been used by many researchers (such as Adams & Harte, 1998; Adler & Milne, 1997; Farook et al., 2011; Guthrie & Parker, 1990, Williams,
1999; Xiao et al., 2005). Guthrie and Parker (1990) compared the practices of social and environmental disclosure in the USA, the UK and Australia in the year 1983. Two theories were considered in justifying the study results: user utility and political economy. The study results were better interpreted by the latter theory. Adler and Milne (1997) used the annual reports of 122 firms listed on the New Zealand Stock Exchange to examine the relationship between the social disclosure of these firms and a group of variables; namely, media exposure (representing public pressure), industry sectors and firm size. Political and economy theory justified the study results, as firms were motivated to disclose social information because of public pressure.

On the other hand, omitting the impact of internal factors might be considered a weakness in this theory. Ahmad (2004, p. 74) stated that

it (political and economy theory) fails explicitly to consider the inter-organisational factors (internal factors include the corporate characteristics and the management attitude and cognition) which have an important role in CED practices in a given country.

4.4.2 Institutional theory

Institutional theory explains how institutional pressures and norms influence social change in organisations. The behaviour of any organisation is affected by both its internal institutional environment and the external institutional environment in which it operates. The institutional environment of a country is the set of social, political, economic and legal conventions, which constitute the foundational basis for production and exchange (Trevino and Thomas, 2008). This environment influences organisations through their managers. The managers’ ethical reasoning and actions are affected by social institutions (Martin et al., 2007).

In order to survive, companies need to consider and respond to institutional expectations. Generally, organisations respond to market pressure and institutional pressure. Institutional theory turns the attention from being focused on the market, customers and competitors to a focus on those who impose restraints and requirements on organisations, and shape their behaviour as a result. The theory shows how organizations respond to institutional pressure imposed by general social expectations and other influential organisations in the same sector (Chizema & Buck, 2006).

Institutional theory focuses on “organizations, key constituents and the exchange processes that occur with those groups” (Fogarty & Rogers, 2005, p. 336). These authors suggested that in order for organisations to be legitimate from a societal
viewpoint—and to subsequently secure their resources and enhance their chances of surviving—they incorporate norms applied in their particular institutional environment (Chizema & Buck, 2006). As result, organisations become almost similar as a result of adopting similar structures. This is called *institutional isomorphism*. In defining this term, DiMaggio and Powell (1983, p. 149) stated,

> The concept that best captures the process of homogenisation is isomorphism. In Hawley’s (1968) description, isomorphism is a constraining process that forces one unit in a population to resemble other units that face the same set of environmental conditions.

Isomorphism can be competitive or institutional. According to Amran and Devi (2008), the first expression is related to market completion, where organisations in a highly competitive market make their decisions with special consideration to the expected reaction of the market. On the other hand, in institutional isomorphism, organisations also compete for other reasons—such as political powers, institutional legitimacy, social and economic goals. As mentioned above, institutional theory focuses on institutional isomorphism.

There are three mechanisms involved in achieving institutional isomorphism: coercive, mimetic and normative. Coercive isomorphism occurs when conditions of power force organisations to adjust. This enforcement can be exerted by political influence, regulations, law, sanctions or the public at large. Tuttle and Dillard (2007, p. 393) stated,

> Change is imposed by an external source such as a powerful constituent (e.g., customer, supplier, competitor), government regulation, certification body, politically powerful referent groups, or a powerful stakeholder. The primary motivator is conformance to the demands of powerful constituents and stems from a desire for legitimacy as reflected in the political influences exerted by other members of the organisational field. These influences may be formal or informal and may include persuasion as well as invitations to collude. If the influencing group has sufficient power, change may be mandated.

According to this quotation, what distinguishes this kind of mechanism is the force factor in the issue. The company responds or changes due to the power exerted by external parties. This power is difficult to ignore and companies should respond to it in a particular way. This is in line with the assessment by Fogarty (1996, p. 247), who stated (citing research by Powell, 1985): “Behind every institutionalized expectation lies some threat of enforcement likely to be revealed when an appropriate structure fails to be reproduced”.
On the other hand, mimetic isomorphism—the second mechanism in achieving institutional isomorphism—occurs when a company imitates another company. This happens when there is uncertainty in the surrounding environment. In the absence of guidelines, a company will model itself on other successful companies (DiMaggio and Powell, 1983). Although the extent of imitation varies from one company to another (Aerts & Cormier, 2009), this behaviour might lead to some kind of routine. Companies move from imitating others to imitating themselves—that is, repeating their own practices (accounting practices, for example) which had been applied in the prior years. It seems safe for some companies to stick with what they know and have experienced, rather than applying new practices, especially in the case of low level of demand for such practices.

Normative isomorphism is the third mechanism, and is linked to professional factors. Amran and Devi (2008) mentioned education, universities, training centres, professional networks, and professional associations as major factors in creating normative pressure. Such pressure influences organisations’ attitudes and behaviour. Islam (2009, p. 69) gives a good example of such influence: he states that “the practices of accounting departments in different firms are not determined by the management of those firms but rather the standards and norms of the accounting profession”. This shows how such an important information system in a company is affected more by associations from outside the company itself. Fogarty (1996, p. 248), emphasising the importance of accounting bodies in the US, stated that “Ample evidence exists to establish that accounting regulatory agendas in the US reflect a dynamic body of external expectations”. In regard to education, it is argued that it represents a central component of a nation’s institutional profile, due to its important role in preparing individuals for acting in society, and its role in transforming societal norms, traditions, values and beliefs from one generation to another (Trevino & Thomas, 2008).

Kostova (1997, p. 180) offered a wide range of what is included in the normative component of a nation’s institutional profile by including “social norms, values, beliefs and assumptions that are socially shared and carried out by individuals”. This led Trevino and Thomas (2008, p. 121) to conclude that “when an institution (e.g. an educational system, religion, or government) promotes the ‘correct’ way of behaviour, even in the absence of legal or other sanctions, that institution influences organizational and individual actions by normative processes”. As such, every institution considers the morality, knowledge or behaviour of employees, managers and citizens in general as a
source of normative pressure. What might be interesting to investigate is which sources are stronger than others, and thus should be considered exclusively in applying institutional theory.

In summary, the three mechanisms mentioned above all cause organisations to conform to expectations existing in the environment in which they work. These mechanisms result in creating institutional isomorphism, the aspect on which institutional theory focuses.

The first appearance of institutional theory is found in a study conducted by Philip Selznick which revealed that, in addition to their internal actors, organisations also respond to the expectations of external parties (Peters, 2005). Since then, many studies conducted in different knowledge fields such as economics and political sciences, as well as social and accounting studies, have applied this theory (Bruton et al., 2010). In accounting, institutional theory has been used in different types of accounting studies, such as management accounting change (Combs & Michael, 2009), accounting regulation (Arnold, 2009), accounting for non-profit organisations (Euske & Euske, 1991), and the accounting profession (Burns & Baldvinsdottir, 2005). In regard to CSED practices, researchers of social and environmental accounting argued that institutional theory can be used to understand why firms choose particular practices in disclosing their social and environmental information (Islam, 2009). However, in the context of developing countries, there are limited studies, theoretical and empirical alike, which have applied institutional theory (Meyer, 2001).

According to DiMaggio and Powell (1983) the strength of institutional theory is that it “provides the reasoning for the phenomenon of the alarming homogeneity of organizational forms and practices in one particular environment”. As such, this theory is argued by many researchers to have the potential to suit the case of emerging markets, considering the weak legitimacy of formal institutions and the impact of culture on managers’ behaviour (Björkman et al., 2007). Some researchers have gone so far as to suggest that institutional theory is the most applicable paradigm for explaining the behaviour of organisations operating in developing countries (Shenkar & von Glinow, 1994). In regard to individuals, this theory has also proved its applicability. A study by Fogarty and Rogers (2005) revealed that the work of financial analysts cannot be understood in isolation from the social context. Crank (2003) went further, to conclude his study by asserting that institutional theory can be used to explain individual behaviour.
4.4.3 Stakeholder theory

There is no doubt that firms in different economic sectors try to continue their activities and secure their place in the market as much as they can, especially in the very competitive economic environment that exists these days. It is one accounting assumption that the firm will continue in its business for the foreseeable future (Godfrey et al., 2010; Schroeder et al., 2010). In order to achieve this, firms need the support of their stakeholders. This idea is the core of stakeholder theory.

Firstly, it is logical to define the term *stake*, and those who hold it. Carroll (1989) defines stake as:

> any interest, share, or claim a group or individual has in the outcome of an organization’s policies, procedures or actions towards others. It can be based on legal, economic, social, moral, ecological, technological, political, or power interest.

The group that has this stake are called *stakeholders* and there are many definitions for this term. Freeman (1983, p. 38) stated that they are “groups or individuals who can affect and are affected by the achievement of an organization’s mission”. He also described them as “those groups who are vital to the survival and success of the corporation” (Freeman et al., 2004, p. 58). This group includes shareholders, employees, creditors, suppliers, customers, public interest groups and government agencies. Gray et al. (1996) extended this group to include future generation and non-human life.

Stakeholder theory assumes that any firm, in order to continue its business, needs to obtain the support of its stakeholders, and those stakeholders have the power to coerce the firm should the firm fail to meet stakeholder expectations. For this reason, managers:

> should on the one hand manage the corporation for the benefit of its stakeholders in order to ensure their rights and the participation in decision making and on the other hand the management must act as the stockholder’s agent to ensure the survival of the firm to safeguard the long term stakes of each group (Fontaine et al., 2006, p. 3).

Therefore, according to this theory,

> the success of an organization depends on the extent to which the organization is capable of managing its relationship with key groups, such as financial and stakeholders, but also customers, employees, and even communities or societies (Van Beurden & Gössling, 2008, p. 408).
As such, the company should provide its stakeholders with the information they need, especially on its performance and its impact on them. Gray et al. (1996) argued that disclosure is motivated by the continuance of the organizational interest, and the effort of managing the relationship between the organization and its stakeholders depends on the importance level of those stakeholders.

In this context, social and environmental disclosure can be considered as a tool used by the firm to manage its relationship with its stakeholders in order to gain and maintain their support, and avoid negative reactions. The pressure of stakeholders has been proved, by many studies, to have an impact upon social and environmental disclosure strategies (Elijido-Ten, 2007). A study by González-Benito and González-Benito (2010) confirmed that stakeholders do have an impact on highly polluting firms, with the firms subsequently paying more attention in their annual reports to the subject of environmental disclosure. Brammer and Pavelin (2008) pointed out that both the patterns of voluntary environmental disclosure and the quality of the disclosure decisions are affected by the pressures imposed by stakeholders. The absence of this pressure can cause the level of social and environmental disclosure to be low, as was demonstrated by a study by Gao et al. (2005).

There are two branches of stakeholder theory: the normative branch and the managerial branch (Deegan, 2009; Hasnas, 1998). The idea of the first branch is that a company should treat its stakeholders equally, despite differences in the level of the power they possess. On the other hand, according to the managerial branch, a firm focuses on those stakeholders who are considered more powerful than others; it responds to their concerns and works to meet their expectations. This classification is similar to that proposed by Gray et al. (1996), who highlighted the notion of power and accountability in stakeholder theory. Empirically, the different treatment for stakeholders, according to the managerial branch of the theory, has been recorded. Neu et al. (1998) analysed the annual reports of Canadian firms operating in an environmentally sensitive industry, and found that these companies assigned more attention to financial stakeholders and government regulators than to environmentalists.

Stakeholder power was proposed by Ullmann (1985) as a three-dimensional model designed to answer the question: “Why do companies involve in social performance and disclosure?” The other elements sought to establish the firm’s strategic posture and the firm’s past and current economic performance. The power of stakeholders (the first dimension) stems from their control over the resources that the company needs. The
more critical the resources are for company survival, the more likely that the expectations of the stakeholders will be met. In line with this, a positive association will exist between social performance and disclosure on one side, and stakeholder power on the other, if social responsibility actions are deemed by the management as an effective strategy in dealing with the stakeholder (Roberts, 1992).

The firm’s strategic posture with respect to corporate social responsibility actions is the second dimension of Ullmann’s (1985) model. It is the attitude of decision makers (management) in regard to social demands. This attitude can be passive or active. It is considered active posture when the management addresses the concerns of stakeholders about the social responsibilities of the company, and is perceived as a strategy to manage the relationship between the two. As such, greater social actions and disclosures are expected in the case of an active strategic posture (Bowman & Haire, 1976; Ullmann, 1985).

The third dimension is concerned with a company’s past and current economic performance. This suggests the priority of economic performance over social demands, and highlights the necessity of good economic performance for financing social activities (Mashat, 2005). Ullmann’s model has been used by many researchers (such as Elijido-Ten, 2007; Husillos & Álvarez-Gil, 2008; Kent & Chan, 2003; Van der Laan, 2009). It was used to examine the relationship between social and environmental disclosure and influencing factors. For instance, Van der Laan (2009) used the model to investigate the determinants of corporate social responsibility disclosure. His study revealed a significant relationship between the three-dimensional model and the level of corporate social disclosure.

Since the publication of Freeman’s landmark book Strategic Management: A Stakeholder Approach in 1984, stakeholder theory has been commonly used in accounting research (Elijido-Ten, 2007) by many researchers, including Elijido-Ten et al. (2010), Huang and Kung (2010) and Roberts (1992).

Although some criticism has been directed at the theory (such as omitting the rights of less-powerful stakeholders and leaving the decision of releasing the information in decision makers hands) (Mashat, 2005), stakeholder theory is considered one of the most important approaches to corporate social responsibility. It provides logical justification for why such responsibility and its related disclosure are of importance. It could be used to explain non-disclosure of some information where there was an absence of a demand, or exclude information to those who are considered less powerful
Stakeholder theory is a useful theory because “it defines the influencing/influenced groups for us and explicitly defines what accountability the organization itself is willing to recognize and discharge” (Gray et al., 1997, p. 333).

### 4.4.4 Justification for use of the chosen theories

Consistent with the case of developing countries, there is a lack of research on corporate social and environmental disclosure practices in Libya. Moreover, the banking system of Libya has been affected by considerable changes in the social, economic and political environment over the period of its development (see the historical development of Libyan banks in Chapter 2). Furthermore, Libya, as stated by some Libyan researchers (such as Ahmad, 2004; Mashat, 2005), has a unique political, economic and social system. As such, political and economy theory seems to be capable of providing insights into corporate social and environmental disclosure practices of Libyan banks. This theory was used in the Libyan context by Ahmad and Mousa (2009) to understand the case of Libyan manufacturing companies in regard to corporate environmental disclosure.

Institutional theory, on the other hand, can provide an additional contribution to the study through investigating the impact of isomorphism mechanisms on disclosure practices. Eljayash (2013) used this theory, with stakeholder theory, to investigate the differences in environmental disclosure practices between national and international oil and gas corporations.

In addition to that, since interviews will be conducted with Libyan managers, stakeholder theory is expected to provide insights into the importance of banks’ stakeholders to this issue. This choice is underpinned by the previous use of this theory in earlier Libyan studies, including those by Elmogla (2009), Bayoud (2012) and Eljayash (2013), which showed the validity of using such theory in the Libyan context.

One final point to mention in respect to using these theories in this study is that the position of Libyan banks in relation to the issue of using social and environmental information in their lending decisions is added justification for the use of these theories. Each one of the theories that have been suggested has something to offer when it comes to justifying attitudes in light of external and internal circumstances.

### 4.5. Conclusion

This chapter has discussed the emergence and development of social accounting. This form of accounting has paved the way to our understanding CSED practices in their
natural context, and to providing details (such as definitions, function and benefits) on this type of disclosure.

However, the amount of CSED provided, and its quality, vary from company to company, from sector to sector, and from country to country. As such, theories explaining the attitudes of corporations towards CSED were discussed to identify the framework within which the results of this study would find an interpretation. These theories—political and economy theory, institutional theory, and stakeholder theory—provide different, but acceptable, perspectives. This resulted in presenting the justification for the selection of these theories that were used in this study.
CHAPTER 5. Research Methodology

5.1. Introduction

For the purpose of investigating the position of Libyan banks in relation to the issue of social and environmental disclosure, different information sources and analysis techniques have been used. Firstly, the research involved reviewing and analysing the literature on the subject of disclosing social and environmental information by companies in general, and banks in particular, as well as the use of such information in lending decisions. Secondly, the historical development of the Libyan banking sector was discussed in detail, with special reference to the economic and political environment that affected this development. Thirdly, perspectives of three theories have been discussed in order to provide an explanation for the attitudes of Libyan banks to the issue of CSED. This led to using different methods to collect and analyse the required information, which is detailed in this chapter.

Section 2 discusses the research design. Section 3 explains triangulation. The production of CSED is presented in Section 4. Section 5 focuses on the use of CSED. Section 6 discusses the connection between production and use of CSED. Section 7 provides a conclusion to the chapter.

5.2. Research Design

The importance of considering social and environmental issues in conducting the economic activities has been increasingly recognised all over the world. Special attention has been focused on the dual role banks can play in this regard. Banks are expected, first, to consider social and environmental issues in their activities, and second, to use their position as lenders to encourage companies to do the same. Investigating CSED practices of banks and the use of CSED in lending decisions will give a clear picture of whether banks are fulfilling their dual role or not. To the best of the researcher’s knowledge, there are no studies investigated together the attitudes of banks to providing CSED and using similar disclosure in their lending decisions, and the connection between the two.

Based on the above, this study focuses on three main points. It investigates the position of Libyan banks in relation to the issue by addressing three main research questions.
These are: (1) What is the position of Libyan banks in relation to the production of social and environmental information? (2) What is the position of Libyan banks in relation to the use of social and environmental information, disclosed by companies, in the lending decisions? (3) Is there a connection between the production and use of social and environmental information by Libyan banks? Figure 5.1 (below) explains the development of the research design and methodology.

5.3. Triangulation

There are many definitions presented for Triangulation, and one of those definitions is that “Triangulation is the combination of two or more data sources, investigators, methodological approaches, theoretical perspectives, or analytical methods within the same study.” (Thurmond, 2001, p. 253). This definition indicates five types of Triangulation, which are: data triangulation, investigator triangulation, analysis triangulation, theoretical triangulation, and methodological triangulation (Hussein, 2009). The author indicated that triangulation can be used for confirmation and completeness purposes. In the latter case, triangulation is used mainly for studying unexplored or less explored research problems, which is the case of this study.

The benefits of triangulation include “increasing confidence in research data, creating innovative ways of understanding a phenomenon, revealing unique findings, challenging or integrating theories, and providing a clearer understanding of the problem.” (Thurmond, 2001, p. 254). Some researchers highlighted the importance of such approach in enhancing the understanding of the phenomenon studied, increasing the accuracy of the study, and claim that it could be a third research method, beside quantitative and qualitative methods (Hussein, 2009).

The current study implements theoretical triangulation, and methodological triangulation. Using two types of triangulations is called multiple triangulation (Polit-O'Hara and Hungler, 1999). Theoretical triangulation means that two theories or more are implemented in the same study, in order, for the researcher, to have a clear understanding of the problem, and be more confident in supporting or declining findings (Hussein, 2009). Using theoretical triangulation provides researchers with “a broader, deeper analysis of findings.” (Thurmond, 2001, p. 256).
The Banking Sector in Libya

Empirical Literature Review

The Theoretical Framework of Social and Environmental Disclosure

Methodology

Content Analysis

Statistical analysis (Regression analysis)

Interviews

Historiography & Interviews

Interviews & Historiography

Pearson’s correlation

Level & Nature of CSED

Bank characteristics & Corporate Governance

Attitudes of Accounting Managers to CSED

General Contextual Factors

Attitudes of Credit Managers to Using CSED

Connection between the production and use of CSED

Addressing the Questions in Light of Empirical Analysis

Findings, Limitations, and Future Research

Figure 5-1 Research Design and Methodology
Many names have been given to methodological triangulation, such as mixed-methods, multi-method, and methods triangulation (Barbour, 1998). Methodological triangulation means using more than one method in the same study. Such application is likely driven by the intention to benefit from the strength of both methods, as each one has its own strength and weakness (Thurmond, 2001). It is widely used in social sciences (Hussein, 2009). Using methodological triangulation "increases the ability to rule out rival explanations of observed change and reduces scepticism of change-related findings" (Hinds, 1989, p. 442). Creswell (2003, p. 18) stated “mixed methods approach employs strategies of inquiry that involve collecting data either simultaneously or sequentially to best understand problems. The data collection also involves gathering both numeric information (e.g., on instruments) as well as text information (e.g., on interviews) so that the final database represents both quantitative and qualitative information.”

Thurmond (2001) mentioned the two types of methodological triangulation—within-method triangulation and across-method triangulation—and gave examples. For the first type, the researcher can use two qualitative approaches (such as nonparticipant observation and focus group interviews) or two quantitative approaches (such as questionnaires and pre-existing information from a database), but not qualitative and quantitative methods together. In across-method triangulation the case is reversed. That is, qualitative and quantitative methods are used together in the same study. The current study uses both within-method triangulation and across-method triangulation. One last point to be mentioned here is the argument of Hussein (2009). He stated “with triangulation, the problem of small sample is solved and the problem of contradictory results of the within methods can be avoided” (Hussein, 2009, p. 8).

5.4. Production of CSED

The first focus of this study is on Libyan banks as producers of CSED. This entailed investigating three points: examining the level and nature of CSED over the study period (2005–2010), examining the impact of some banks’ characteristics and corporate governance on CSED practices during this period, and investigating the impact of managers’ attitudes and general contextual factors on these practices as well.
5.4.1 The level and nature of CSED over the study period 2005-2010

In this section, four sub-research questions have been developed. These questions arise from the literature review on CSED (Chapter three). The prior research findings help in developing these questions.

Development of research questions

In regard to the level and nature of CSED made by Libyan banks over the period 2005–2010, the review of the literature (Chapter 3. Empirical literature review) showed that there are corporate social and environmental disclosure practices (Branco & Rodrigues, 2006, Hossain & Reaz, 2007, Amran & Devi, 2008), and these disclosure practices are in an increase (Tsang, 1998, Secchi, 2006, Sobhani et al., 2009). However, the level of such disclosure is generally low in developing countries (Tsang, 1998, Abu-Baker & Naser, 2000), and information disclosed is mostly descriptive (Othman & Ameer, 2009), and tends to be positive (Belal, 2001, Merkl-Davies & Brennan, 2007, Cho et al., 2010). As such, the following research question was formulated:

What was the level and nature of social and environmental disclosure (CSED) of Libyan banks over the period 2005–10?

Answering this question entailed addressing the following sub-questions: (i) Did Libyan banks disclose social and environmental information over the period 2005–10? (ii) Did the importance of CSED of Libyan banks increase over the period 2005–2010? (iii) What was the nature of the social and environmental disclosure made by Libyan banks (monetary, descriptive, and quantitative)? and (iv) Did Libyan banks disclose negative information? Why/why not? The technique used to answer these questions is the content analysis.

Content analysis

Content analysis is the technique used in this study to measure social and environmental disclosure in the annual reports of Libyan banks. It is “a method of copying the text (or content) of a piece of written work into various categories on the basis of selection criteria” (Krippendorff, 1980 , p. 21). It has been used by many researchers. (Tsang, 1998, Deegan et al., 2002, Xiao et al., 2005, Naser et al., 2006, Amran and Devi, 2008, Branco and Rodrigues, 2008a, Azim et al., 2009, Aribi and Gao, 2010, Khan, 2010, Khan et al., 2010).
Stages of the content analysis method

Content analysis technique is used to identify a specific issue within a text of an annual reports for example, and categorise it under heading, and then analyse it (Guthrie and Parker, 1990). The followings are basic steps to implement content analysis:

- **(I). Identifying the questions to be investigated**
  The researcher should start with identifying the questions to be investigated (Weber, 1994). This was done and illustrated above, at the end of development of research questions.

- **(II)Determining the sampling units**
  CSED can be provided by different channels, such as annual reports, Web sites, advertising and promotional leaflets, interim reports etc. However, annual reports seem to be considered more by the researchers in investigating quantity and quality of CSED. An annual report is provided by all corporations regularly as a response to the related legislation, the matter which generates some advantages such as making comparative study possible (Tilt, 2001). Furthermore, Gray et al. (1995a) emphasised the importance of annual reports in building the image of the entity. This might explain the consideration of annual reports by many researchers, such as Wiseman (1982), Cowen et al. (1987), Guthrie and Parker (1989), Tilt (2001), and Haniffa and Cooke (2005), as major vehicles for companies to disclose information.

  From the users’ perspective, annual reports are mostly deemed to be a main source of information for making informed decisions. Harahap (2003) mentioned that the annual report has been used by institutional investors in the UK, financial analysts in New Zealand, individual investors in Australia, and all of these users in the USA as one of the most important sources of information for making their decisions. In the study of Al-Khater and Naser (2003), four users; namely accountants, external auditors, bank officers and university lecturers preferred social information to be disclosed in the annual report. This preference has been also found in the banking sector in the UK (including foreign banks). The study by Thompson and Cowton (2004) demonstrated the importance that has been given by bankers to their annual reports. The case of Portuguese firms was not different. Forty-nine Portuguese firms, in the study by Branco and Rodrigues (2008b) considered annual reports to be more important than the Internet. In regard to corporate social and environmental disclosure, using annual reports to measure such disclosure is very common in the studies that focus on social and environmental disclosure (see Tsang, 1998, Deegan et al., 2002, Haniffa & Cooke,

- **(III) Determining the categories of CSED**

Applying content analysis entails selecting analytical categories to characterise the content of written material (Guthrie & Mathews, 1985). This is essential since the objectivity criterion entails that other independent researchers should be able to determine similarly what was and was not corporate social and environmental disclosure (Gray et al., 1995b).

There were some differences in the number of categories used by researchers to analyse CSED. For example, Cowen et al. (1987) used seven categories: human resources, environment, fair business practices, energy, products, community involvement, and other disclosures. Deegan (2002) employed five categories: employee, environment, energy, community involvement, and others.

This study adopted the index used in the study of Branco and Rodrigues (2008b) which include four categories: environmental, human resources, products and consumers, and Community involvement. They built their index on the work of several studies (Adams et al., 1998, Gray et al., 1995b, Hackston & Milne, 1996) and they modified it to better suit the banking environment (see Chapter four). The components of the categories in this index, the sub components, and decision rules as well are shown in Appendix (2).

- **(IV) Measuring the themes**

There are two methods to quantify CSED: the number of CSED (the incidence) or the amount of CSED (Gray et al., 1995b). In the first type, the research gives a score of zero to the theme which was not found in the document analysed, and gives a score of one to the theme found. The result will represent the CSED. In the second type, the focus is on the volume of CSED (the number of words, sentences, etc.) (Unerman, 2000). The second type is argued to be better since it gives richer data (Cowen et al., 1987). In this study CSED is mainly measured by considering its volume.

There are also many units used to measure the themes of CSED. The units of content analysis can be pages, percentage of pages, lines, sentences, words, or the mixture of
some of these units. Each unit has its own strengths and weaknesses. Gray et al. (1995b) mentioned some advantages of these units. For example, a database can be scanned easily for specific words, while sentences reveal more meaning. Pages measure the space given to CSED themes and thus reflect the importance given to those themes. In this study, the proportion of pages is used to measure the volume of CSED. This unit has some advantages over other units. For example, using words or sentences to measure the volume of CSED will result in ignoring photographs and charts. As such, the measurement process will miss an important piece of information. Unerman (2000) mentioned other two points. First, stakeholders who have no time to go through all words written in the annual report may prefer to take a quick look at the pictures and charts. Second, differences in font size are omitted by other measurement units, while it is taken into account in measuring by proportion of page.

Another point to mention is that CSED can be provided in different terms. It can be provided in monetary form, quantitative (not monetary) form or descriptive (narrative) form. Othman and Ameer (2009, p. 302) stated that “accounting researchers have investigated the amount and content of social and environmental disclosure from the perspective of social accounting. Most of these studies find that firms tend to disclose social and environmental issues in narrative (non-monetary) terms”. Moreover, CSED can be positive, neutral, or negative.

-V- Evaluating reliability and validity of data

Reliability is the extent to which a test or procedure provides similar results under contrasting conditions on all occasions (Yin, 2014). The content analysis classification must be reliable from two angles: consistency and reproducibility (Weber, 1990). There are three types of reliability: stability, reproducibility and accuracy (Krippendorff, 2012). Stability (which is the weakest form of reliability) refers to the ability of a judge to code data in the same way over time. It also refers to a measuring procedure that gives the same result on repeated trails. Reproducibility, the second type of reliability, refers to the extent to which content classification gives the same outcome when the same text is addressed by different researchers. The third, and the strongest, type of reliability is accuracy. It is the degree to which a process is in line with its conditions and outcomes in what it is designed to do. This current study ensured its reliability by using the reproducibility of the content analysis method. Two colleagues independently coded annual reports of some Libyan banks and there was almost total agreement.
between the result obtained by the researcher and those obtained by the other two coders.

In regard to validity, this means that the process used measures what the researcher wants it to measure (Weber, 1990). Regarding this study, the agreement between the researcher and the other two coders suggests the validity of the procedure of categorisation.

Limitation of content analysis
Content analysis technique has its own limitations. Tilt (2001) mentioned that this technique is not capable enough to identify the intention of the communicator from the text, and that using content analysis to measure the same document by different researchers might end up with different results. These weaknesses are treated in this study by using additional methods, such as interviews and historiography approach.

The sample selection
The sample of this study is confined on Libyan banks. The reason for choosing Libyan banks is the dual role banks can play in the issue of CSED. There were few Libyan studies that examined corporate social and environmental disclosure practices of Libyan companies including banks, and they have generally revealed low levels of these practices. Banks can be considered as a part of a solution for this problem. Banks play an important role, as providers of social and environmental information, in much the same manner as nonfinancial companies, and by encouraging—if not obliging—bank customers to consider society and the environment by exploiting their position as providers of finance. Another reason is that the privatisation process in the banking sector might increase the pressure on banks to do more to consider those issues which might impact on banks’ operations, such as social and environmental issues.

The Libyan banking sector includes four specialised banks and 15 commercial banks operating inside Libya. Since this study investigates banks’ disclosure and using of CSED and the correlation between these activities, two specialised banks were excluded. The first was excluded because it grants very small loans, and thus provided the researcher with little to investigate in terms of using CSED in lending decisions. The other bank was excluded because its activities were directed to provide citizens with loans for housing, and not for economic activities. In regard to the commercial banks, three banks were excluded because they provided the researcher with only their financial reports while the focus of this study is on the annual reports. As such, the study investigated the annual reports of 14 banks (12 commercial banks and two
specialised banks). Conducting a study on a small sample is found in many previous studies, such as the study by Branco and Rodrigues (2006) (15 of 48 banks), the study by Branco and Rodrigues (2008b) (12 out of 48 banks), the study by Ahmad (2004) (10 of 13 companies), the study by Rahman et al. (1996) (6 of 12 companies) and that of (Tarna, 1999) (12 banks and insurance companies from different countries).

To be included in the sample, banks had to provide annual reports. Although the researcher visited every bank personally, in different cities, only 57 annual reports were provided to the researcher on the period of the study, which includes six years: 2005-10. There are some reasons for this response. First, some banks were not established in 2005. For example, some banks were established in 2007 and 2008. Second, some banks provided financial reports on some years instead of annual reports (16 financial reports). Third, there were a number of banks, where each provided the researcher with only one report, or three, or five. This can be attributed to the cultural situation of some developing countries, where there was not much attention given to providing information for research purposes. On one occasion, an executive manager of a bank refused to give the researcher the annual reports of his bank. Some Libyan researchers, such as Mashat (2005), mentioned similar problems that faced them in collecting the annual reports of Libyan companies. However, in regard to commercial banks, the large banks, which constitute the highest percentage of the banking sector, provided their annual reports for all years (except on two occasions).

In regard to the period 2005–2010, there were some compelling reasons for considering the annual reports of this period. First, the period is deemed the genuine start of reforming monetary and banking policies in Libya (Hanibich, 2009). Hanibich (2009) studied the performance of the Libyan banking sector over the period 1999–2008, and divided this period into two stages: before and after reforms of the banking sector. He considered the period starting from 2005 as the period after the reforms. The period started by issuing the banking Law No. 1 of 2005. Second, the period 2005–2010 witnessed important events in the banking industry and financial sector at large. These events should have an impact on the issue of CSED, through their impact on the variables investigated in the study (size, profitability, ownership, listing on a stock market, non-executive directors on the boards of directors, foreign nationals on the board). These include (i) establishment of some new Libyan banks; (ii) giving permission to foreign banks to hold shares in domestic banks, and even to establish banks with foreign capital; (iii) selling the Libyan Central bank's shares in some public
banks; (v) Merging the vast majority of the regional banks into one bank and merging
two public banks into the biggest bank in the banking sector; (vi) a gradual decrease in
government participation in economic activities. That is, implementation of
privatization programs and the increased growth of the private sector more generally,
and partially in the banking sector; and (vii) establishment of market exchange. All
these events are claimed to be positively influential on CSED practices. As such, it
seemed to be interesting to see if CSED practices improved due to such events. Thus,
the period 2005-2010 was chosen as a period of the study.

The years after 2010 were excluded for the following reasons; first, there was a long
delay in issuing the annual reports of some Libyan banks. For example, the annual
report of Gumhouria bank, the biggest bank in the Libyan banking sector, on the year
2010 was issued in 2013. Another example is that until June 2012, there were five banks
(representing about 90% or more of the banking sector) that had not held their ordinary
shareholders meetings since 2009. As a result, it was not possible to extend the period
2005-2010 to include the annual reports of Libyan banks on the years after 2010.
Second, even if it was arguably possible to get the annual reports of the years 2011,
2012 and 2013 for example, it is a fact that the period since 2011 was totally different to
the previous period. The year 2011 (since February) witnessed the uprising against the
regime of Muammar Al Gaddafi, which ended by the fall of this regime in October in
the same year. Since then, the situation of the country has not been stable at all levels;
political, economic and social, and this in turn has the potential to affect the
performance of Libyan banks. As these changes are new and still ongoing, it is
unreasonable and unpractical to mix and analyse the CSED practices in these two
different periods of time, as such attempt would affect the accuracy of the study results
on the case of Libyan banks in regard to CSED practices.

In addition to analysing the annual reports of Libyan banks on the period 2005-2010,
interviews were conducted, in the late 2012, with those who are responsible for
producing the annual reports of Libyan banks. Their attitude to the issue of CSED was
investigated in a comprehensive way. The result of implementing these different
approaches should fill the assumed time gap since 2010.
5.4.2 The impact of banks’ characteristics and some internal contextual factors on CSED practices

In this part, we have formulated one research question. This question arises from the literature review on CSED (Chapter three). The prior research findings help in developing this question.

Development of research question

In regard to the impact of banks’ characteristics and some internal contextual factors on CSED practices, the review of the literature (Chapter three. Empirical literature review) showed that there are many different factors influencing the level and quality of social and environmental disclosure practices. These factors can be related to the characteristics of banks (such as size, profitability, ownership structure, and listing on stock market), and internal contextual factors (such as proportion of non-executive directors on the board, and proportion of foreign nationals on the board).


In respect to profitability, it was found to be an important variable in determining the level of social and environmental disclosure in some studies, such as those by Cormier and Magnan (2003b), Tagesson et al. (2009), Haniffa and Cooke (2005) and Khan (2010). In other studies, such those by Chipalkatti (2002) and Hossain and Hammami (2009), profitability was found to be not significant in determining the level of CSED. This contradiction confirms the claim of some researchers, such as Patten (1991), Mangos and Lewis (1995), and Haniffa and Cooke (2005), that the results regarding the relationship between profitability and corporate social disclosure is inconclusive.

In regard to ownership structure, public ownership was found insignificant in relation to CSED in some studies (such as those by Tsang, 1998; Chipalkatti, 2002; Secchi, 2006). In contrast, in other studies, (such as those by Cormier & Gordon, 2001; Hossain & Reaz, 2007; Amran & Devi, 2008; Tagesson et al., 2009) the public ownership was found to have a positive impact on the level of CSED. In respect to the impact of listing on a stock market, some studies, such as those by Grant (1980) and Dhaliwal (1983) found that this listing led to disclosing more information. Regarding the impact of the
existence of non-executive directors on the boards of directors on CSED, some studies, such as those by Barako and Brown (2008) and Khan (2010), found a positive and significant relationship between the two variables. In contrast, the relationship was found either negative or insignificant in studies by Eng and Mak (2003), Hossain and Reaz (2007) and Haniffa and Cooke (2005).

Regarding the proportion of foreign nationals on the board, no distinction has been made between foreign nationals on the board and foreign ownership, since the foreign banks, which bought some shares in some Libyan banks, signed partnership conventions with those banks. According to these partnership conventions, the foreign partner was given the right to take control of the executive management, and to have a major share in the board of directors. As such, the impact of foreign ownership is derived from these conditions. Thus, the proportion of foreign nationals on the board of directors will be considered in the analysis. In regard to the studies which considered the impact of foreign ownership on the level of CSED, some studies, such as those by Andrew et al. (1989) and Haniffa and Cooke (2005), found a positive relationship. In respect to the impact of foreign nationals on the board, Khan (2010) found a positive relationship between the proportion of foreign nationals on banks’ boards of directors and CSED, while Barako and Brown (2008) found the relationship insignificant.

What can be noted, by looking at the results of these studies, is that there are many conflicted results in respect to some factors mentioned. The results can vary from country to country, and from sector to sector in the same country. Thus, results of studies conducted on other countries, other sectors, or samples including other sectors besides banking sectors (as the case of some Libyan studies) might not be applicable in the case of Libyan banks, since there is no single Libyan study focused exclusively on Libyan banks in this regard. As such, the following research question was formulated:

*Did the following factors: size, profitability, ownership structure, listing on stock market, the proportion of non-executive directors on the board, the proportion of foreign nationals on the boards of directors of Libyan banks influence the production of CSED by Libyan banks over the period 2005–2010?*

In order to answer the question, statistical analysis is mainly implemented.

*Estimation Techniques*
Regression analysis was used to answer this question and to examine the impact of these elements. Multiple regressions were used in this study to assess the variability in the
extension of social and environmental disclosure; that is, to assess the extent to which variability in such disclosure is explained by different bank-specific characteristics and internal contextual factors. This statistical method has been used by many researchers in many previous studies (Haniffa & Cooke, 2002, 2005; Naser et al., 2006; Amran & Devi, 2008; Barako & Brown, 2008; Khan, 2010).

Based on the literature review, the following baseline model has been developed in order to identify the determinants of CSED for the Libyan banking sector:

\[ \text{CSED} = \beta_0 + \beta_1 \text{ROE} + \beta_2 \log \text{Size} + \beta_3 \text{Foreign} + \beta_4 \text{Listed} + \beta_5 \text{Nonexec} + \beta_6 \text{Public} + \varepsilon \]  

(i)

The variables included in the regression model are presented in Table 5.1. The operational definition, derived from some previous studies, is presented.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Operational definition (measurement)</th>
</tr>
</thead>
<tbody>
<tr>
<td>CSED</td>
<td>Proportion of pages</td>
</tr>
<tr>
<td>Size</td>
<td>Size based on total assets</td>
</tr>
<tr>
<td>profitability</td>
<td>Return on equity= net profit after tax/total equity</td>
</tr>
<tr>
<td>Listing on stock market</td>
<td>1= listing, and 0= otherwise</td>
</tr>
<tr>
<td>Proportion of non-executive</td>
<td>Proportion of non-executive directors to total number of directors on the board</td>
</tr>
<tr>
<td>directors on board</td>
<td></td>
</tr>
<tr>
<td>foreign nationals on board</td>
<td>1= if the bank has foreign ownership, and 0 otherwise</td>
</tr>
<tr>
<td>Ownership</td>
<td>1= if the bank is a publicly-owned, and 0 otherwise</td>
</tr>
</tbody>
</table>

Panel data “consist of repeated observations on the same cross section of, say, individuals, households, firms, or cities over time” (Wooldridge & ebrary, 2010, p. 6). They are data where multiple cases (banks for example) were observed across time. If each case is observed every year (when the study period consists of years for example), the data set is called a balanced panel, while when some observations are absent, then the data set is called an unbalanced panel. In developing countries, the dataset is suffering from several difficulties, and due to lack of the availability information and data, sometime it hard to make the dataset balanced (Muzaffar, 2014). There are many advantages of panel data, such as “the ability to study dynamic relationships and to model the differences, or heterogeneity, among subjects (Frees, 2004, p. 5). Since there is unbalanced panel data, panel data models were used to estimate Equation (i). There are a number of panel data models available, such as fixed effect model and random effect model. To determine which one is suitable for the study, the Hausman (1978) test was run. This test is used to determine which one—the fixed or (GLS)
random effects specification—is suitable. The null hypothesis for the Hausman (1978) test is that the error components are not correlated with the explanatory variables. If the null hypothesis is rejected, estimation with random effects will be biased and inconsistent. If it is not rejected, there is no misspecification, and as a result, the random effect model is more appropriate.

**Diagnostic tests**

There are several important assumptions to check before running the regression model. This is to satisfy some necessary assumptions with regard to providing consistent and adequate data. As such, some diagnostic checks need to be performed to ensure that the assumptions of multiple regression analysis are not violated; these tests include multicollinearity, heteroscedasticity and normality of the residuals.

I. **Test for Multicollinearity**

Multicollinearity indicates a high correlation among independent variables. It is an important assumption that each explanatory variable is independent from other explanatory variables. That is, all the explanatory variables have a very low degree of correlation with each other, and one variable cannot be predicted by another variable linearly. Even some of the explanatory variables might have a significant impact on the dependent variable; however, when two independent variables, for example, are highly correlated, then this means they measure the same thing. This in turn results in an inflated standard error of coefficients. As a result, researchers may not find variables significant, since high standard errors of coefficient make $t$-statistics very small. Thus, erroneous conclusions might be drawn from the regression model.

In prior studies, it is argued that the “rule of thumb” for testing multicollinearity problems by using a correlation matrix is that when the correlation is higher than 8, multicollinearity becomes a problem (Gujarati, 2003; Li et al., 2012). However, multicollinearity problems can also be detected in other ways, such as by the variance inflation factors (VIF) method. This measures how much the variance of the estimated coefficients increased. It is debated that multicollinearity becomes a serious concern where VIF exceeds 10 (Agbejule & Saarikoski, 2006; Byrne & Flood; 2008, Darnall et al., 2009; Goodhue et al., 2011; Li et al., 2012; Maiga et al., 2014; Oliveira et al., 2010; Rashid, 2013; Street & Bryant, 2000). There are many ways to address the multicollinearity problem, but the usual procedure is to remove one of the correlated variables from the regression. That is, dropping one of the two highly correlated
variables in first regression and then including the dropped variable in the second regression while dropping the first variable in the second regression (Gujarati, 2003).

II. Test for Heteroscedasticity

The heteroscedasticity assumption requires that the residuals have equal variances across all levels of the predictor(s). That is, across observations (all levels of explanatory variables), the error variance is approximately constant. There are many reasons for a heteroscedasticity problem, such as the existence of outliers, the absence of relevant explanatory variables or measurement error in the variables. The existence of a heteroscedasticity problem causes the estimation to be biased.

Many formal tests can be applied to check for a heteroscedasticity problem. One of these tests is the Breusch–Pagan/Cook–Weisberg Test. The null hypothesis of this test is that variance in error terms is constant, and a rejection of the null hypothesis would indicate the presence of a heteroscedasticity problem.

There are a number of ways to address this problem, such as re-specifying the model by introducing new and relevant variables or by dropping irrelevant variables from the model. The second and most commonly used method is the robust standard error method. Robust standard error does not change the coefficient of variables while it changes the standard error; hence, it affects the $t$-statistics. In this study, robust standard error is used if a heteroscedasticity problem exists.

III. Test for normality of residuals

In the population, observations should have a normal distribution. A perfect regression model should have a normally distributed residual to be an acceptable model. Although the normality is likely not to cause any problem with a large simple size (more than 30) (Coakes, 2005; Prasad et al., 2009; Rashid, 2013), the Shapiro-Wilk test needs to be performed to check for normality.

Check for Robustness of the results

To check the robustness of the results, firstly, pooled OLS estimation technique is used on Equation (i). Pooled OLS regression is a simple but powerful tool to analyse the relationship between dependent and independent variables. Secondly, to check the robustness of the result, the data that are available from financial reports (16 financial reports) is added. The data set used in our first and main empirical results is only from annual reports of the banks. Data from financial reports is added as well (the sample increased from 57 to 73) to check the consistency of the result.
The impact of managers’ attitudes to CSED practices

Managers’ attitudes to the issue of CSED is another internal contextual factor. It was separated from others (such as the proportion of non-executive directors on the board) for two reasons. First, it was not tested statistically; instead, interviews were conducted to investigate the attitude of managers and the factors influencing this attitude. Second, the managers’ attitudes seem to have more importance, especially in light of the voluntary nature of CSED practices in Libya.

Development of research question

In regard to the attitudes of managers to CSED, the review of the literature (Chapter three Empirical literature review) showed that managers were the key players in the issue of disclosure. Much attention has been paid to examining and discussing the perceptions, motivations and attitudes of the managerial group in regard to social and environmental issues related to firms’ activities (see Buhr, 1998; Larrinaga-Gonzalez & Bebbington, 2001; Larrinaga-Gonzalez et al., 2001; Adams, 2002; Buhr, 2002; O'Dwyer, 2002; Lodhia, 2003; O'Dwyer, 2003; Rahaman et al., 2004; Kuasirikun, 2005; Belal & Owen, 2007; Belal & Cooper, 2007). Healy and Palepu (2001) found that “Management motives for making voluntary disclosure and their credibility are … interesting empirical questions”, and Khan (2010) suggested that “future research which emerge to be worthy of exploration is to find out the motives and opinions of management towards reporting CSR information”. From another angle, investigating the attitudes of managers to CSED can better explain the level and quality of CSED provided in the annual reports. The annual reports should not be considered a neutral device since their contents are determined, to a large extent, by the top management, and as such they reflect the management’s beliefs (Buhr, 1998). Thus, interviewing the managers will consolidate the results of examining CSED in the annual reports of Libyan banks. In this sense, interviews conducted in this study delved deeply into the issue of CSED, which is raised from the result of using content analysis in examining the annual reports.

There are many factors that negatively affect the attitudes of managers to disclosure generally and CSED in particular. They include, but are not limited to, the following: (I) lack of knowledge regarding CSED, (II) the perceived sensitivity of CSED and thus the impact of releasing negative news, (III) risky investment, (IV) focusing on economic goals, (V) limited time dedicated for discussing social issues, (VI) lack of pressure of powerful stakeholders regarding CSED, (VII) cost-benefit measurement, (VIII) managerial ownership, and (IX) imitation behaviour (Al-Khater & Naser, 2003; Belal &
Based on the above, the following research question is formulated:

*What is the managers’ attitude to the issue of CSED? And what are the factors affecting this attitude?*

In order to answer the question, an interview instrument was used. Burgess (1982, p. 107), explaining the benefit of interviews, stated: “Interviews provide the opportunity for the researcher to probe deeply to uncover new clues, open up new dimensions of a problem and to secure vivid, inclusive accounts that are based on personal experience.” As such, the interview is argued to be the most widely used method of research (Gilbert, 1993). There are three types of interviews: structured, semi-structured, and unstructured. Denzin and Lincoln (2000) summarised the nature of these three types. The goal of the structured interview is to obtain precise data of a codable nature in order to have very deep understanding of the phenomena in question within pre-established categories. The opposite is the unstructured interview, where there is no previous categorisation. The semi-structured interview stands between these two types. It involves informal questions, which can be modified according to the answers of the participants. It is more useful when the answers cannot be predicted. The interviewees have the opportunity to articulate their opinions on the issue in question, but in order to cover the different points in the issue discussed, there is a script to follow in the interviews.

The current study used face-to-face, semi-structured interviews, since there are some key points to cover in the issue of CSED, to give space to the interviewees to extend the discussion and raise other related points. Accounting managers mainly were chosen for the interviews since they were responsible for preparing the annual reports or at least have some input into the preparation of the annual reports. Furthermore, due to their positions, they had enough knowledge about the dominant culture in their banks and the banking sector as a whole, which would be expected to affect CSED practices. As such, managers of accounting departments in all 15 Libyan commercial banks and two of the four Libyan specialized banks were interviewed. In a few cases where the responsibility for preparing annual reports fell to planning departments, the interviews were held with those who managed these departments. In order to elaborate more on the banking culture and view of CSED that prevailed in the sector, a chairperson, two board directors, a deputy general manager, and a finance manager in five different banks were also interviewed. Thus the total number the interviews was 22. Ethical clearance was
obtained from Griffith university human research ethics committee to conduct the interviews (Appendix C).

The interviewees were contacted personally, from 11/09/2012 to 20/12/2012. It was stressed that there were no “right” or “wrong” answers, and that the study focused on the opinions of the participants in order to gain a better understanding of CSED practices. The questions were posed utilizing an interview guide (Appendix D). The interviews were conducted in the managers’ offices. Except for one interview, all were tape-recorded, and later transcribed. One manager refused to be recorded, thus the interview was conducted with extensive note-taking. Interviews lasted from half-an-hour to one-and-a-half hours.

5.4.3 The impact of general contextual factors on CSED practices

In this part of the research, one of the research questions has been formulated. This question arises from the literature review on CSED (Chapter three). The prior research findings help in developing this question.

Development of research question

In regard to the impact of general contextual factors on CSED practices, the review of the literature (Chapter three. Empirical literature review) showed that CSED practices are affected by general contextual factors. These factors include political systems, economic development and education.

In regard to political systems, prior research found that all the following factors have an impact on the level of CSED practices: legal system and regulations (Amran & Devi, 2008; Baskin, 2006; Boden, 1999; Crawford & Williams, 2010; Inchausti, 1997; Jacobs & Kemp, 2002; Tsang, 1998), Central banks (Khan, 2010; Khan et al., 2010; Sobhani et al., 2009), professional bodies (Deegan & Rankin, 1999), and political rights and civil liberties (Farook et al., 2011; Haniffa & Cooke, 2005; Tagesson et al., 2009; Williams, 1999). In respect to economic development, studies found that such development has an impact on disclosure and CSED (Belal, 2001; Belal & Cooper, 2007; Belal & Owen, 2007; Liu & Anbumozhi, 2009; Welford, 2005; Xiao et al., 2005). It has also been argued that education (and training), is an influential factor in the case of considering social and environmental issues and in CSED practices (Al-Khater & Naser, 2003; Babcock, 2009; Baskin, 2006; Lodhia, 2003).

Based on the above, political factors (legal system, regulations, political rights and civil liberties), economic factors (degree of economic development), and cultural factors
(education) have been argued as having an impact upon economic activities, and disclosing information on the effect of such activities on environment and society. That is mainly why there are differences between social and environmental disclosure practices in developed and developing countries. Libya has been argued as having a unique system for more than forty years, different even from other developing countries, or Arabic ones. Thus, having a deep understanding of social and environmental disclosure provided by Libyan banks requires finding answers to the following question:

**Do political factors (legal system, regulations, political rights and civil liberties), economic factors (degree of economic development) and cultural factors (education) influence CSED practices of Libyan banks?**

Two methods were used to answer this question. They are historiography and interviews. Historiography is an approach that provides researchers with a wide range of information that helps in clarifying the topics they address. O’Brien et al. (2004, p. 135) stated that

> Historiography can offer the business and management researcher an opportunity to acquire a rich understanding of situations and the context in which they exist. Knowing the background to any situation or to any issue enhances our comprehension and improves our ability to see what is important and what is not.

In concluding their articles, they argued that “historiography has an important role to play in research in the business and management studies field” (O’Brien et al., 2004, p. 142). As such, the current research intensively studied the Libyan banking sector by historiography in order to put this sector in its historical, political, and economic context (see chapter two). Related information was gathered from many resources, such as the public, archival sources, public documents and publications, annual reports of Central Bank of Libya (see Buhr, 1998; Ahmad, 2004), Libyan studies and conferences, some special web sites (Freedom House, Transparency International, United Nations Development Programme), which consider some related international issues, such as political and economic issues (see Archambault & Archambault, 2003; Xiao et al., 2005).

Four face-to-face semi-structured interviews were also conducted with the chief of the Libyan Union of Accountants and Auditors, two executive managers in two different departments of the Central Bank of Libya, and the Deputy Director of the Institute for Banking and Financial Studies. The questions were posed by utilizing an interview guide (Appendix D). Except for one interview, the interviews were conducted in the
managers’ offices. Interviews lasted between fifty minutes and one hour and forty minutes. These interviews were mainly to discuss the issues of Central Bank of Libya, the accounting profession, and banking training programs, and the impact of those issues on CSED practices.

5.5. Use of CSED

The second focus of this study was on Libyan banks as users of CSED in their lending decisions. This entailed discussing credit managers’ attitudes to the issue of using CSED in lending decisions.

Development of research question

The results of the studies mentioned above, in developing the research question about the accounting managers, are also applicable, to a large extent, to the case of credit managers. In addition to that, there are other studies which focused on the issue of CSED in lending activities. These studies discussed some issues related to the relationship of environmental information with lending decisions, such as the influence of banks on the environment (Cowton & Thompson, 2000; Gray & Bebbington, 2001; Campbell & Slack, 2011), benefits banks can gain from considering environmental issues in their lending decisions (Jeucken, 2001; Thompson, 1998), risks resulting from ignoring environmental issues (Campbell & Slack, 2011; Gray & Bebbington, 2001; Thompson, 1998), and the result of considering environmental information in lending decisions (Coulson & Monks, 1999; Weber, 2010). In relation to the case of social information, it received less attention compared to environmental information. However, several studies found that some banks consider social aspects in their activities (Weber, 2005) while others found the opposite (Thompson & Cowton, 2004).

Based on this, a second research question was formulated:

What is the position of Libyan banks in relation to the use of social and environmental information, disclosed by companies, in the lending decisions? Answering this question needs addressing three sub-questions. These are: (1) Do Libyan banks use environmental information (as disclosed by companies seeking loans) in their lending decisions? (2) Do Libyan banks use social information (disclosed by companies seeking loans) in their lending decisions? (3) What are the factors affecting the issue of using environmental and social information (disclosed by companies seeking loans) in lending decisions of Libyan banks?
In order to answer these questions, (in addition to some use of historiography) interviews were conducted with all credit managers of Libyan commercial banks and two specialized banks. Seventeen face-to-face, semi-structured interviews were conducted with credit managers of all Libyan commercial banks and two Libyan specialized banks. Additionally, to elaborate on the prevailing banking culture, interviews also were conducted with a chairman, a member of a board of directors, a deputy general manager, and a finance manager in four different banks, and also an interview was conducted with the director-designate of environment impact assessment department (in the Environmental General Authority). Thus the total number of the interviews was 22 interviews. The interviewees were contacted personally, and the questions were guided by interview guide (Appendix E). The interviews were conducted in the managers’ offices. All interviews were tape-recorded, and later transcribed. Interviews lasted from forty minutes to two hours.

5.6. The connection between disclosure and using CSED

The third focus of the study was on the supposed dual role of Libyan banks. It investigated whether there was a connection between disclosing CSED by banks and using CSED of companies in the lending decisions.

Development of research question

To the best of the researcher’s knowledge, there is no previous study that investigated the attitudes of banks to CSED from both sides: as a producer and as a user of CSED. This motivated Thompson and Cowton (2004, p. 216) to suggest:

Future researchers might wish to go beyond the environmental focus of this paper to examine bankers’ views of the usefulness of other elements of social accounting in making lending decisions [and]...it would be interesting to know whether banks are keener to produce social information than to use it and whether they perceive any connection between the two activities.

It is a reasonable suggestion, as Chizema and Buck (2006, p. 494) stated that “Within an organization are different groups with diverse interests and value perceptions”.

Based on this, it seemed useful to investigate the position of Libyan banks in this respect. Therefore, the following question was formulated:

*Is there a connection between the production and use of social and environmental information by Libyan banks?*
To answer the question, Pearson’s correlation coefficient was implemented to see if there was a correlation. It is used to measure the correlation between two variables. The resultant value ranges between +1 and −1, where +1 represents complete positive correlation and −1 means total negative correlation.

5.7. Conclusion

This chapter has discussed the research methodology implemented in this study to investigate the position of Libyan banks in regard to the issue of CSED. It explains different methods used (content analysis, statistical analysis, interviews, and historiography) to answer the different research questions. Triangulation implemented in this study is expected to give deep insights into the role of Libyan banks in the issue of CSED, and the factors affecting this role.

At the end of this chapter, it might be useful to summarize the practical steps that must be taken to answer the research questions. Figure 5.2 presents the map of the empirical study.
Figure 5-2. Map of the empirical study

**Libyan Banks**

- Level and nature of CSED
  - Using CSED (2)
    - Correlation between
  - Level of CSED
    - Increase - decrease - stable
      - Monetary/Quantitative/descriptive
        - Negative disclosure
  - Bank characteristics
    - External factors
      - Size
        - Ownership
      - Profitability
      - Listing on Market
  - Economic Factor (Level of economic development)
  - Culture (Education)
  - Political System
    - Legal factor
    - Central bank
    - Accounting profession
    - Political environment
      - Non-Executives on board of directors
      - Foreigners on board of directors
  - Internal Contextual factors
    - Attitude of accounting managers
    - Attitude of credit managers
Chapter 6. Results of Content and Regression Analysis

6.1 Introduction

This chapter reports the results of the content analysis of the annual reports of Libyan banks and the statistical analysis. The content analysis mainly detects the level and nature of CSED included in the annual reports, while the statistical analysis examines the impact of selected bank characteristics and internal contextual factors on the level of CSED.

The chapter is structured as follows. Section 6.2 presents the findings using content analysis of the annual reports of Libyan banks. The results are used to respond to the research questions concerning CSED practices in the Libyan banking sector. Of particular focus is the level of CSED, including the categories and themes, and the trends and nature of this type of disclosure. Section 6.3 offers the results of the statistical analysis, where some components of bank characteristics and corporate governance are statistically analysed, including descriptive, correlation, and multivariate regression analyses. Section 6.4 concludes the chapter.

6.2 Content Analysis

57 annual reports of 14 Libyan banks over the period 2005–10 were analysed using content analysis. The empirical results were used to describe and explain the social and environmental disclosure practices included in these annual reports. This section is devoted to the following question:

What was the level and nature of social and environmental disclosure (CSED) of Libyan banks over the period 2005–10? In response to this question the following sub-questions were addressed: (1) Did Libyan banks disclose social and environmental information over the period 2005–10? (2) Did the importance of CSED of Libyan banks increase over the period 2005–2010? (3) What was the nature of the social and environmental disclosure made by Libyan banks (monetary, descriptive, and quantitative)? (4) Did Libyan banks disclose negative information? Why/why not?

Thus, this section illustrates the trends in CSED in Libyan banks and the volume and incidence (frequency) of disclosure. It is argued that the volume should normally reflect the level of importance placed on this kind of disclosure, while the incidence suggests
the recognition and level of concern by companies with the issue of CSED (Mashat, 2005). In the Libyan banking sector, there is no legislation, regulation or directives regarding this type of disclosure. As such, no distinction has been made between mandatory and voluntary disclosure, as all disclosure is then technically voluntary.

6.2.1 Disclosing Social and Environmental information

The number of annual reports collected from the banks over the sample period varied from year to year. For the 14 sample banks, as few as seven reports were collected in 2005, and as many as twelve in 2008. As shown in Table 6.1, the banks overall made CSED each year over the period 2005–10.

Table 6.1 Libyan bank CSED, 2005–10

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of reports collected</td>
<td>7</td>
<td>11</td>
<td>10</td>
<td>12</td>
<td>9</td>
<td>8</td>
</tr>
<tr>
<td>No. of reports including CSED</td>
<td>7</td>
<td>11</td>
<td>10</td>
<td>12</td>
<td>9</td>
<td>8</td>
</tr>
<tr>
<td>% disclosing CSED</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Pages in reports</td>
<td>260</td>
<td>378</td>
<td>312</td>
<td>368</td>
<td>382</td>
<td>355</td>
</tr>
<tr>
<td>CSED in pages</td>
<td>17.34</td>
<td>22.95</td>
<td>21.07</td>
<td>22.77</td>
<td>22.05</td>
<td>16.06</td>
</tr>
<tr>
<td>*Average CSED pages</td>
<td>2.48</td>
<td>2.09</td>
<td>2.11</td>
<td>1.90</td>
<td>2.45</td>
<td>2</td>
</tr>
<tr>
<td>**% CSED disclosed</td>
<td>6.67</td>
<td>6.07</td>
<td>6.75</td>
<td>6.19</td>
<td>5.77</td>
<td>4.52</td>
</tr>
<tr>
<td>Maximum pages disclosed</td>
<td>4.76</td>
<td>4.81</td>
<td>4.11</td>
<td>4.48</td>
<td>5.04</td>
<td>3.57</td>
</tr>
<tr>
<td>Minimum pages disclosed</td>
<td>0.43</td>
<td>0.57</td>
<td>0.78</td>
<td>0.07</td>
<td>0.46</td>
<td>0.53</td>
</tr>
<tr>
<td>Range of disclosure</td>
<td>4.33</td>
<td>4.24</td>
<td>3.33</td>
<td>4.41</td>
<td>4.58</td>
<td>3.04</td>
</tr>
</tbody>
</table>

* Average = Total pages disclosed/ number of banks disclosing

** (Total pages disclosed/Total pages of all annual reports)*100

Table 6.2 provides additional explanation for the distribution of CSED. Considering four categories of CSED, the table illustrates how many annual reports included information on just one category, and how many annual reports included information on two categories and so on.

Table 6.2 Number of CSED categories in the annual reports

<table>
<thead>
<tr>
<th>No. of categories</th>
<th>0</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of annual reports disclosed according to no. of categories</td>
<td>0</td>
<td>30</td>
<td>25</td>
<td>2</td>
<td>0</td>
<td>57</td>
</tr>
<tr>
<td>% of annual reports</td>
<td>0</td>
<td>53</td>
<td>44</td>
<td>3</td>
<td>0</td>
<td>100</td>
</tr>
</tbody>
</table>

Concerning the categories of CSED by Libyan banks, it is clear that all annual reports included information on at least one category, while no report disclosed information on all four categories. Moreover, more than half of the annual reports (30 of 57 reports) reported information on only one category, while 25 reports disclosed information on two categories. Overall, the majority (97%) disclosed information on no more than two (out of the four possible) categories. In addition, only two annual reports (3%) provided information on three categories. This well illustrates that Libyan banks attached
different levels of importance to the categories of CSED, and it is clear that they generally concerned themselves with only one or two categories at best. This leads to the question: what categories are most frequently included in the annual reports?

Table 6.3 Number of the annual reports reporting on CSED categories

<table>
<thead>
<tr>
<th>Categories</th>
<th>Number of annual reports (No)</th>
<th>Environment</th>
<th>Employees</th>
<th>Customer</th>
<th>Community</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of annual reports (No)</td>
<td>2</td>
<td>57</td>
<td>7</td>
<td>20</td>
<td></td>
</tr>
<tr>
<td>Percentage of annual reports (%)</td>
<td>3.5</td>
<td>100</td>
<td>12</td>
<td>35</td>
<td></td>
</tr>
</tbody>
</table>

As shown in Table 6.3, there was a disclosure at least once in each report, since all reports included information on human resources—the category that received the most attention of Libyan banks in all annual reports. In contrast, environmental information is mentioned in just two annual reports, representing less than four per cent of the reports analysed. Information on the involvement of banks in community activities was second in terms of how many times it is reported.

In conclusion, in responding to the first sub-question, it was found that the banks provided CSED in all 57 annual reports. However, this disclosure did not cover all categories of CSED. In fact, more than the half of the annual reports disclosed only one CSED category.

6.2.2 Trend in Social and Environmental information Disclosure

This section is dedicated to addressing the second sub-question; that is, Did the importance of CSED of Libyan banks increase over the period 2005–2010? The volume of CSED over the study period ranged from 16.06 pages (in 2010) to 22.95 pages (in 2006), and the trend of disclosure, in terms of the magnitude, fluctuated during the whole period. Nevertheless, the average CSED (calculated based on the level of CSED disclosed and the number of banks) fluctuates from year to year. Although some past studies that considered Libyan banks as part of their research, including that of Mashat (2005), used an average to gain insights into CSED, it appears to be misleading to judge the trend (and thus the importance) of CSED on this basis. The purpose of content analysis, and specifically the proportion of page counts, is to detect the importance given to a topic by counting the space devoted to it, here in the annual report.

Calculating averages by dividing the amount of CSED by several banks in a year by the number of those banks, then comparing it with another year, or another industry, is also likely to yield inaccurate results. It is obvious that disclosing one page of CSED in an annual report comprising 100 pages is not equal, in terms of the perceived importance, to disclosing one page in an annual report that consists of 200 pages. The importance
given to CSED in the two annual reports is then clearly not at the same level. Labouring the point, the first example of disclosure represents 1% of the annual report and just 0.5% in the second report. In the case of the annual reports analysed in this study, the number of pages in the annual reports varied considerably between banks in each year; for example, 20 to 50 pages in 2005, 15 to 55 pages in 2006, and 20 to 51 pages in 2007. Moreover, there are substantial differences in the number of pages issued by the same bank. For instance, in one bank, the numbers of report pages in each year in the sample period 2005–10 were 28, 34, 28, 28, 52 and 61, respectively. As such, using a ratio is more accurate in judging the importance level of CSED if comparison is made between disclosure levels.

Based on the above, the average CSED was recalculated by dividing the total pages disclosed by the total pages of the annual reports of all banks. The result, shown in Table 6.1, reveals that the level of CSED decreased in 2006 and then increased in 2007. However, there is a continuous decrease since 2007, demonstrating a decrease in perceived importance. This is in contrast with the results of many other studies (Secchi, 2006; Sobhani, Amran & Zainuddin, 2009; Tsang, 1998) which recorded an increase in the level of CSED provided by companies operating in different sectors, including the banking sector.

This gives a reason to assume that there is a cause for such a trend. In fact, the banking sector in Libya has witnessed fundamental changes since late 2007, including the privatization of some public banks, the entry of foreign-owned banks, and the merging of two major banks. Did these events cause this decrease in average CSED? In principle, these very important events had a profound impact on the Libyan banking sector, on its effectiveness, its operations, and its practices, and this could have affected CSED practice.

Table 6.1 also shows that there is little difference between the minimum and maximum pages disclosed. In the extreme case of 2009, the difference between the two was 4.58 pages. In Mashat (2005), the difference was 16.04 pages in 2002. Part of the difference can likely be attributed to the fact that unlike this analysis, Mashat (2005) included a number of different sectors, suggesting little consistency in CSED across sectors. This was in terms of the trend of CSED as a whole, but what about the categories of this disclosure? The following table gives information on details.
Table 6.4 Indicators for the CSED categories

<table>
<thead>
<tr>
<th>Type of disclosure/Years</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of annual reports collected</td>
<td>7</td>
<td>11</td>
<td>10</td>
<td>12</td>
<td>9</td>
<td>8</td>
</tr>
<tr>
<td>Pages of annual reports</td>
<td>260</td>
<td>378</td>
<td>312</td>
<td>368</td>
<td>382</td>
<td>355</td>
</tr>
<tr>
<td>Environmental disclosure</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No. of annual reports included the information</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>1</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>% of banks disclosing</td>
<td>0</td>
<td>0</td>
<td>10</td>
<td>8</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Amount disclosed in pages</td>
<td>-</td>
<td>-</td>
<td>0.70</td>
<td>0.59</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>*Average volume of disclosure</td>
<td>-</td>
<td>-</td>
<td>0.07</td>
<td>0.05</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>**Relating the actual amount in all pages (%)</td>
<td>-</td>
<td>-</td>
<td>0.22</td>
<td>0.16</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Employee (HR) disclosure</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No. of annual reports included the information</td>
<td>7</td>
<td>11</td>
<td>10</td>
<td>12</td>
<td>9</td>
<td>8</td>
</tr>
<tr>
<td>% of banks disclosing</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Amount disclosed in pages</td>
<td>15.52</td>
<td>22.43</td>
<td>20.08</td>
<td>21.41</td>
<td>21.53</td>
<td>15.54</td>
</tr>
<tr>
<td>*Average volume of disclosure</td>
<td>2.22</td>
<td>2.04</td>
<td>2.01</td>
<td>1.78</td>
<td>2.39</td>
<td>1.94</td>
</tr>
<tr>
<td>**Relating the actual amount in all pages (%)</td>
<td>5.97</td>
<td>5.93</td>
<td>6.44</td>
<td>5.82</td>
<td>5.64</td>
<td>4.38</td>
</tr>
<tr>
<td>Consumer disclosure</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No. of annual reports included the information</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>2</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>% of banks disclosing</td>
<td>14</td>
<td>-</td>
<td>-</td>
<td>17</td>
<td>11</td>
<td>38</td>
</tr>
<tr>
<td>Amount disclosed in pages</td>
<td>1.16</td>
<td>-</td>
<td>-</td>
<td>0.56</td>
<td>0.24</td>
<td>0.4</td>
</tr>
<tr>
<td>*Average volume of disclosure</td>
<td>0.17</td>
<td>-</td>
<td>-</td>
<td>0.05</td>
<td>0.03</td>
<td>0.05</td>
</tr>
<tr>
<td>**Relating the actual amount in all pages (%)</td>
<td>0.45</td>
<td>-</td>
<td>-</td>
<td>0.15</td>
<td>0.06</td>
<td>0.11</td>
</tr>
<tr>
<td>Community involvement disclosure</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No. of annual reports included the information</td>
<td>3</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>% of banks disclosing</td>
<td>43</td>
<td>36</td>
<td>40</td>
<td>33</td>
<td>33</td>
<td>25</td>
</tr>
<tr>
<td>Amount disclosed in pages</td>
<td>0.66</td>
<td>0.52</td>
<td>0.29</td>
<td>0.21</td>
<td>0.28</td>
<td>0.12</td>
</tr>
<tr>
<td>*Average volume of disclosure</td>
<td>0.09</td>
<td>0.05</td>
<td>0.03</td>
<td>0.02</td>
<td>0.03</td>
<td>0.02</td>
</tr>
<tr>
<td>**Relating the actual amount in all pages (%)</td>
<td>0.25</td>
<td>0.14</td>
<td>0.09</td>
<td>0.06</td>
<td>0.07</td>
<td>0.03</td>
</tr>
</tbody>
</table>

* Average volume of disclosure (disclosure amount/Number of banks disclosed)  
** Relating the actual amount disclosed by all banks to the space available in all pages in all reports (%)  

As shown in Table 6.4, all banks disclosed information on bank employees in their annual reports. As such, it is the most important information from the viewpoint of Libyan banks considered in the study. Although this trend has decreased since 2007...
(similar to the trend in total CSED, which means that the human-resources-related information category is a key driver of the overall trend in CSED) in all years, the number of pages that carried information on employees was far more than those that provided information on the other categories. The decrease in disclosure on employees occurred in 2005, with 15.52 pages, while the closest disclosure in the other categories (customers) did not account for any more than 1.16 pages.

The importance placed on human resources has also been established in other studies. Mashat (2005) and Elmogla (2009), who both examined CSED in Libyan firms in several different sectors including the banking sector, obtained a similar result. Elmogla (2009, p. 179) stated,

Human resources disclosure is found to be the most common area in which Libyan companies make their social disclosure, which is similar to several previous studies (e.g. Ataur et al., 2001; Gray et al. 1995; Guthrie & Parker, 1990; Hackston & Milne, 1996; Imam, 2000; Rizk et al., 2008; Thompson & Zakaria, 2004; Zain, 1999).

In contrast, environmental disclosure received less attention than any other category. No environmental information was disclosed in the years 2005, 2006, 2009 and 2010. In fact, only one bank (a specialized bank) disclosed environmental information, and that was in less than one page in each of the 2007 and 2008 reports. Even in the case of this bank, environmental disclosure decreased in the second year, and actually disappeared thereafter. The downplaying of the importance of environmental disclosure by Libyan banks is also recorded in Elmogla (2009). This result is especially similar to that of Abu-Baker and Naser (2000), where most of banks included in the sample (16 banks of 17 total banks) included no environmental disclosure information.

On the other hand, this result is in sharp contrast with the work of Sobhani et al. (2009), who found that Bangladeshi banks were the most disclosing firms—even more than many industrial firms—and achieved the highest level of CSED in all aspects, including the environment. Sobhani et al. (2009) attributed this finding to the strong control implemented by the central banks on Bangladeshi banks, which in turn resulted in a high level of awareness and a more developed corporate culture in the Bangladeshi banking sector. Reasonably, this could pose some questions about the role of the Libyan Central Bank in this regard.

Customer disclosure was also absent in the reports for 2006 and 2007, with disclosure in just 12% of all of the annual reports analysed. The general trend was decreasing in all periods of the study except in the last year, where it increased slightly. This result is
somewhat surprising, as the considerable reforms implemented in the Libyan banking sector over the period covered by the study aimed at enhancing the efficiency of the banking sector. Logically, this should be reflected in an increase in customer focus, not the other way around.

The final category of CSED is community involvement disclosure. This ranked second (after human resources disclosure) in terms of the number (20 annual reports or 35% of the annual reports considered in the study) of annual reports which included information on the category community involvement disclosure provided in all years. However, there is evidence of a decreasing trend in every year except 2009. Moreover, in those years with either customer and/or environmental disclosure, the category of community involvement disclosure always lagged behind, and thus represented the least important category—except in 2009 when there was a very slight increase. The low level of attention given to community disclosure provided a preliminary indication of the limited impotence of society in the story of Libyan banks.

More details can also be provided on the four categories in terms of the themes each category includes. Looking at the components of each category casts more light on the topics ignored and the topics considered by the banks. Table 6.5 (below) provides information on how many times all the topics, included in CSED, were addressed (incidence) in the annual reports of Libyan banks, and their relative importance.

Table 6-5 identifies the frequency (or incidence) of CSED themes; that is, how many times themes were mentioned in the annual reports. As shown, it is clear that although environmental disclosure is broken down into six categories, only one category was addressed by banks in the six years. This is in line with the result in Imam (2000) who found that the environmental effects of company activities received little attention from the preparers of the annual reports compared to other issues such as human resources.
Table 6.5 Incidence of CSED themes

<table>
<thead>
<tr>
<th>Categories and subcategories of CSED</th>
<th>Annual reports</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No.</td>
</tr>
<tr>
<td><strong>Environmental disclosure</strong></td>
<td></td>
</tr>
<tr>
<td>Environment policies</td>
<td>-</td>
</tr>
<tr>
<td>Environment management system &amp; audit</td>
<td>-</td>
</tr>
<tr>
<td>Lending policy</td>
<td>2</td>
</tr>
<tr>
<td>Conservation of natural resources &amp; recycling</td>
<td>-</td>
</tr>
<tr>
<td>Sustainability</td>
<td>-</td>
</tr>
<tr>
<td>conservation of energy</td>
<td>-</td>
</tr>
<tr>
<td><strong>Human resources disclosure</strong></td>
<td></td>
</tr>
<tr>
<td>Health &amp; safety</td>
<td>-</td>
</tr>
<tr>
<td>Employment of minorities &amp; women</td>
<td>12</td>
</tr>
<tr>
<td>Employee training</td>
<td>53</td>
</tr>
<tr>
<td>Employee assistance and benefits</td>
<td>38</td>
</tr>
<tr>
<td>Employee remuneration</td>
<td>52</td>
</tr>
<tr>
<td>Employee profiles</td>
<td>44</td>
</tr>
<tr>
<td>Employee share purchase schemes</td>
<td>14</td>
</tr>
<tr>
<td>Employee moral</td>
<td>48</td>
</tr>
<tr>
<td>Industrial relations</td>
<td>-</td>
</tr>
<tr>
<td><strong>Customer disclosure</strong></td>
<td></td>
</tr>
<tr>
<td>Product quality</td>
<td>5</td>
</tr>
<tr>
<td>Customer complaints &amp; satisfaction</td>
<td>2</td>
</tr>
<tr>
<td>Provision for disabled &amp; aged</td>
<td>1</td>
</tr>
<tr>
<td><strong>Community involvement disclosure</strong></td>
<td></td>
</tr>
<tr>
<td>Charitable donations and activities</td>
<td>9</td>
</tr>
<tr>
<td>Support for education</td>
<td>3</td>
</tr>
<tr>
<td>Support for arts and culture</td>
<td>2</td>
</tr>
<tr>
<td>Support for public health</td>
<td>-</td>
</tr>
<tr>
<td>Sponsoring sporting or recreational projects</td>
<td>3</td>
</tr>
<tr>
<td>Supporting national pride&amp; government sponsored campaigns</td>
<td>8</td>
</tr>
<tr>
<td>Supporting the development of local industries or community programs &amp; activities</td>
<td>3</td>
</tr>
</tbody>
</table>

Table 6.5 also illustrates that the banking community of Libya largely disregarded the topic of environment disclosure. It is clear that Libyan banks are far from considering the environment as a sensitive issue, not just for industrial companies, but also any organization, especially those providing finance for firms and other projects. Other studies, including that of Sobhani et al. (2009), demonstrated that environmental issues have become a main concern for banks elsewhere, even in the context of developing countries.

On the contrary, topics included in human resources disclosure were the topics most discussed by banks in the period 2005-10. Apart from omitting two themes (health & safety and industrial relations), the other seven themes were recognized numerous times. Five themes received attention in no less than 66% of all annual reports. The most disclosed topic was employee training, included in 53 annual reports. Employment of minorities and women was the less discussed theme (in 12 annual reports), although
it is discussed more than any topic in the other main three categories. Themes in the customer disclosure category and community involvement disclosure also received attention, save support public health. However, at best, less than ten annual reports discussed these themes.

The above discussion demonstrates that the importance of CSED categories was not equal in terms of the amount of information disclosed. Moreover, there is a problem in recognizing the issue in some CSED categories in all the years except 2008. Furthermore, the low level of importance of the three categories—environment, customer, and community involvement—should reflect the influence of some external and internal factors, which caused the level of CSED to be at such a low level. More investigation is needed if the phenomenon of CSED in the Libyan banking sector is to be understood.

6.2.3 The nature of CSED

Social and environmental information can be provided in different ways. Annual reports can include monetary, quantitative (not monetary), and/or descriptive information on the interaction of banks with the environment and society. Monetary information may be preferred for several reasons, such as being subjected to auditing, reflecting the cost of the activity, being comparable to the cost of other activities, profits etc. However, some studies support an alternative view. Thompson and Cowton (2004, p. 208), in their investigation on the usefulness of parts of the annual report and accounts for information users (as a part of their study on the importance of environmental information in lending decisions), found that “…narrative elements of the annual report such as the directors’ report and chairman’s report, and detailed disaggregated data such as that provided in the notes (all of which might provide clues or ‘leads’, if not answers), gained the highest scores” compared to other types of information, including financial statements such as balance sheet and profit and loss account.

However, it would be useful to know in which form Libyan banks preferred to provide their CSED. This helped us respond to the third sub-question, “What was the nature of the social and environmental disclosure made by Libyan banks (monetary, descriptive, and quantitative)?” Table 6.6 includes details of the themes considered in the study as CSED, and provides the amount disclosed for each theme and its nature in terms of being monetary, quantitative (not monetary), or descriptive.
Table 6.6: Themes of CSED in different forms

<table>
<thead>
<tr>
<th>Categories and subcategories of CSED</th>
<th>Monetary</th>
<th>Quantitative</th>
<th>Descriptive</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Environmental disclosure</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Environment policies</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Environment management system &amp; audit</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Lending policy</td>
<td>1.22</td>
<td>0</td>
<td>.07</td>
<td>1.29</td>
</tr>
<tr>
<td>Conservation of natural resources &amp; recycling</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Sustainability</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Conservation of energy</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total Environmental disclosure</td>
<td>1.22</td>
<td>0</td>
<td>.07</td>
<td>1.29</td>
</tr>
<tr>
<td><strong>Human resources disclosure</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Health &amp; safety</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Employment of minorities &amp; women</td>
<td>-</td>
<td>0.49</td>
<td>0.62</td>
<td>1.11</td>
</tr>
<tr>
<td>Employee training</td>
<td>1.28</td>
<td>32.52</td>
<td>10.12</td>
<td>43.92</td>
</tr>
<tr>
<td>Employee assistance and benefits</td>
<td>6.67</td>
<td>0.32</td>
<td>0.40</td>
<td>7.39</td>
</tr>
<tr>
<td>Employee remuneration</td>
<td>19.34</td>
<td>1.17</td>
<td>0.48</td>
<td>20.99</td>
</tr>
<tr>
<td>Employee profiles</td>
<td>-</td>
<td>30.60</td>
<td>6.52</td>
<td>37.12</td>
</tr>
<tr>
<td>Employee share purchase schemes</td>
<td>0.81</td>
<td>0.04</td>
<td>0.08</td>
<td>0.93</td>
</tr>
<tr>
<td>Employee moral</td>
<td>-</td>
<td>-</td>
<td>5.17</td>
<td>5.17</td>
</tr>
<tr>
<td>Industrial relations</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total Human resources disclosure</td>
<td>28.10</td>
<td>65.14</td>
<td>23.39</td>
<td>116.63</td>
</tr>
<tr>
<td><strong>Customer disclosure</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Product quality</td>
<td>-</td>
<td>0.16</td>
<td>1.84</td>
<td>2.00</td>
</tr>
<tr>
<td>Customer complaints &amp; satisfaction</td>
<td>-</td>
<td>-</td>
<td>0.32</td>
<td>0.32</td>
</tr>
<tr>
<td>Provision for disabled &amp; aged</td>
<td>-</td>
<td>-</td>
<td>0.04</td>
<td>0.04</td>
</tr>
<tr>
<td>Total Customer disclosure</td>
<td>-</td>
<td>0.16</td>
<td>2.20</td>
<td>2.36</td>
</tr>
<tr>
<td><strong>Community involvement disclosure</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Charitable donations and activities</td>
<td>0.40</td>
<td>-</td>
<td>-</td>
<td>0.40</td>
</tr>
<tr>
<td>Support for education</td>
<td>-</td>
<td>-</td>
<td>0.44</td>
<td>0.44</td>
</tr>
<tr>
<td>Support for arts and culture</td>
<td>0.04</td>
<td>0</td>
<td>0.03</td>
<td>0.07</td>
</tr>
<tr>
<td>Support for public health</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Sponsoring sporting or recreational projects</td>
<td>0</td>
<td>0</td>
<td>0.17</td>
<td>0.17</td>
</tr>
<tr>
<td>Supporting national pride&amp; government sponsored campaigns</td>
<td>0.33</td>
<td>0</td>
<td>0</td>
<td>0.33</td>
</tr>
<tr>
<td>Supporting the development of local industries or community programs &amp; activities</td>
<td>0</td>
<td>0</td>
<td>0.55</td>
<td>0.55</td>
</tr>
<tr>
<td>Total Community involvement disclosure</td>
<td>0.77</td>
<td>0</td>
<td>1.19</td>
<td>1.96</td>
</tr>
<tr>
<td>Total CSED</td>
<td>30.09</td>
<td>65.30</td>
<td>26.85</td>
<td>122.24</td>
</tr>
</tbody>
</table>

As shown in Table 6.6, the provision of environmental information is mainly in monetary form, while customer disclosure and community disclosure are in descriptive form. Information on the most important category in terms of magnitude, human resources, is in quantitative form. In aggregate, more than 53% of CSED is in quantitative not monetary terms, while descriptive information represents about 22% of total disclosure. This result differs from existing results in the literature. For instance, Othman and Ameer (2009, p. 302) stated, “Accounting researchers have investigated the amount and content of social and environmental disclosure from the perspective of social accounting. Most of these studies find that firms tend to disclose social and
environmental issues in narrative (non-monetary) terms.” In summary, Libyan banks choose to provide their CSED mostly in quantitative terms. Contrary to the literature, descriptive information was ranked by Libyan banks as the less preferable method of presenting CSED.

6.2.4 Negative information in CSED

Positive information is more likely to be disclosed, while negative information tends to be omitted in order to shape the impression of information users in a way which best serves the interests of firms (Cho et al., 2010; Merkl-Davies & Brennan, 2007). Many studies (Belal, 2001; Tsang, 1998) found that positive information only was provided in annual reports of the companies investigated. Nonetheless, a Libyan study, conducted by Ahmad (2004), which considered the case of Libyan industrial companies, revealed that these companies actually did disclose some unfavourable news. As such, it was thought interesting to see if this case is applicable to the banking sector and, therefore, to find an answer for the fourth sub-question, ‘Did Libyan banks disclose negative information? Why or why not?’

The content analysis implemented on the annual reports of Libyan banks demonstrated that some unfavourable information was disclosed in those annual reports. This amounted to 0.24 pages on customers and 1.37 pages on human resources. For example, some banks indicated problems they faced in finding highly experienced staff: in one annual report, it was stated,

> It is worth noting, that the bank suffers from a severe shortage of competent banking staff, with long experience; due to the lack of these resources in the Libyan banking market, and the associated negative impact on the completion of administrative and technical structures in the various departments, branches, agencies, and even at the highest executive levels of management. The deficiency is obvious.

In another annual report, it was stated that “the bank encountered reputation risk because the electronic system of the bank was broken down…our customers were, to a large extent, unsatisfied”.

Notwithstanding the fact that such negative news constituted no more than 1.32% of the total disclosure, it deserves attention. In justifying the action of releasing unfavourable news, Ahmad (2004, pp. 239–240) pointed to three reasons for the consideration of unfavourable news. One was that the main goal of public companies is to offer services and goods to the public regardless of the profit issue, especially when there was no
stock market. Their managers, therefore, did not seek to protect the reputation of their corporations and, as such, “they do not hesitate to disclose negative or bad news or hide the requested bad news”. The other reason was their basic Islamic character, where telling the truth is nonnegotiable, and “applies to businesses as much as to individuals, even if such disclosure would work against the firm or person himself”.

The first reason is still partly applied for one bank, which disclosed negative news. This bank is a specialized bank and fully government owned. Nevertheless, there were another four commercial banks, three of which were private and one was 54% public. Additionally, some of these banks were listed on the Libyan stock market. As such, there must be another reason to justify their disclosure of negative news. Arguing that Islamic character is a motivational factor for businesses’ behaviour seems to be inapplicable in the case of Libyan banks. Two reasons can be given for that. To start with, Libyan commercial banks are conventional banks, and have been dealing with interest since their establishment. In Islam, earning interest from lending activity is forbidden, as one of the basic Islamic teachings. As such, it is unreasonable to expect that banks would consider religious teaching in disclosure issues while they base their existence on something religiously prohibited.

The second reason is that the attitudes of companies and the attitudes of their employees are not necessarily identical or in agreement. Sometimes, employees have to modify or even ignore their personal attitudes to secure their jobs. Buhr (2001, p. 416) argued that the behaviours of the managers are very likely to be influenced and therefore changed to suit the culture of their companies. He stated that “in actuality, the manager…will come under a corporate sphere of influence that determines what conduct counts and to whom one is accountable”. He further mentioned the argument of DiMaggio and Powell (1983) that the manager, influenced by such sphere, is likely to behave in a homogeneous way. As such, it is expected that corporate culture mostly pressures employees to behave in a certain way—which is not always in line with their religious beliefs.

Alternatively, two possible reasons for disclosing negative news can be suggested for the case of Libyan banks. Firstly, reflecting upon the annual reports that included some negative news gives the impression that banks disclose such news as a justification mechanism for any decrease in their profit or increase in their expenditures. For example, in the annual report of one private bank, it was stated,
We have to tell you that our bank ...suffers from shortage, if not absence, of competent banking staff... the management tries to address this partly by training programs. This was reflected in a high increase of human resources expenses, comparing to last year. This was something we could not avoid, in order to improve operations of your bank.

The language used here seems to be apologetic language rather than a professional approach to addressing increasing costs for reasonable reasons. An interview with an executive manager in this bank (as discussed in the next chapter) revealed that the costs of training programs were something to be reduced or avoided. He pointed out that shareholders focus exclusively on maximizing their profit shares and therefore they consider such programs as unnecessary costs. He stated that

The most important thing for our shareholders is to achieve profits... They want expenses to be reduced as much as possible... (as a result) our employees do not have health insurance...they have nothing more than the monthly salaries...It happened once, for example, that the management gave financial rewards to the employees, then in the next ordinary shareholders meeting, the shareholders asked: who gave you the right to do so? We are the one who have the priority to this money (the financial rewards given to the employees).

In such an environment and culture, the board of directors may find they have no alternative but to use negative news as a tool to justify decisions that resulted in additional costs, despite these costs being necessary and economically justified. Another example of the justification mechanism appeared in the report from which the first quote was taken regarding disclosure of negative news. That executive manager complains about the shortage of competent and experienced banking staff, and seemed to offer this to justify those important and costly decisions taken by the board of directors. It is stated that

At the beginning of this year, action was taken to implement the resolution of the Board to increase the salaries of clerical and non-clerical staff by (60%); this increase made the Bank’s salaries the highest in the Libyan banking sector. Action was also taken to grant interest free car loans within the amount of (12,000 LYD), payable in five years, as well as mortgage loans up to (100,000 LYD) for the purposes of purchase or maintenance. This amount is considered the highest among the loans offered by all the banks operating in Libya.

The other matter that might be a reason for disclosing negative news is the possibility of blaming other parties for the news. That is, negative news is disclosed when there is someone else (other than the management or board of directors) to be held accountable.
In the example mentioned above regarding reputation risk the bank encountered due to the breakdown of the electronic system of the bank, the uprising, which occurred in Libya in 2011, was mentioned as a cause of this problem. In another report, a reduction in annual revenue and subsequent net profit was emphasized by the chairman. He attributed this reduction to a resolution of the Central Bank of Libya, which stopped direct monetary transactions for approximately nine months.

It can be concluded that negative news is mentioned for purely logical reasons. These are either to justify the actions taken by the board of directors or the executive management which resulted in an increase in expenditures; or to lay the responsibility on parties other than the bank itself in the case where there is a possibility to blame external circumstances.

6.2.5 Summary
This section has provided the results of a content analysis of the annual reports of Libyan banks about the CSED included in their reports. Four sub-questions were addressed in this section to better understand the CSED practices of these banks. The analysis showed that CSED was evident in all of the sampled annual reports. However, only one category (out of four) was widely addressed by the banks, with relatively poor disclosure in the other categories. Furthermore, the recognition level of some CSED categories is very low in most of years considered in the study, and CSED is mostly provided in quantitative terms. Lastly, there was disclosure, although relatively little, on negative news.

This section gives indicators, more than explanations, of CSED practices by Libyan banks. It provided answers to some questions, but raises others in regard to the reasons behind the low level of CSED by these banks. There is a need to go further, using other methods to reach an acceptable level in understanding the phenomenon of CSED in the Libyan context.

6.3 Statistical analysis
This section describes the data and variables used to address another research question. Furthermore, it reports on the key results of the statistical tests. The section is organised as follows. Subsection 6.3.1 provides a brief discussion of the baseline model and the variables included in it. Subsection 6.3.2 discusses descriptive statistics of the dependent and independent variables. Subsection 6.3.3 explains the correlation between the study variables, while the results of the diagnostic tests are given in Subsection
6.3.4. The regression results are reported in Subsection 6.3.5, with robustness checks and a brief summary in Subsections 6.3.6 and 6.3.7, respectively.

6.3.1 The baseline model and its variables

Based on the literature review, the following baseline model is developed to identify the determinants of CSED for the Libyan banking sector:

\[ CSED = \beta_0 + \beta_1 \text{ROE} + \beta_2 \log \text{Size} + \beta_3 \text{Foreign} + \beta_4 \text{Listed} + \beta_5 \text{Non-exec} + \beta_6 \text{Public} + \varepsilon \]  

where \( CSED \) is corporate social and environmental disclosure, \( \text{ROE} \) is the return on equity, \( \text{Size} \) is the total assets of the bank in logarithms, \( \text{Foreign} \) is a dummy variable that takes a value of one if the bank has foreigners on the board of directors otherwise zero, \( \text{Listed} \) is a dummy variable that takes a value of one if the bank is listed otherwise zero, \( \text{Non-exec} \) is the percentage of Non-executive members on the board of directors, and \( \text{Public} \) is a dummy variable that takes a value of one when the bank is a publicly-owned otherwise zero (private bank).

6.3.2 Descriptive statistics

Table 6.7 shows the statistical results of all variables of interest. In regards to the dependent variable, corporate social and environmental disclosure (CSED), its mean value is 2.14 pages in the annual reports of Libyan banks, with a minimum of 0.07 pages and a maximum of 5.04 pages. The standard deviation of CSED is 133.151. Regarding the independent variables, the average return on equity (ROE) is 7%, whereas the minimum value is –11% and the maximum is 21%. The size of the banks ranges from approximately 28 million Libyan dinars (LYD) to 27,296 million LYD with an average of 3952 million LYD. The percentage of Non-executive directors on boards of directors ranges from 60% to 100%, with an average of 94.8%. In respect to listed banks, the number of those banks changed from year to year and in the final year of the sample (2010) there were six listed banks (out of eight banks in the sample). The same applies in the case of public and private banks; here, the number of public banks (where 50% or more of its share is owned by the public sector) in 2010 was five banks. In regards to foreigners on the board of directors, in 2010 there were four banks that had foreigners on their board of directors.
Table 6.7 Descriptive Statistics

<table>
<thead>
<tr>
<th>Variable</th>
<th>Obs.</th>
<th>Mean</th>
<th>Std. Dev.</th>
<th>Min.</th>
<th>Max.</th>
</tr>
</thead>
<tbody>
<tr>
<td>CSED</td>
<td>57</td>
<td>214.456</td>
<td>133.151</td>
<td>7.000</td>
<td>504.000</td>
</tr>
<tr>
<td>Profit</td>
<td>57</td>
<td>0.079</td>
<td>0.065</td>
<td>-0.111</td>
<td>0.212</td>
</tr>
<tr>
<td>Size</td>
<td>57</td>
<td>20.957</td>
<td>1.840</td>
<td>17.149</td>
<td>24.030</td>
</tr>
<tr>
<td>Foreign</td>
<td>57</td>
<td>0.158</td>
<td>0.368</td>
<td>0.000</td>
<td>1.000</td>
</tr>
<tr>
<td>Listed</td>
<td>57</td>
<td>0.386</td>
<td>0.491</td>
<td>0.000</td>
<td>1.000</td>
</tr>
<tr>
<td>Non-exec</td>
<td>57</td>
<td>0.948</td>
<td>0.103</td>
<td>0.600</td>
<td>1</td>
</tr>
<tr>
<td>Public</td>
<td>57</td>
<td>0.578</td>
<td>0.498</td>
<td>0</td>
<td>1</td>
</tr>
</tbody>
</table>

6.3.3 Pearson correlation

Table 6.8 provides Pearson’s correlation coefficients for the associations between CSED and the independent variables. As shown, the relationships between CSED and variables Profit, Listed and Non-exec are negative, while the relationships are positive in the cases of other variables (Size, Public and Foreign). However, not all of the relationships are statistically significant, with only Non-exec and Size being significantly correlated with CSED, although these in opposite directions. The association between CSED and Non-exec is significantly negative, with the correlation coefficient of –0.501 being significant at the 5% level. This means that when the percentage of non-executive directors increases on the board of directors, the level of CSED decreases. Conversely, size is significantly positively correlated with CSED, with correlation coefficient of 0.437 at the significant level of 5%. This implies that as a bank becomes bigger it provides more CSED.

On the other hand, Table 6.8 also indicates that there are some relationships amongst the independent variables. If some of these relationships were highly correlated this would indicate a collinearity problem. As such, the next section considers diagnostic tests, including that of multicollinearity.

Table 6.8 Correlation Matrix among the variables

<table>
<thead>
<tr>
<th></th>
<th>CSED</th>
<th>Profit</th>
<th>Size</th>
<th>Listed</th>
<th>Non-exec</th>
<th>Public</th>
<th>Foreign</th>
</tr>
</thead>
<tbody>
<tr>
<td>CSED</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profit</td>
<td>-0.0506</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Size</td>
<td>0.4375*</td>
<td>0.3965*</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Listed</td>
<td>-0.0937</td>
<td>0.4267*</td>
<td>0.3899</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-exec</td>
<td>-0.5012*</td>
<td>0.3225</td>
<td>-0.0417</td>
<td>0.4022*</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public</td>
<td>0.3872</td>
<td>0.0869</td>
<td>0.8207*</td>
<td>0.0922</td>
<td>-0.2972</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Foreign</td>
<td>0.0659</td>
<td>0.0355</td>
<td>0.2777</td>
<td>0.3485</td>
<td>0.2197</td>
<td>0.1744</td>
<td>1</td>
</tr>
</tbody>
</table>

Notes: *Asterisks denote significance at the –0.05 level.
6.3.4 Estimation Techniques
Since there is unbalanced panel data, panel data models, such as fixed effect model and random effect model, are considered for estimating Equation (1). To determine which one is better to serve our interest, the Hausman test was applied. The Null Hypothesis for the Hausman (1978) test is that the error components are not correlated with the explanatory variables. If it is rejected, estimation with random effects will be biased and inconsistent (see Table 6.9).

Table 6.9 The Hausman test results
<table>
<thead>
<tr>
<th>Chi-Sq. Statistic</th>
<th><strong>7.66</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>P-value</td>
<td>0.1760</td>
</tr>
</tbody>
</table>

***, **, and * denote the 1, 5 and 10 per cent levels of significance, respectively

The test result has a $p$-value of 0.01, which is below the chosen significance level, 0.05. Hence, the null hypothesis is not rejected. Thus, there is no mis-specification. The drawn conclusion is that the random effects estimator is consistent, and random-effect model should be employed. However, there are several important assumptions that need to be checked before running the regression model.

6.3.5 Diagnostic tests
As discussed in Chapter five: Research Methodology, some tests are needed before running the regression model. This is to satisfy some necessary assumptions with regard to providing consistent and adequate data. As such, some diagnostic checks were performed to ensure that the assumptions of multiple regression analysis were not violated, and these tests include multicollinearity, heteroscedasticity and normality of the residuals.

I. Test for Multicollinearity
Multicollinearity indicates high correlation among independent variables. It is an important assumption that each explanatory variable is independent from other explanatory variables. That is, all the explanatory variables have a very low degree of correlation with each other, and one variable cannot be predicted by another variable linearly. Even some of the explanatory variables might have a significant impact on the dependent variable; however, when two independent variables, for example, are highly correlated, then this means they measure the same thing. This in turn results in an inflated standard error of coefficients. As a result, researchers may not find variables
significant, since high standard errors of coefficient make $t$-statistics very small. Thus, erroneous conclusions might be drawn from the regression model.

In prior studies, it is argued that the “rule of thumb” for testing multicollinearity problems by using a correlation matrix is that when the correlation is higher than 8, multicollinearity becomes a problem (Gujarati 2003; Li, Mangena & Pike, 2012). However, multicollinearity problems can also be detected in other ways, such as by the variance inflation factors (VIF) method. This method measures how much the variance of the estimated coefficients increased. It is debated that multicollinearity becomes a serious concern where VIF exceeds 10 (Agbejule & Saarikoski, 2006; Byrne & Flood, 2008; Darnall et al., 2009; Goodhue et al., 2011; Li et al., 2012; Maiga et al., 2014; Oliveira et al., 2010; Rashid, 2013; Street & Bryant, 2000). There are many ways to address the multicollinearity problem, but the usual procedure is to remove one of the correlated variables from the regression. That is, dropping one of the two highly correlated variables in first regression and then including the dropped variable in the second regression while dropping the first variable in the second regression (Gujarati, 2003).

Returning to the information in Table 6.8, there are significant relationships between some independent variables. For example, Size and Listed variables have significant relationships with the Profit variable. The Non-exec variable, furthermore, has a significant relationship with Listed variable. However, the only correlation coefficient exceeding 0.8 was that of the relationship between Size and the Publicdummy. The correlation coefficient between these two variables is 0.8207, which is deemed highly correlated, and thus multicollinearity becomes a problem. To remedy this problem, one of the two variables (Size and the Publicdummy) was dropped alternatively while running regression.

\[
\text{CSED} = \beta_0 + \beta_1 \text{ROA} + \beta_2 \text{Size} + \beta_3 \text{Fdummy} + \beta_4 \text{Listed} + \beta_5 \text{Non-ex} + \epsilon_{it} \quad \text{(ii)}
\]

\[
\text{CSED} = \beta_0 + \beta_1 \text{ROA} + \beta_2 \text{Publicdum} + \beta_3 \text{Fdummy} + \beta_4 \text{Listed} + \beta_5 \text{Nonex} + \epsilon_{it} \quad \text{(iii)}
\]

**II. Test for Heteroscedasticity**

The heteroscedasticity assumption requires that the residuals have equal variances across all levels of the predictor(s). That is, across observations (all levels of explanatory variables), the error variance is approximately constant. There are many reasons for a heteroscedasticity problem, such as the existence of outliers, the absence
of relevant explanatory variables or measurement error in the variables. The existence of a heteroscedasticity problem causes the estimation to be biased.

Many formal tests can be applied to check the for a heteroscedasticity problem. One of these tests is the Breusch–Pagan/Cook–Weisberg Test. The null hypothesis of this test is that variance in error terms is constant, and a rejection of null hypothesis would indicate the presence of a heteroscedasticity problem.

There are a number of ways to address this problem, such as re-specifying the model by introducing new and relevant variables or by dropping irrelevant variables from the model. The second and most commonly used method is the robust standard error method. Robust standard error does not change the coefficient of variables while it changes the standard error; hence, it affects the t-statistics. In this study, robust standard error is used if a heteroscedasticity problem exists. In order to check the homoscedasticity in the error term, the baseline equation and Breusch–Pagan heteroscedasticity test were run respectively. The result revealed that the value was too high ($\chi^2(1) = 5.13$, $p$-value = 0.0235), and thus the null hypothesis is rejected, indicating that presence of a heteroscedasticity problem. As such, robust standard error is used in the regression analysis.

### III. Test for normality of residuals

In the population, observations should have a normal distribution. A perfect regression model should have a normally distributed residual to be an acceptable model. Although the normality is likely not to cause any problem with a large simple size (more than 30) (Coakes, 2005; Prasad, Green & Heales, 2009; Rashid, 2013), the Shapiro-Wilk test was performed to check for normality.

The residuals were predicted first after running the regression, then the Shapiro-Wilk test was applied to check whether residuals were normally distributed or not. The null hypothesis of this test is that residuals are normally distributed. A rejection of this hypothesis would indicate that residuals are not from a normal distribution and would violate OLS regression assumption.

<table>
<thead>
<tr>
<th>Table 6.10 Shapiro-Wilk test for normal data</th>
</tr>
</thead>
<tbody>
<tr>
<td>Variable</td>
</tr>
<tr>
<td>----------</td>
</tr>
<tr>
<td>$r$</td>
</tr>
</tbody>
</table>
The test demonstrated that the residuals are normally distributed, as the $p$-value is higher than 0.05. As such, the regression is in line with the assumption of normality of residuals.

6.3.6 Regression results

In this sub-section, the answer will be provided to the following question: “Did the following factors: size, profitability, ownership structure, listing on stock market, the proportion of non-executive directors on the board, the proportion of foreign nationals on the boards of directors of Libyan banks influence the production of CSED by Libyan banks over the period 2005–2010?”

In the previous sub-sections, the summary statistics and correlation analysis presented some insights in regard to the variables’ characteristics and relationships. However, it was considered to be interesting to examine the joint impact of factors that affect CSED in the Libyan banking sector. Equations (ii) and (iii) were estimated, based on both the random effect model and OLS estimation technique; the results are presented in Table 6.10 (below).

Models (1) to (4) present the determinants of CSED based on the generalised least squares (GLS) random effects model, and Models (5) to (8) based on the ordinary least squares (OLS) estimation technique. As shown, Models (3) and (4) for the random effects model and Models (7) and (8) for the OLS regression employ robust standard errors to address the problem of heteroscedasticity. Looking at the goodness of fit of the model, the overall $R^2$ obtained from the random effects model ranges from 22% to 36%, which is a reasonably good model fit. This explains that approximately up to 36% of the variation in the dependent variable is explained by the set of independent variables.

Considering independent variables one by one, profitability does not appear to be a significant variable in any model, and the relationship between profitability and CSED is also unclear, since the sign is changing (between positive and negative) depending on the model. This result contradicts the results of some studies, but at the same time is consistent with others. It confirmed the claim of some researchers, such as Patten (1991), Mangos and Lewis (1995), and Haniffa and Cooke (2005), that the results regarding the relationship between profitability and corporate social disclosure are inconclusive.
### Table 6.1 Regression Results

<table>
<thead>
<tr>
<th></th>
<th>Random Effect Model</th>
<th>OLS regression Model</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(1)</td>
<td>(2)</td>
</tr>
<tr>
<td>Profit</td>
<td>–114.3</td>
<td>18.24</td>
</tr>
<tr>
<td></td>
<td>(–0.43)</td>
<td>(0.07)</td>
</tr>
<tr>
<td>lnsize</td>
<td>36.03***</td>
<td>36.03***</td>
</tr>
<tr>
<td></td>
<td>(2.88)</td>
<td>(3.64)</td>
</tr>
<tr>
<td>Fdummy</td>
<td>89.48**</td>
<td>109.5***</td>
</tr>
<tr>
<td></td>
<td>(2.26)</td>
<td>(2.74)</td>
</tr>
<tr>
<td></td>
<td>(–2.34)</td>
<td>(–1.85)</td>
</tr>
<tr>
<td>nonex</td>
<td>–287.3**</td>
<td>–238.5</td>
</tr>
<tr>
<td></td>
<td>(–1.99)</td>
<td>(–1.57)</td>
</tr>
<tr>
<td>Publicdummy</td>
<td>101.7**</td>
<td>101.7*</td>
</tr>
<tr>
<td></td>
<td>(2.13)</td>
<td>(1.68)</td>
</tr>
<tr>
<td>_cons</td>
<td>–255.9</td>
<td>373.2**</td>
</tr>
<tr>
<td></td>
<td>(–0.86)</td>
<td>(2.48)</td>
</tr>
<tr>
<td>N</td>
<td>57</td>
<td>57</td>
</tr>
<tr>
<td>R-sq</td>
<td>0.36</td>
<td>0.22</td>
</tr>
<tr>
<td>Adjusted R Squared</td>
<td>0.383</td>
<td>0.269</td>
</tr>
</tbody>
</table>

Notes: Asterisks denote significance at the * - .10, ** - .05 and *** - .01 level. Standard errors in parentheses.
The result is contradictory to the study results of Cormier and Magnan (2003b), Tagesson et al., (2009), Haniffa and Cooke (2005) and Khan (2010), which found profitability to be an important variable in determining the level of social and environmental disclosure, although the banking case was considered only in the last study. Conversely, the result that profitability is not significant in determining the level of CSED is in line with the study results of Chipalkatti (2002) and Hossain and Hammami (2009), whose samples included banks.

Hossain and Hammami (2009) mentioned three possible reasons for profitability to be important in the issue of disclosing more corporate social and environmental information. Firstly, a corporation might feel that it has to prove to society that its financial profits were not at the expense of its social and environmental performance. Second, the costs that are expected to be imposed in the case of achieving high levels of profitability by some external groups such as trade unions (in the form of calling for increasing workers’ wages, for example) might motivate the company to highlight its social and environmental role (employee issues in the case of the example). Thirdly, self-interest of managers (securing their positions) might encourage managers to disclose more CSED, as this type of disclosure has become preferred by information users.

None of these reasons seem to be applicable in the Libyan context. Firstly, previous Libyan studies (such as those by Ahmad, 2004; Elmogla, 2009; Mashat, 2005) demonstrated low levels of CSED by Libyan companies, and the result of content analysis conducted in this study supports such a case. This reflects a low level or absence of demand for, and use of, CSED. In the annual report of the Central Bank of Libya, covering its activities in 2007, it was stated regarding the Libyan Stock Market that:

The trading volume is still weak, due to the limited number of listed companies in the market....The reason may also be the limited spread of the culture of dealing with the financial markets for individuals and economic institutions (Central Bank of Libya, 2007 , p. 95).

The same notice appeared again in the report of 2010:

Market activity is still limited, due to the small number of listed companies in the market, and the limited spread of the culture of investing in the stock market (Central Bank of Libya, 2010a, p. 100).
Secondly, in the annual reports of Central Bank of Libya during the period 2005–2010 (see for example Central Bank of Libya, 2008, p. 72; and 2009, pp. 83–84), it was mentioned many times that the ratio of liquidity in Libyan banks was very high due to various reasons, including the limited investment opportunities for Libyan banks. This simply means that banks were struggling to find opportunities to achieve profits. Thus, it is a little difficult to assume that achieving profits under such circumstances would motivate banks to spend some of their profits on social and environmental activities.

Thirdly, there were complaints from many Libyan banks about certain financial policies implemented by the Central Bank of Libya, which negatively affected their revenues. For example, one bank stated in its annual report of 2008:

It is worth mentioning that the Bank’s revenue was severely affected after Central Bank of Libya had issued instructions to liquidate the Bank’s foreign currency deposits with foreign correspondent banks in return for lucrative profits realizing good revenue. The Central Bank of Libya compelled our Bank to retain an amount of not more than (200%) of the total of its own funds when Central Bank of Libya’s Board of Directors issued resolution number (46 – 2008) on 18/6/2008 article, where in Article 11 it states that “The total balances in foreign currency retained by the bank with foreign correspondents shall not exceed a ratio of (200%), i.e. double its own net funds, etc…). Bearing in mind that the Bank’s own funds do not exceed (75) million, it follows that according to this resolution; our Bank is entitled to retain a balance in foreign currencies not more that (150) million only, while the amounts transferred through the Bank by foreign companies, individuals and others exceed (725) million LYD. These foreign currency transfer amounts were not cashed, on the contrary, some customers require that the balances remain in foreign currency accounts and be handled in accordance with the stipulations of Article numbers (42, 43, 44 and 45) of the Banks Law No- (1 – 2005), without specifying a certain ceiling, consequently this constraint has curtailed the increase in the Bank’s revenue.

In such cases, it is unlikely that banks negatively affected by such policies would feel obliged to invest in environmental issues or society at large.

In regard to the relationship between size and CSED, the regression results, based on random effect model, show a positively significantly correlation (at the 1% significance level). This implies that the larger the bank, the higher the CSED. This result is congruent with many previous studies (Amran & Devi, 2008; Andrew et al., 1989; Baskin, 2006; Branco & Rodrigues, 2006, 2008; Cormier & Gordon, 2001; Cormier et al., 2011; Cormier & Magnan, 1999; Eng & Mak, 2003; Gao et al., 2005; Haniffa &
Cooke, 2005; Hossain & Hammami, 2009; Imam, 2000; Khan, 2010; Secchi, 2006; Tagesson et al., 2009).

Some researchers, such as Cowen et al. (1987), argued that size is the most significant explanatory variable of social disclosure. They stated that “large companies tend to have greater numbers of social responsibility disclosure” (Cowen et al., 1987, p. 117). As mentioned in the literature review (Chapter three), some researchers presented the following reasons to explain why large companies disclose more. First, since agency costs are assumed to be higher in the case of the large company, managers may use social disclosure as a tool to cut these costs, especially political ones (Farook et al., 2011; Watts & Zimmerman, 1978). Second, large firms receive more attention (Wallace & Naser, 1995) and this, in turn, results in a need for justifying the existence of the firm (Patten, 1991). Third, larger firms are more likely to have an economic significance in the eyes of different interest groups (Cooke, 1991), and are therefore followed by more analysts (Lang & Lundholm, 1993; McKinnon & Dalimunthe, 1993) and subjected to greater scrutiny (Andrew et al., 1989). As such, there is an obvious need to disclose more information to manage this attention. Fourth, availability of money and expertise in large companies enables them to engage in more social and environmental activities, and subsequently produce more information on these activities (Ahmed & Nicholls, 1994). Fifth, growth of large firms entails external capital, which is more likely to be obtained in case of availability of high quality information (Wallace & Naser, 1995). In the Libyan context, the fourth point (availability of money) might be the only valid reason to justify why large banks disclose more CSED. This is due the special circumstances of the Libyan case mentioned previously.

The result of the regression also revealed that the dummy variable, $F_{dummy}$, has a positive significant relationship with CSED at the 1% significance level. That is, if there are foreign nationals on the board of directors, the level of CSED increases. Of course, as it was mentioned in the research methodology, foreign nationals on the board of directors represent foreign ownership in the Libyan case. The result is in line with the study results of Andrew et al. (1989) and Haniffa and Cooke (2005). In the study by Andrew et al. (1989), the researchers found that large companies that disclosed more social information were generally owned by foreign investors—a situation more likely in developing countries. Haniffa and Cooke (2005) found a significant relationship between social disclosure and foreign ownership, and attributed this to using corporate social disclosure as an attractive tool to guarantee the continuing participation and
support of such important shareholders. Cormier and Maganan (2003) argued that the dissemination of high-quality environmental information is the result of a wide range of investors holding firm shares—with a significant proportion being foreigners—and, as a result, disclosing information can be seen as an action to bridge the gap between managers and those who are geographically distant from information sources. These justifications depend on assumptions that foreign shareholders are really interested in CSED despite there being difficulties in having access to this information.

These justifications do not seem to offer a convincing argument in the case of Libyan banks, as in those banks which have foreign ownership, the foreigners on boards of directors constitute (except in one case) no less than half the members, and at the same time, the executive management is mainly in their hands. The information is available, and they do not need to encourage themselves to keep their investment in those banks. Barako and Brown (2008), whose study did not confirm the significance of foreign ownership to the use of CSED, argued that the existence of foreigners on the board of directors of a bank may be seen as a guarantee that the interests of foreign shareholders will be protected and, thus, there is no need for more information. So, why does their ownership have a positive association with CSED?

The more appropriate justification for the result of the regression regarding foreign ownership is that the disclosure provided was motivated mainly by the partnership conventions between some Libyan banks and foreign banks. In these conventions, the Central Bank of Libya gave the foreign partner the right to take control of the executive management, and to have a major share in the board of directors. On the other hand, the Central Bank of Libya stipulated that the foreign partner should provide an action plan to develop the bank, especially its human resources. The Central Bank of Libya followed up implementation of the plan, and reserved the right to cancel the partnership if the foreign partner breached its obligations in the Action Plan. As such, the foreign partners (which are foreign banks) were required to show their commitment and disclose information in the annual reports on their efforts in developing Libyan banks and their employees. What supports this claim is that since the partnership started disclosure on other topics such as environment and community involvement has not improved.

In fact, for four years (since 2007), nothing was disclosed by all four banks (which are partly owned and managed by foreign partners) on the impact of their activities on the environment, and just one-fifth of one page disclosed involvement in community
activities. In striking contrast, one of the foreign partners devoted 42 pages of its head-office 2009 annual report to corporate social and environmental responsibility, 12 pages of which were for its involvement in society. This means that there was no genuine commitment to social and environmental responsibility; rather, it was only about implementation of the terms of the partnership agreement. As such, to be more accurate, it can be said that foreign ownership has a positive impact on CSED (actually on employees’ disclosure), but for reasons other than those mentioned in the studies cited above.

The regression analysis also established that the variable *Listed* (listing on Libyan stock market) was significant in determining the level of CSED, at the 5% significance level, but the relationship between the two variables was negative. This might appear to contradict the common belief that listing on a stock market is associated with disclosing more information. The studies by Grant (1980) and Dhaliwal (1983) provided evidence that more information was disclosed by listed firms than by unlisted firms. Saudagaran (1988) argued that the increasing number of listed firms nationally and internationally is proof enough of the perceived usefulness of listing on the stock market. However, disclosing more information does not necessarily mean all types of information. In fact, it is generally, and in developing countries especially, related to financial information rather than CSED.

The negative relationship between listing on the Libyan stock market and the level of CSED can be explained better by the argument of Haniffa and Cooke (2005). They justified the differences between listing in developing countries and listing in developed countries by arguing that in the case of less developed countries there is an absence or a lack of rules and regulations regarding social disclosures, as well as a low level (or absence) of public awareness about these issues.

Supporting this argument, Nier and Baumann (2006, p. 337) stated that “Both the quality and the quantity of disclosure a bank provides may depend on where it is listed”. As such, the result of the regression regarding the issue of listing on the Libyan stock market can be understood. Libya is a developing country, and the stock market is still ineffective—even in terms of financial performance. The limited number of companies listed on this market, and its low level of trading volume, has been mentioned many times in the annual reports of the Central Bank of Libya. One private bank stated in its annual report in 2009,
The Bank attempted also to invest in the Libyan Financial Securities Market, but due to legal problems faced by the Market and the devalued securities listed on the market—which leave no hope to realize quick returns—led to cancelling the investment in the Market at the present time. Bearing in mind that the Bank invested in the Libyan Stock Exchange to buy shares of this company, Unfortunately, the prices of these shares have depreciated, leading to the formation of a provision this year, to cope with these losses.

Thus, it seems unrealistic to assume that the issue of CSED would be addressed in this market. Confirming this conclusion, the requirements for registering companies on the Libyan stock market were checked by the researcher in this study in order to ascertain if there are any requirements regarding CSED. The result was disappointing, as there were no such requirements. Consequently, it is understood that the listed banks will focus more on financial performance and the related information, and this is likely to be at the expense of non-financial information, including CSED.

Regarding non-executive directors, the percentage of such members on the boards of directors was found to be significant in explaining CSED by Libyan banks. However, the relationship was negative. That is, as this percentage increased the level of CSED decreased. This result is in contrast with the findings of studies by Barako and Brown (2008) and Khan (2010). In these studies, which were conducted on banks, positive and significant relationships were found between the existence of non-executive managers on the board of directors and CSED. Barako and Brown (2008) attributed the result of their study to the reform policy implemented by the Central Bank of Kenya, which encouraged Kenyan banks to include more non-executive directors on their boards of directors. The problem with the Libyan example is that the opposite result occurred, even though the Central Bank of Libya implemented the same reform policy in regard to the existence of non-executive directors on boards of directors. In fact, the Central Bank of Libya was more stringent than its Kenyan counterpart, by forcing Libyan commercial banks to make their boards of directors consist of non-executive directors only. This poses the question of why the result was different.

In other studies, such as those by Eng and Mak (2003), Hossain and Reaz (2007) and Haniffa and Cooke (2005), the relationship was either negative or non-significant. Eng and Mak (2003) admitted that their result was in contrast with prior studies, but justified the negative relationship by claiming that a substitute relationship might have existed between the two variables (non-executive directors and voluntary discloser) in monitoring the managers' behaviour. The low level of CSED practices of Libyan banks
and firms, before and after implementing the reform policy of the Central Bank of Libya, makes such justification unrelated to the Libyan case. Haniffa and Cooke (2005), on the other hand, attributed the non-significant relationship (between non-executive directors and corporate social responsibility) to inadequate levels of knowledge and experience of non-executive directors in regard to social issues. This probability has not been investigated in this study, and possibly it might have an impact on CSED practices.

Hossain and Reaz (2007) offered another justification for the existence of the non-significant relationship between non-executive directors and voluntary discloser. They stated that

> the bank’s financial information also plays a vital role in day to day economic activities. The bank follows the mandatory instruction strictly and independent directors also keep pressure on it (Hossain & Reaz, 2007, p. 284).

This statement draws attention to the impact of the concentration of independent directors in complying with mandatory instructions regarding financial performance. In the case where all attention is given to financial performance, and where disclosing social and environmental information is not compulsory, non-executive directors might see that their own interests rest in focusing on what is perceived to be more important by shareholders, regulatory bodies and so on. Their performance would be judged and evaluated according to the achieved financial results, not to social and environmental performance. When the success standard of a firm is about good financial performance and achieving as much profit as possible, the non-executive directors have no alternative other than working to serve this culture. Non-executive directors in firms with poor performance are likely to lose their reputation, and have little chance of being considered in filling such positions in the future (Gilson, 1990; Kaplan & Reishus, 1990). As a result, they are motivated to do their best to ensure the success of the firm, because a successful firm is a sign of the competence of its directors (Weisbach, 1988).

In the Libyan context, where CSED is not compulsory, the private sector started to expand its share in the banking sector and, since financial performance is highly emphasised, it is likely that non-executive directors would focus their efforts on achieving financial objectives. Although this applies also to executive managers, in regard to non-executive directors, it seems that as directors become more detached from banks’ daily work, their interest in conducting social and environmental activities, and/or disclosing information on social and environmental topics lessens. Conversely,
executive managers are more attached to issues related to employees and customers, so are more likely to be at least involved in activities related to these two groups, and to be interested in producing and using related information.

The last variable considered in the regression analysis is Public dummy. This variable was found significant in affecting CSED. It is significant in all models at the 5% significance level, and is positively correlated with CSED. That is, public banks are more disclosing than private banks. This result is different from that found in some studies (such as those by Chipalkatti, 2002; Secchi, 2006; Tsang, 1998). For example, the study by Chipalkatti (2002) downplayed the significance of the relationship between the extent of disclosure (made by 17 Indian banks) and the percentage of shares owned by government. In another Asian country, Tsang (1998) found that the Development Bank of Singapore, which is primarily government owned, was disclosing less social information than other banks. Tsang assumed that well-known companies might feel that there is no need to justify their existence. In Libya, public banks in particular do not need to justify their existence due to their complete reliance on government support, which has been provided for decades. However, they still disclose more than the private banks do. In another Singaporean study, the result was in line with the result of the current study. Eng and Mak (2003) demonstrated that increased voluntary disclosure was correlated with significant government ownership in Singaporean firms. The researchers claimed that “government ownership increases moral hazard and agency problems, and disclosure is a means of mitigating these problems” (Eng & Mak, 2003, p. 341). Even though the results are consistent, the reason for the result of the Singaporean study cannot be used to explain the result of the current study, since the levels of CSED practices in Libya are too low to be used for such a purpose, and such information is not required in the Libyan stock market.

The result of this study, regarding the impact of public ownership of Libyan banks, is consistent with many other studies (Amran & Devi, 2008; Cormier & Gordon, 2001; Hossain & Reaz, 2007; Tagesson et al., 2009) in different countries around the world. In other developing countries, namely India and Malaysia, studies by Hossain and Reaz (2007) and Amran and Devi (2008) established that public banks and firms made more voluntary disclosure than private ones. Amran and Devi (2008) justified the positive impact of the Malaysian government on companies (which were mostly owned by government or dependent on governmental contracts) in regard to social disclosure by arguing that the government, by supporting this disclosure, aimed to enhance the
position and image of the ruling party, locally and internationally; thus, it would be distinguished favourably against its competing parties. Such reasons are not applicable to the Libyan public banks, as there were no competing parties that required CSED to respond to their criticism.

In regard to some developed countries, studies by Cormier and Gordon (2001) and Tagesson et al. (2009) confirmed the importance of public ownership in increasing the level of CSED. These authors attributed such influence to the political environment where government, media and other organisations and parties can create pressure on public companies to release more information about the impact of their activities on the environment and society. Such environmental issues did not exist in Libya, and thus cannot be claimed to be a reason for Libyan public banks to disclose more CSED compared to their counterparts in the private sector.

The possible justification for the fact that Libyan public banks disclose more CSED could be the continuous support of the government for these banks, regardless of the result of their financial performance. For decades, the government used public banks to finance its economic and social plans (as detailed in Chapter two describing the Libyan banking system), as well as to obtain some political gains. Alwaddan (2005, p. 140) stated:

Libya has encouraged state-owned banks to open branches in rural areas, even when these branches are not economically feasible, in order to promote rural development. However, in such cases, state-owned banks will become tools for the generation of political support and employment.

Confirming this, in an annual report of a public bank, it was stated:

There were losses in this year in 10 branches and agencies. This was because the lack of economic resources in the regions where these branches and agencies are operating. The reason for opening these branches was to provide banking services to the people (living there).

Such policies, although partly implemented to achieve social objectives, caused losses to public banks over the long period of their existence. In spite of this, all of these banks are still operating in the banking sector; bad financial performance did not cause a threat to their existence. Thus, in contrast to the case of private banks, there was no pressure on public banks for survival. Being government-owned guarantees that being involved in social and environmental activities will not affect their ability to perform normal banking activities. Disclosing information on these activities is likely to be preferred by
these banks, since it indicates that they are achieving some goals, which may not necessarily be financial goals.

Is this to suggest that the privatisation policy implemented by the Central Bank of Libya in recent years was wrong? These policies, which are opposite to those implemented in the very early stage when the entire banking sector was public, were mainly designed to improve the financial performance of the banking sector. This goal can be achieved, but is likely to lead to embracing the old culture of the market economy, where the business of business is business. The interviews conducted in this study revealed an extreme focus by shareholders on maximizing profit and ignoring any social and environmental objectives. As such, opening the economy to private entities, in light of a total absence of society awareness about the impact of economic activities on the environment and society, is unlikely to be in the interest of society and the environment—at least in the long term. In order for financial reforms to avoid having adverse implications on non-financial issues, considerable reform needs to be undertaken in the prevalent culture, which is affected by many political, economic and social factors.

6.3.7 Robustness check

To check the robustness of results obtained from the random effect model, the regression on equations (2) and (3) was run by using OLS estimation technique. The results were quite consistent between these two models. The $R^2$ value obtained from OLS regression lies between 33% and 44%, which reasonably explains the variation in the model by the explanatory variable. Similar to our previous results, both size and percentage of non-executives appear to be significant in the OLS model.

Seeking more robustness, the financial reports—which were excluded at the beginning of the analysis—were included again with the annual reports in a second data set in order to see if the results might differ. Regression results from our second data set were similar to those obtained from the first data set. *Size, Fdummy* and *Public dummy* have significant positive relationship with CSED while *Listed* and *Non-exec* have significant negative relationship with CSED. Regression result from OLS estimation techniques also gave similar result to those obtained from first data set.
Table 6.12 Regression analysis based on 2nd data set

<table>
<thead>
<tr>
<th></th>
<th>Random effect Model</th>
<th>OLS Regression Model</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(1)</td>
<td>(2)</td>
</tr>
<tr>
<td>csed</td>
<td>csed</td>
<td>csed</td>
</tr>
<tr>
<td>Profit</td>
<td>21.29 (0.41)</td>
<td>25.65 (0.48)</td>
</tr>
<tr>
<td>Size(Ln)</td>
<td>83.98*** (3.85)</td>
<td>83.98*** (4.76)</td>
</tr>
<tr>
<td>Fdummy</td>
<td>71.41* (1.94)</td>
<td>84.72** (2.16)</td>
</tr>
<tr>
<td></td>
<td>(-62.31**) ((-2.13))</td>
<td>(-41.50) ((-1.38))</td>
</tr>
<tr>
<td>Listed</td>
<td>(-8.055) ((-0.26))</td>
<td>42.27 (1.32)</td>
</tr>
<tr>
<td></td>
<td>(322.7***) ((-2.59))</td>
<td>(-322.7***) ((-1.95))</td>
</tr>
<tr>
<td></td>
<td>(82.60**) (2.02)</td>
<td>82.60 (1.51)</td>
</tr>
<tr>
<td>Non-Exec</td>
<td>(-260.8) ((-1.14))</td>
<td>370.6*** (2.82)</td>
</tr>
<tr>
<td></td>
<td>(3.733) (0.02)</td>
<td>(740.9***) (5.14)</td>
</tr>
<tr>
<td>N</td>
<td>72</td>
<td>72</td>
</tr>
<tr>
<td>R-sq</td>
<td>0.465</td>
<td>0.338</td>
</tr>
<tr>
<td>Adjusted R Squared</td>
<td>0.289</td>
<td>0.425</td>
</tr>
</tbody>
</table>

Notes: Asterisks denote significance at the * .10, ** .05 and *** .01 level.
6.3.8 Summary

The statistics analyses performed in this section aimed at investigating the impact of several variables on the level of CSED practices conducted in the Libyan banking sector. In order to do so, both the GLS random effect model and the OLS estimation technique were employed on the information extracted from the available annual reports of Libyan banks over the period 2005–2010.

These analyses provided the answer to the question: “Did the following factors: size, profitability, ownership structure, listing on stock market, the proportion of non-executive directors on the board, the proportion of foreign nationals on the boards of directors of Libyan banks influence the production of CSED by Libyan banks over the period 2005–2010?”. The analyses demonstrated that, with the exception of the Profit variable, all other variables had an influence on the level of CSED. In particular, Size, Fdummy and Public dummy variables had significant positive associations with CSED, while the Listed and Non-exec variables had significant negative relationships with CSED. This indicates that usually, banks that are public, large and/or have foreign nationals on the board of directors, disclose more social and environmental information in their annual reports than banks not in those categories. On the other hand, banks that are listed on the Libyan stock market and/or have more non-executive managers on their boards of directors provide less CSED than banks that are not.

6.4 Chapter conclusion

This chapter has analysed and described both the level and nature of CSED reported by Libyan banks, and the impact of some banks’ characteristics and corporate governance on that level. Content analysis was applied to analyse the annual reports. The results revealed that CSED was provided in all of the sampled annual reports. However, except in the employee category, the disclosure was poor, and was provided mostly in quantitative terms. Moreover, in most of the years considered in the current study, the recognition level of some CSED categories was very low. Furthermore, there was very little disclosure on negative news.

In regard to the variables affecting the level of CSED, the statistical analysis; GLS random effect model and OLS estimation technique were employed. The results revealed that all variables except profitability had an influence on the level of CSED. Specifically, Listed and Non-exec variables had significant negative relationships with
CSED, whereas $Size$, $Fdummy$ and $Publicdummy$ variables had significant positive associations with CSED.

However, these results create a need for justifications regarding the low level of CSED practices of Libyan banks, and the unexpected relationships of some variables with this disclosure. As such, this exposed the need to search other information sources and use other analytical methods, in order to reach an acceptable level of understanding the phenomenon of CSED in the Libyan context.
Chapter 7. Managers’ Attitudes to CSED and the Impact of General Contextual Factors

7.1 Introduction
This chapter provides deeper insights into the CSED practices of Libyan banks. It is based on interviews that were conducted with three different groups. The first group comprised managers of accounting departments in all 15 Libyan commercial banks and two of the four Libyan specialized banks. These managers were primarily responsible for preparing each bank’s annual reports. However, this responsibility sometimes fell to planning departments, and in these cases, the interviews were held with those who managed these departments. The second group consisted of a chairperson, two board directors, a deputy general manager, and a finance manager in five different banks. It is expected that these interviewees, given their higher organisational position, could elaborate more on the banking culture and view of CSED that prevailed in the sector.

The remainder of the chapter is structured as follows. Section 7.2 reports on the interviews conducted with the two groups. To enhance our understanding of CSED practices in the Libyan banking context, Section 7.3 describes the impact of general contextual factors (political, economic, and social) on CSED practices. This investigation involved, among the other possible information sources, interviewing the following: the chief of the Libyan Union of Accountants and Auditors, two executive managers in two different departments of the Central Bank of Libya, and the Deputy Director of the Institute for Banking and Financial Studies. Section 7.4 provides a summary of the chapter.

7.2 Attitude of Libyan banks to CSED and factors affecting this attitude
This section responds to the last sub-question in the second research question concerning the factors influencing CSED practice in Libya. The sub-question is, “What is the managers’ attitude to the issue of CSED? And what are the factors affecting this attitude?”

Understanding the attitudes of managers to any issue entails first obtaining some basic information on the study participants, particularly in terms of their qualifications and
expertise. Participants' answers and, in turn, their attitudes, are likely to be affected by both these important elements. Table 7.1 details the educational qualifications of the 22 participants used in this study.

**Table 7.1 Educational qualifications of the two groups**

<table>
<thead>
<tr>
<th>Qualification</th>
<th>No. (total)</th>
<th>No. (A&amp;F)*</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>First group</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Masters degree</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>College diploma</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Bachelor’s degree</td>
<td>11</td>
<td>9</td>
</tr>
<tr>
<td>Higher diploma</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Intermediate diploma</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Secondary</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td><strong>Second group</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Doctorate</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Bachelor’s degree</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Higher diploma</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>22</td>
<td>19</td>
</tr>
</tbody>
</table>

* Qualifications relating to accounting and/or finance

As shown in Table 7.1, more than 82% of the first group possessed no less than a bachelor’s degree, and the same percentage of qualifications of all study participants directly related to accounting and/or finance. Furthermore, three of the five participants possessed a doctorate, the highest level of academic degree, while the remaining two had no less than a higher diploma, all of which were accounting and finance related. This supports an initial impression that the responses in the interviews were relevant to the topic of accounting and finance.

As shown in Table 7.1, in the first group, 14 participants out of 17 (82%) possessed no less than a bachelor’s degree; in the second group, 4 of the 5 participants (80%) held a bachelor's degree or higher (3 possessed a doctorate, the highest level of academic degree); and in terms of the total number of qualifications held by participants, 19 out of the 22 (86 %) directly related to accounting and/or finance. This supports an initial impression that the responses in the interviews were relevant to the topic of accounting and finance.

Expertise is another important factor to consider when examining an industry where key players are involved in most of the economic activities. As shown in Table 7.2, more than 68% of the participants spent more than 10 years in the banking sector and, specifically, more than half the participants had banking experience of 10 to 29 years. This reflects the sound knowledge of the issues that concern the banking industry.
Table 7.2 Years of experience of the study participants

<table>
<thead>
<tr>
<th>Years of experience</th>
<th>No. of participants</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 10 years</td>
<td>4</td>
<td>18</td>
</tr>
<tr>
<td>10-19 years</td>
<td>7</td>
<td>32</td>
</tr>
<tr>
<td>20-29 years</td>
<td>5</td>
<td>23</td>
</tr>
<tr>
<td>30-39 years</td>
<td>2</td>
<td>9</td>
</tr>
<tr>
<td>40 years or more</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>Not mentioned</td>
<td>3</td>
<td>14</td>
</tr>
<tr>
<td>Total</td>
<td>22</td>
<td></td>
</tr>
</tbody>
</table>

In contrast with the initial impression taken from Tables 7.1 and 7.2, the results of the content analysis demonstrate a low level of CSED use by Libyan banks in terms of quality and quantity, and demonstrate a decrease in the level of importance since 2007. This stresses the need for investigating managers’ perceptions of CSED, and what factors influence these perceptions.

7.2.1 Managers’ perceptions of CSED, and what factors influence these perceptions

There are several factors that are expected to influence the attitude of managers to CSED. For the sake of obtaining a deeper understanding of these factors, they were broken down into two groups: (a) factors relating to the bank itself, its executive management and internal environment, and (b) external factors that influence directly or indirectly the attitudes of management toward CSED.

First group: Internal factors affecting CSED practices

I. Managers’ perceptions of the role and goals of banks
II. Lack of knowledge about CSED
III. Accounting systems and accountants
IV. Benefit of CSED
V. Cost–benefit and financial ability
VI. Negative information
VII. Summarizing the report
VIII. Managerial ownership
IX. Time devoted to social and environmental issues
X. Routine and small contributions

I. Managers’ perceptions of the role and goals of banks

Managers were initially asked to identify their bank’s goals, and whether these included social and environmental concerns. The majority of respondents (more than 88%) stated
that maximizing profit was the main goal of their bank. Some of them did not even consider any other goal than that of achieving profit. One manager stated, “Banks are financial institutions…in regard to social roles, I do not believe this is the role of banks. If banks started to play such role, its main role (financial role) would be lost”.

The deeming of profit as the prime goal of banks was supported by the chairman of one bank, who stressed:

In fact, all banks work to maximize shareholders’ wealth …shareholders (are) in first place. Even other stakeholders, the management may not pay much attention to them. (As such) the profitability is the most important thing.

Initially, a member of the board of directors in another bank expressed a different view. He argued:

Of course, profit is one of our goals, but we participate in the economic and social development of the country. In terms of social responsibility, the banks has participated in some activities such as financing some conferences and national celebrations…we opened branches in new regions even though some of which are not profitable, It is just because we want to provide residents with banking services.

However, he summarised his viewpoint by emphasising the importance of maximizing profits:

From the perspective of board directors of the bank, we work to achieve something essential, and that is maximizing profit, but at the same time we have social responsibilities to fulfil.

Notwithstanding that maximising profit was generally emphasised as the main goal of banks, some specific points can be identified in respondents’ answers. For example, three respondents asserted one precondition before considering social goals, and this was to primarily achieve reasonable profits. One manager stated, “Before you provide social contribution, you have to be a successful economic organisation…and even then, your contribution should not affect interest of your shareholders”. He proceeded to explain, “What we are going to provide the community with will not go for nothing. It is considered to be advertisement expenses (for enhancing the bank reputation)”. This comment emphasises that profit it not only a precondition for conducting social activities and disclosing some information on this aspect, but also the ultimate intended result for conducting such activities. The viewpoint expressed here seems to be in line with the attitudes of financial analysts demonstrated by Coram et al. (2011). In this
study, it was found that financial analysts used nonfinancial performance indicators (including indicators of learning and growth, such as hours of employee training per employee) in their evaluation, but on the condition that financial information must reflect a positive trend. Another interviewee, while acknowledging that banks should participate in resolving social problems, believed that this contribution would be acceptable only when the country was poor or when the government failed to carry out its duty. He stated:

We all know that the previous government (previous regime) did not care much about [the] health sector. If we participated in sponsoring anti-cancer tumours foundation, for example, I do not think that shareholders would mind, because some of them might have some relatives (suffering from such diseases). But, after 17 February it would not be acceptable. This country is rich. After some years (let us say five years) I do not think that such foundations will exist. Otherwise (if they are still exist), this will be a big disaster.

Some interest in goals other than profit was expressed by some participants. For example, one manager indicated,

…our vision is to be a successful bank, to spread our services throughout the country, and to satisfy our customers as much as we can…achieving profits is not our main goal; rather, customer satisfaction and serving our country (are our priority).

But surprisingly, in the same breath, the manager concluded his interview by saying, “Of course, we intend to achieve profit from doing such things, no doubt”.

In some cases, answers reflected a difference, if not a contradiction, between the personal beliefs of some managers and the profit culture of their banks. One participant said,

…forget about my job, I do not like those institutions, which confine everything on their own interest, even on the expanse of human…Ok. Fine, (you can) focus on achieving profits, but you have to have your share in helping society in solving some problems such as unemployment.

He finished his statement by admitting, “Of course, this is my personal belief even though it is not implemented…all institutions seek to achieve as much profit as possible”.

Not surprisingly, the only two banks that claimed that profit definitely was not their primary target were the two specialised banks. One of their managers summarised the task of his bank saying,
Our bank pursues to accomplish the sustainable development in the country. We are one of the state’s tools to build suitable environment for local and foreign investment, providing services for citizens and creating job opportunities…the goal of our bank is a noble and great goal.

The finance manager of the other bank supported this view and confirmed that it was also applicable in the case of his bank. He stated,

Our bank completely does not aim at achieving profits...its goal is to develop [the] agriculture sector. We have contributed in financing agricultural housing over the period 2005-2008, to that extent when, in some point, we could not find anyone seeking a loan. We cannot be compared to commercial banks, which their main concern is to achieve profits. They see their customer as a chance to do so, while we see him as a chance to provide a help.

The manager alluded to the reason for such different views by continuing, “When your capital is provided 100% by the state, you do not find anything concerns you, or making a pressure on you to chase the profit”. It is obvious that the key explanation for the attitudes of specialised banks is that their existence does not rely on the profit motive. As such, they are free of pressure and, subsequently, can focus on other issues.

Confirming this argument, some participants attributed the focus on profits to private ownership. One manager explained:

Because you have businessmen (shareholders) with you, they do not support opening branches in remote areas to achieve social goals. We cannot take any step unless we get something in return…The goal of private banks is to achieve profit, while public banks have (additionally) social goals as well.

However, it can be noted from the above that even though there was an emphasis on maximizing shareholders’ wealth, this trend seemed to create an interest in some social responsibilities. Achieving profits cannot be done without paying significant attention to employees and customers. For example, many participants highlighted their banks’ efforts in serving their employees, supporting them in issues of health and education, and enhancing their working conditions. One manager pointed out that,

In regard to educating our employees, we feel responsible to our employees. We respond and help those employees who want to raise their educational levels, by covering the cost of their study. We also cover the cost of health treatment of our staff.
Another manager mentioned, “We give loans to our employees, with value reaches LYD 100,000 for each loan, 60% of it without interest, and just 1% on the remaining amount”. Another stated, “We paid much attention at training issue to qualify our staff”.

These comments are in line with the results of the content analysis implemented in this study, where the human resources category received the attention of all Libyan banks in all of their annual reports. The percentage of human resources disclosure, compared to the other categories, was the highest in all years from 2005 to 2010. This was also demonstrated in other studies, such as those of Mashat (2005) and Elmogla (2009). However, the reason for such interest was motivated mostly by banks’ desire to achieve more profit. One manager stated, “The employee is everything (to us). We should take care of the one who cause the bank to move (forward)”. Another manager, in explaining why banks focus on their employees, said: “To create employees’ loyalty towards their banks. This will result in employment satisfaction, and will be reflected in the performance of the employees and job quality”. Another participant added, “And then, your customers will be satisfied with your services”. A deputy director general agreed with this, saying, “Any successful institution should take care of its employees…we want our employees to be satisfied in every aspect, so their goal will be serving the customers and providing the best service”. Regarding the responsibility to customers, he emphasised the importance of customers to banks: “The rule that we learned, as bankers, is that your customer is always right…because you need him…This rule is right. Without customers I would not be sitting here in the bank”.

The above discussion confirms the findings of O'Dwyer (2003), who investigated the attitudes of Irish managers to social responsibilities. He stated that “Economic self-interest was deemed the primary motivation fuelling the recognition of social responsibilities among the managers” (2003, p. 532). The results of Al-Khater and Naser’s (2003) study underscored the importance of economic performance, rather than social performance, as a goal of companies.

However, the deputy director general made an important point. He went further to make a comparison between banks in the public sector and private banks. He mentioned the poor quality of the services provided to customers by public banks, since these banks are not concerned about costs. He stated that customers’ satisfaction does not matter to public banks, and is not considered as a reason for their existence. He pointed to the issue that caused the services to become sub-standard:
By law, all employees’ salaries in all sectors are deposited in banks, and many times this process happened very late...This causes overcrowding in the banks...We (banks) became like agencies for distributing salaries...do you know what cause the service quality to be poor? It is the overcrowding of those employees who came to withdraw their salaries. No more than that.

This view may provide an explanation, to some extent, for the low level of customer-related disclosure. Apart from the issue of public ownership and its supposed impact on service quality, it is reasonable to assume that banks would not disclose negative information on the quality of their services, especially anything that resulted from mismanagement by other parties. Moreover, bank employees might not see the majority who come to banks solely to withdraw their salaries as real customers. These customers come to banks because they have to come, and they conduct only one transaction: withdrawing salaries. Such cases may not motivate the banks and their employees to pay much attention to this type of customer. As a result, there was little disclosure made on this type of situation.

Apart from that, the interest of banks in the environment and society involvement, in contrast to the case of employees and customers, was absent or negligible. This is consistent with the results of the content analysis, which confirmed that community involvement and environmental issues received less attention from Libyan banks.

One manager mentioned the participation of his bank in sponsoring conferences and supporting various universities’ activities, but he described these efforts as “not that big participations”. When he was asked if the bank had a responsibility to the environment, his comment was: “The topic of environment is very important”. Another manager listed some social activities his bank was involved in, such as planting a garden near the bank building and putting speed bumps in roads to reduce car accidents, but said nothing about the interaction of the bank with the environment. Another participant admitted that his bank had neither social initiatives, nor consideration for environmental issues. A deputy director general, who stressed the importance of employees and customers to the bank, commented on responsibilities to the community by saying,

Originally, it is [the] responsibility of ministries and their affiliates...but in regard to donations (for example) each bank should have budget for it when its activities expands in the region, and of course, it (donation activity) is used as a kind of advertisement (enhancing the bank name).
One manager stated, in reference to the environment issue, “I do not see that impact... I do not believe that banking activities impact (negatively) on environment”. He added an important addendum: “Environment, on the other hand, does not affect bank’s activities”. This seems to be the key to understanding the low attention given by banks to the environment and society. These two subjects, unlike employees and customers, have no direct and clear relationship with the profitability goal of banks. In less developed countries—whose societies are largely unaware of the supposed role of corporations in environmental and social issues—it is unlikely that such subjects will be on the agenda of local corporations.

The above discussion represents the first possible reason for the low level of CSED in the annual reports of Libyan banks. Managers’ perceptions of social responsibility, which obviously reflected banks’ culture in this regard, have influenced the role of banks in this issue and caused it to be weak. Managers generally believed that achieving profits was the prime goal of the banks. As such, they focused on maximizing profits, ignored environmental and society issues, and paid some attention to employees and customers for financial reasons only. As a result, when there were few social and environmental activities conducted by banks, there was little information to disclose on these activities. As one manager stated, regarding not disclosing information on the role of the bank in the environment, “In fact, we did not fulfil that role, so we have nothing to disclose”.

It is reasonable now to turn to the opposite case, where there were social and environmental activities, but where little or no information was disclosed. About 76% of the managers interviewed confirmed that their banks had been involved in some social and environmental activities, but that they had not disclosed information on these activities. Several reasons for this non-disclosure were suggested by the interviewees, and these will be discussed next.

II. Lack of Knowledge of CSED

Around 47% of the managers interviewed candidly admitted that they knew little about CSED. One manager said, “You are the first person to talk to me about this subject...This matter has never ever come across my mind”. Another manager stated,

The importance of social and environmental disclosure was absent from my mind...I have benefited from this interview...yes you are right, why we do not disclose on things we have already done? If we have done that it would have had a positive impact on the bank.

Another manager confirmed,
I think one reason (for not disclosing social and environmental information) is that we do not know that this information is important to be disclosed. If we have known it is important for the information users we would have disclosed this information.

Another manager, who prepared the annual reports of his bank for the years 2008, 2009, and 2010, admitted: “I did not know that we should disclose social and environmental information…and I (now) see that it is important even on the national level”. Interestingly, these three reports included social information. Thus, the problem seems to be the lack of information on the issue, rather than an unwillingness to disclose such information. What confirms this possibility is that the manager stated that after this interview he intended to take the issue into consideration in the next disclosure process—which he did. The main page of the website for his bank, unlike the web pages of other Libyan banks, included information under the title “Social responsibility”. This case confirms the study results of Belal and Cooper (2007), which demonstrated that lack of knowledge and awareness is a reason for the very low level of disclosure about issues relating to child labour, equal opportunities and poverty alleviation. The researchers pointed out that such finding is more relevant to the case of developing countries, where managers need training programs to arm them with the necessary knowledge and skills in order to implement, and succeed in, social and environmental activities. Other studies (such as those of Al-Khater & Naser, 2003; Lungu et al., 2009) reached the same conclusion. This gives support to the institutional (Normative isomorphism) theory as an explanatory theory for the low level of CSED. Amran and Devi (2008) mentioned education, universities, training centres, professional networks, and professional associations as major factors in creating normative pressure. Such pressure influences organisations’ attitudes and behaviour.

**III. Accounting system and accountants**

There was division on the issue of whether information systems are to blame for the limited capacity to produce social and environmental disclosure. Almost half the interviewees were convinced that the accounting information system applied in their banks was designed to produce only financial information, and that this reduced their ability to produce social and environmental information. One manager indicated that “the financial system we use is prepared to produce financial reports, not environmental and social disclosure”. Another manager agreed but admitted, “Financial information includes some environmental and social information although in implicit form”.
The other group did not believe the existing information system to be an obstacle. One of the managers strongly contended, “It is a lame excuse. Accounting system is flexible, and it is possible to produce this kind of information (social and environmental information)”. Another manager added, “We can make some modifications (to the system) to ensure producing such information. It is not a big deal”.

Regarding the qualifications of accounting staff in Libyan banks, in 12 banks there was no employee at the time of the interviews who possessed a Master’s degree in accounting. This can explain the lack of knowledge about CSED. Mashat (2005) and Elmogla (2009) mentioned that educational curriculums of Libyan universities did not include topics related to CSED. This confirms the study results of Al-Khater and Naser (2003) that one of the possible reasons for not disclosing corporate social information is a lack of knowledge available in companies regarding this kind of information.

When the question was posed whether there was a need to train departmental staff on how social and environmental information should be prepared and presented, more than 82% of the managers interviewed agreed that they needed this capability. One of them stated, “Even me, I need some training on it”. Other manager said, “Lack of training on CSED had a major role in the absence of CSED in annual reports”. Another manager agreed: “I see that our staff is in need for training on such kind of disclosure”. Another manager stated, “We need training on how such information can be incorporated in the annual report, and how it can be presented in a beneficial way for the reader of the annual report”. This is in line with the suggestion of Belal and Cooper (2007) that there is a need for training programs to impart the necessary knowledge and skills in organisations in order to implement, and succeed in, social and environmental activities.

Once again, this case lends support to the institutional (Normative isomorphism) theory as an explanatory theory for the low level of CSED. As Amran and Devi (2008) mentioned, education, universities, training centres, professional networks, and professional associations are major factors in creating normative pressure, and such pressure influences organisations’ attitudes and behaviour.

IV. Benefit of CSED

It is worth mentioning that no respondent indicated that there was a need for such training at that point in time. One manager explicitly stated, “In the future, it is possible to run training programs for the staff about social and environmental disclosure”. This could lead to the conclusion that such an issue was not considered urgent from the perspective of managers. As such, a question was directed to the participants about
whether they thought that the continuation of the bank in the market would be affected by the absence of this type of disclosure, and whether they saw any benefits in providing social and environmental information.

Although possible benefits were suggested by some managers—benefits such as increasing trust of information users and enhancing the bank’s image (which is consistent with the results of many studies, including those by Haniffa and Cooke (2005) and Sobhani et al. (2009)—no one claimed that the continuation of the bank in the market could be affected, even to a small degree, by the absence of such disclosure. Additionally, 24% believed that it had no benefit at all. However, some managers, whose banks had no experience with foreign investors, thought that CSED might attract those investors. One manager whose bank had a partnership with a foreign bank, shared this expectation by saying,

I assume so... because when they (foreign investors) find the reports and disclosure practices (of Libyan banks) relatively similar to their reports, this will lead them to infer that there is an agreement in the ideas and policies.

However, other managers whose banks had foreign shareholders disagreed with the assumption. For example, one manager said,

We already have a foreign investor. What attracted him is solvency ratios (of the bank). He did his own research on the bank investments and its growth possibility… he was not attracted to employees’ related disclosure for example…if the investments were not promising he would not seek a partnership.

V. Cost-benefit and financial ability

As mentioned in the literature review, the issue of whether disclosing information is economically a right decision is one of the three main research problems in the academic field (Hossain & Reaz, 2007), and the cost of such information is suggested to affect corporate disclosure (Cormier & Magnan, 1999). As such, managers were asked if this was applicable in the case of Libyan banks. Of the managers, 59% did not agree with the suggestion that banks did not disclose because the cost might outweigh the benefit of CSED. One manager indicated that the social and financial returns resulting from providing CSED outweighed its cost. Another stated, “Many financial and nonfinancial benefits will result from enhancing the bank reputation (by CSED) in the long term”.

In contrast, some managers expressed their personal conviction that the cost of CSED might limit the desire for producing such disclosure. One manager mentioned the cost
that might result from disclosing negative news, while another participant asserted that ‘the cost is not only money…it is time as well…” Another manager emphasised the difference between private banks and public banks in this regard. He said,

Yes. It (CSED) is unnecessary cost… As private banks, we focus on the idea of achieving as much profit as possible. We are not like the public sector, which can decide to produce such disclosure and spend money on it…in the private business; any work done by employees should result in increasing the benefit of the bank.

Such concern regarding cost was also found in the study by Al-Khater and Naser (2003) and Hossain and Reaz (2007).

The above point raised the prospect that the financial capacity of banks might impose restrictions on conducting social and environmental activities and the subsequent disclosure of information on these activities. A question was posed in this regard, and there was almost consensus that banks were capable of doing so. One manager recalled, “Even small banks are able to do so. How much will it cost you? (will it cost) one million?” Another manager stated, “Each bank can do what suits his ability”. A third manager commented,

Banks can conduct low cost activities, which can reflect banks’ interest in social responsibility. For example, they can put banners or signs bearing tips (to reduce the speed or take care of the environment etc.) This is not costly.

These comments show that banks can express their interest, at least in the environment and society (the most neglected categories of CSED), by conducting simple and low cost activities and, as such, financial capability is not likely to be a compelling reason for not fulfilling some social responsibility and disclosing information on it.

VI. Negative information

The above discussion was generally conducted under the assumption that the information that was disclosed, or was intended to be disclosed, was positive—or at least neutral. Merkl-Davies and Brennan (2007) and Cho et al. (2010) argued that positive information in particular is more likely to be released, while unfavourable information tends to be ignored in order to shape the impression of information users in a way that serves firms’ interests. Conversely, Ahmad (2004) found that Libyan industrial companies disclosed some negative news. Also, the result of content analysis implemented in this study revealed that little negative information was disclosed in some annual reports. Thus, it was of interest to investigate the attitude of Libyan managers in respect to disclosing negative information. Around 53% of the managers
interviewed mentioned that they would not disclose any negative news in their annual reports. One manager said, “We do not want to show shortcomings in the bank”. Another stated, “We will fix the problem without talking about it…disclosing negative news might cause consternation to our customers”. Another manager indicated that he would disclose such information only “if it was addressed in [an] effective and impressive way, then we talk about it and emphasise our effort in doing so”. One manager was very explicit:

Suppose we granted a loan to an industrial company which cause a contamination to the environment, we would not disclose on that. If there were complaints from our customers, we would not disclose on that. If there were fines and penalties because we violate some legislations we would not disclose on that. We do not want to discredit the bank's reputation.

This fear of damaging the bank’s reputation was also demonstrated in a the study by Belal and Cooper (2007), who found that avoiding a bad reputation (resulting from negative news released) was a major reason for not disclosing information on issues of child labour, equal opportunities and poverty alleviation.

On the other hand, some managers did not find a problem with disclosing negative news. In fact, some of them considered such information as a chance to gain some benefits. One manager indicated that:

...by disclosing information, on customers’ complaints for example, we create a kind of credibility, and at the same time we get a chance to justify that failure and provide some excuses. It is not wise to escape from bearing the responsibility when you have compelling reasons.

Another manager explained further:

It is not reasonable that the bank has no negative aspects. In this case, information users might think that there is some hidden information. Disclosing negative news needs courage…without getting customers trust you will get nothing.

This view confirms the point argued by Cormier and Magnan (2003a) that providing information that is inclined to be too positive, self-serving and selective may be deemed as too risky, in that it might lead investors to regard such information as unreliable.

In this context, it might be worth remembering the point mentioned earlier about the case of the late depositing of citizens’ salaries in their bank accounts. Libyan banks may be unwilling to disclose information on bad quality services that have resulted from
mismanagement by other parties. When mismanagement by government or any of its agencies, ministries or institutions affects directly or indirectly the relationship between banks and their employees, customers, society and the environment, it is expected and understood that banks need not claim responsibility for the result of others’ actions.

Another point regarding negative news is that the term negative can be defined in different ways. Sometimes the news itself is not negative, but it may be considered negative by some information users due to their culture or personalities. In the case of Libyan banks, there was a case when shareholders complained about the financial rewards given by the management to the employees. The manager stated, “In the next ordinary shareholders meeting, the shareholders asked: ‘Who gave you the right to do so? We are the one who has the priority to this money’ (the financial rewards given to the employees)”.

In response to such reasoning, managers might avoid disclosing some information just because the mentality of some shareholders might mean they do not comprehend the necessity and benefit of those actions in the long term. One of the managers indicated that:

> In the annual report, when it is displayed on shareholders in ordinary shareholders meeting, we do not disclose everything, so no (unwanted) questions will be raised in the meeting, because any information you disclose is a subject for questioning.

Another manager said,

> We make such expenses (on social and environmental activities) implicit in general expenses…disclosing such information may cause trouble to me, due to lack knowledge of the information user about these matters.

**VII. Summarizing the report**

Some managers expressed the view that incorporating CSED into annual reports might render them congested with unnecessary information—a matter that might cause the reader to ignore the whole report. As such, they choose to sacrifice the CSED. One manager was of the opinion that:

> When I provide you with brief and beneficial report you will read it, but if I give you a folder, full of information, you will not read it. Preparing the report in details (including CSED) needs a folder... the shareholder might not find time to read it. If he read it he will open the page of profits and loses just to know the amount of the profit, but if the report is small in size he will devote half an hour for it with a cup of coffee.
Other manager stated, “If I provide you with details, you will feel bored…I agree with you that there is a deficiency in this side (CSED) but that was for the benefit of the report”. This resonates with what was recorded in the study by Thompson and Cowton (2004, p. 214), who stated, “It was felt that ambitious disclosure…could result in the annual report becoming congested with environmental information, thereby distracting the users from more pertinent matters (as they might perceive them)”.

**VIII. Managerial ownership**

It has been argued by many researchers (such as Belal & Cooper, 2007; Guthrie & Parker, 1990) that low employment of CSED may be seen as a wilful action to serve the interests of powerful stakeholders, such as shareholders and managers. The studies by Ruland et al. (1990) and Eng and Mak (2003) demonstrated the negative relationship between the level of CSED and managerial ownership. It can be argued that ownership of shares in a bank by its management will not motivate the bank to disclose CSED for two reasons. First, the managers already know everything relating to their bank. As such, there is no information gap to fill by such kind of disclosure. Second, owning shares may motivate decision makers to limit the role of the bank (and the cost of this role) in the environment and society—and CSED as a result. This argument can also be applied in the case where there are shares owned by members of the board of directors and the employees, especially in the case where the culture of maximizing profit is the dominant culture. In the case of Libyan banks, managers, members of the board or employees, of 11 (out of 17) Libyan banks, do own shares in their banks. Based on the fact that this study identified other possible reasons for low levels of CSED being employed by Libyan banks, this may not be the major reason for low levels of CSED—but the possibility is clear.

**IX. Time devoted to social and environmental issues**

For banks that concentrate on maximizing shareholders’ wealth, it is expected that managers’ time will be devoted to financial issues only. In order to have some attention paid to social and environmental issues and related disclosure, time needs to be dedicated to these issues. Cormier and Magnan (2003a) suggested extending the time dedicated by managers in discussing environmental issues related to firms’ activities. In Libyan banks, just four managers indicated that they spent some time discussing issues other than financial ones. Many others claimed that they hardly had time for their usual financial work. One manager stressed that “our daily work is too much and constant. Even the time dedicated for routine work is not enough. Sometimes we had to work extra hours just to finish the required financial work”.

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X. Routine and small contributions

One manager pointed to the issue of routine as another reason for not producing CSED at an acceptable level. He stated: “Preparation of reports routinely are still rooted in our work style…we change the numbers (of the previous report) only”. In this case, as Cormier and Magnan (2003a) mentioned, the same information is potentially produced each year, regardless of changes in circumstances of both firms and information users; and the opportunity of using disclosure as a tool for creating value is likely to be missed. Another manager drew attention to another possible reason for not disclosing social and environmental information. He said, “Sometimes we sponsored some seminars but we did not disclose information on that because the cost was not that much”.

Second group: External factors affecting CSED practices

These factors include those that affect bank management’s attitude and ability to produce social and environmental information at an acceptable level. These factors can be broken down into the following:

I. External auditing
II. CSED standards and the role of professional organizations
III. Mandatory disclosure
IV. The attitudes of other banks
V. Public awareness
VI. Demand for CSED
VII. Education
VIII. Pressure of civil society organisations

I. External auditing

Auditing services have become essential in business and the money market—which depends heavily on information disclosed by companies. Information users need a third party to confirm the credibility of the information included in annual reports. The quality of economic decisions such as investment decisions depends, to a large extent, on the trustworthiness of the information provided to decision makers. The absence of auditing services might cause the annual reports to be overlooked by information users, and preparers of this information are likely to lose their desire to produce these reports. As such, it is assumed that CSED, just like financial information, may need to be audited by an external party in order to be taken seriously by the preparers of the annual reports and the potential users alike. Thus, in order to understand the reasons for low
levels of CSED provided by Libyan banks, managers were asked whether external auditors pay attention to this kind of information and whether there is a need for their services.

Managers indicated that external auditors were interested only in financial information, and the issue of CSED had not previously been raised by them. The finance manager, deputy general manager and a chairman of a board of directors agreed on this fact. The other member of the board of directors blamed the bank for not asking the auditor to review non-financial information. On the other hand, one manager doubted whether the external auditor himself was familiar with this information. While two managers believed that the absence of an auditor role in this issue could be an additional reason for the absence of CSED, two others did not believe so. In line with that, another manager expressed his view that other relevant parties could help instead, such as employees’ unions in regard to employee-related disclosure, environmental authorities regarding environmental issues, and consumer protection associations regarding customer related disclosure. One manager neglected completely the need for auditing such information, and commented, “If the bank is waiting for its customers to trust the information disclosed (to them), it will not start. It has to start (publishing CSED) to create the trust with time. It has to take the initiative”.

This division on the need or otherwise for auditing CSED, may reflect the impact of other issues. It is obvious that using auditing services is motivated by the demand of information users—not information providers. As such, issues like whether there are regulations regarding, or demand for, CSED, and if there are standards for preparing such disclosure, may explain this division on the auditing issue in regard to CSED. For example, Simnett et al. (2009) confirmed that assurance services provided by auditors were required more in those countries that have a strong legal system.

II. CSED standards and the role of professional organizations
Development of accounting objectives and practices are both influenced by the accounting profession (Radebaugh, 1975). However, the accounting profession in Libya, according to the participants in the interviews undertaken in this study, seems to be far from having such influence.

There was a consensus amongst all managers that there were no local standards applying to CSED—or even standards of financial disclosure—and no role for the Libyan Union of Accountants and Auditors or Libyan Banks Association in this regard. One manager said,
This is a cause (for the absence of CSED). If there is not standard, you do not know whether your work is right or wrong…I do not know how to provide such disclosure and how I can measure it. The standard for CSED should be put first, and in light of this standard I will provide my report.

Another manager stated,

Libyan Union of Accountants and Auditors should play a role. It should spread the awareness (regarding the issue of CSED). Unfortunately, it did not even issue local (financial) accounting standards. This is its role. It should represent the source of accounting expertise.

A third manager added:

Libyan Banks Association as well should have a role in this subject (CSED). We are members of this association, and we buy their leaflets and publications. They should talk about this type of disclosure.

The interviewees in the second group agreed totally that the Libyan Union of Accountants and Auditors did not play any role, not just in CSED, but also in the accounting profession generally. A chairman of a board of directors went on to state: “In reality we have no such organisation”, while the deputy general manager made a strong statement when he said, “It is dead”.

This gives support to the institutional (Normative isomorphism) theory as an explanatory theory for the low level of CSED. Amran and Devi (2008) mentioned professional associations as one of major factors in creating normative pressure. Such pressure influences organisations’ attitudes and behaviour. Islam (2009, p. 69) gives a good example of such influence: he states that “the practices of accounting departments in different firms are not determined by the management of those firms but rather the standards and norms of the accounting profession”. Fogarty (1996, p. 248), emphasising the importance of accounting bodies in the US, stated that “Ample evidence exists to establish that accounting regulatory agendas in the US reflect a dynamic body of external expectations”.

III. Mandatory disclosure

The existence of standards or guidelines for disclosure practices may not necessarily guarantee their implementation. As such, there has long been a discussion in the literature about whether CSED should be voluntary or mandatory. In the case of Libyan banks, about 71% of participants agree that CSED should be mandatory. Some
managers attributed this preference to the Libyan context. For example, one manager argued, “In Libya, CSED should be mandatory not voluntary, because if it is voluntary no one will provide it”. Another manager explained: “This is the way we know, if there is no compulsion, there will be disregarded. This is the problem”. The interviewees in the second group also agreed that CSED should be mandatory. A member of a directors’ board said, “You know our environment. You must force things if you want them to be done”. A deputy general manager explained: “If they are not compulsory by law, the financial statements themselves would not be produced”. Many studies, including those by Imam (2000), Cormier and Magnan (2003a), and Belal and Cooper (2007) support the idea of mandating CSED. Deegan et al. (2002, p. 335) argued that “higher levels of disclosure will only occur when community concerns are aroused, or alternatively, until such time that specific regulation is introduced to eliminate managements’ disclosure discretion”.

Even so, some managers were in favour of giving banks time to become familiar with this type of disclosure before forcing them to provide it. A manger explained: “Just like the international standards, give time to banks to be prepared to implement what you ask them to do”. In contrast, two managers preferred CSED to be voluntary. One of them stated, “Do not impose it on us. Our limited financial and human possibilities might not allow us to do it”.

IV. The attitudes of other banks
The behaviour of banks is affected by the dominant culture in the banking sector. Banks, as well as other companies, tend to imitate each other—especially in the case of uncertainty regarding new issues about which they have little knowledge. Imitation behaviour can also be argued to be a determinant of disclosure level; as Cormier and Magnan (2003a) argued, firms' managers, in producing environmental information, keep their eyes on the level of disclosures made by their counterparts to ensure that they are all on the same page.

Managers were asked if they would consider producing CSED if other banks started doing so. About 70% of them agreed that they would adjust their attitudes to be congruent with this change. One manager expressed his attitude as follows: “If we find other banks produce social and environmental information we will try to do so, and even better than them”. Another manager said,
I enjoy reading the annual reports of other banks. I compare them with our annual reports to detect weakness points in our reports, including those related to disclosure issue, in order to remedy these points.

Another manager made it very clear by stating: “If I see any bank provide (such) reports, I will try to imitate him, even if I was not asked to do so”. This attitude was supported by a member of a board of directors and a deputy general manager.

This kind of behaviour provides some explanation for CSED practices in Libyan banks, and lends support to institutional theory, which focuses on institutional isomorphism. Mimetic isomorphism, one of the three mechanisms in achieving institutional isomorphism, occurs when a company imitates another company when there is uncertainty in the surrounding environment. As mentioned in Chapter 4, this behaviour might lead to some kind of routine. A company moves from imitating others to imitating itself; that is, repeating its own practices (accounting practices, for example) which have been applied in prior years. It seems safe for some companies to stick with what they know and have experienced, rather than applying new practices, especially where there is a low level of demand for such practices. As one manager stated,

You find those who say as long as no one ask for such disclosure, why do I bother myself?.. Why do I waste my time as long as the report is a routine process?

However, one manager did not support this behaviour, and believed that “the bank should have initiative”. This view was supported by a member of a board of directors and a finance manager. Another manager indicated that he would consider such disclosure if the new practices served the interest of the bank. He added, “If disclosing this information (social and environmental information) is in the interest of my bank I will do it”. Of course, the word interest can be interpreted in many ways. A bank’s interest might not be in line with the interest of society, the environment, or even some of its stakeholders.

V. Public awareness

The next logical step is to go beyond the circle of the banking community, and ask about society itself and its awareness regarding the issue in question. Managers were asked whether they believed that Libyan society was interested in issues of the environment, employees, customers and community involvement. All respondents were in agreement that such social and environmental issues and the related information were absent in Libyan society. One manager expressed his belief that,
In regard to Libyan community, I believe that there is no demand (for CSED). We have not reached that point yet. The society culture has not comprehended the idea that there is a social and environmental role for banks, not to mention social and environmental disclosure, especially the environmental issues.

Another manager pointed out that the awareness level was very simple, and people in general were just like shareholders and banks—wanting the maximum possible profit.

They do not consider the environment and similar things…even at the individual level the person confines his care on his own house, and does not extend his interest and care to the street and the region where he lives.

Care for others and the surrounding environment seemed to be absent. The other participants, members of boards’ directors, the deputy general manager and the finance manager, agreed with the managers regarding the awareness level of society in respect to this issue.

Regarding the information itself, there was a consensus that CSED was not required by society or organisations. One manager challenged the researcher saying,

Bring me 10 people, or let us say 100 people, and give them the annual report, and see what each one of them is going to read… If they were very interested they will read the financial side of the report: how much money was spent, how much profit was achieved. This is the maximum can be reached. How many people, for example, will read that part of accounting policies implemented in the bank? If it was read by one person or two, this would be considered an achievement. So what do you expect about social and environmental information?

This case gives support to stakeholder theory as an explanatory theory in this specific point. The demand of powerful stakeholders (such as Central Bank of Libya, shareholders and boards directors) for financial information (not social and environmental information) was met by those who prepare and publish the annual reports.

However, some managers kept their faith that things could change in Libyan society to reach that level of awareness regarding social and environmental issues and the related information, and thus improve CSED practices. One manager said,

Absence of demand for CSED does not mean that we should leave it. We should start and take steps forward. We should include CSED in our annual reports even in a simple way…even in one page… By time others will follow.
Other manager emphasised,

I am not convinced that the absence of demand for this type of disclosure (CSED) should be an excuse for not disclosing. Do you ask poets to not write poetry because some people are not interested in [it]? It is right that there is no big number, but always there is someone who reads. In the Arab world it is well known that readers are very few. So it is a common case, and not just in banks. The bank should respect all (its stakeholders) even if there is only one reader. That is why I personally consider it lame excuse to say that there is no demand for such information or there is no one who read what we write. Accounting has a social side. The contribution of the bank in serving society and employees definitely has an impact. Maybe ordinary people do not understand but even if the interest in such information is absent for the time being, it should exist in future. PhD theses and articles emphasise that banks and other firms should have a role in the society.

Nonetheless, for the time being, the absence of public awareness about social and environmental issues and their related information is likely to be one of the main causes of low levels of CSED. Deegan et al. (2002, p. 335), in the conclusion of their study, stated: “Higher levels of disclosure will only occur when community concerns are aroused, or alternatively, until such time that specific regulation is introduced to eliminate managements’ disclosure discretion”. Deegan and Gordon (1996) established in their study that there was a significant increase in environmental disclosure, and argued that such increase can be seen as a result of an increase in awareness by society pertaining to environmental issues. Haniffa and Cooke (2005) confirmed the arguments of those researchers and pointed to societal awareness as one of the reasons explaining the increased level of corporate social disclosure. One of the explanations for the positive impact of awareness by society regarding social and environmental issues and social and environmental disclosure practices is that such awareness has an impact on the effectiveness of stakeholders’ role in regard to CSED. Van der Laan Smith et al. (2005, p. 132) argued that if “a society [is] concerned with social issues, we argue stakeholder groups will have more power, possess greater legitimacy, and have their claims viewed with greater urgency.” As such, the next point is to discuss the demand of some powerful stakeholders. If the argument of Van der Laan Smith and his colleagues is true, it is expected from the beginning that there is no demand or powerful role played in regard to the issue of CSED.

**VI. Demand for CSED**

The chairman of one bank highlighted an important point about CSED. He said,
Who ask for it? It should be someone wants this information, and this one should be important to me. If his satisfaction is not important to me why should I care? The important demand is that which comes from the investors who buy your shares (shareholders). This is what I care about, because whenever the demand for shares increases, the price increases and this is a good indicator of management quality. This is what I care about. Otherwise, why I should care if the citizen knows that I publish (social and environmental) information. He already does not care, even if I publish it. (The question is) who wants this information? This is the most important thing.

The participant mentioned two conditions for producing CSED: first, a demand for this disclosure should exist; second, this demand should be made by powerful stakeholders who, in his opinion, are the shareholders. This is actually the focus of stakeholder theory (managerial branch). The study by Belal and Owen (2007) confirmed that social disclosure made by Bangladeshi firms was in response to pressure by powerful stakeholder groups. As such, it is reasonable to investigate the attitude of those who are considered powerful amongst the stakeholders to the issue of CSED.

The Central Bank of Libya is one of those powerful stakeholders for two reasons. First, it is the biggest owner of the banking sector over decades, and although it has sold some of its shares since 2007, it still owns the biggest banks in the sector. Second, it is the regulator, constructor, and controller of the banking sector. Consequently, the managers were asked if there was a demand or directives from the Central Bank regarding CSED. There was unanimity that this information had not been requested by the Central Bank of Libya. Managers indicated that they were asked to provide the Central Bank with financial information only. This was deemed to be an indication of what was considered important by the highest authority in the banking sector. One manager stressed that:

If Central Bank of Libya does not demand this kind of disclosure, I will deemed it (CSED) an unimportant work…and instead of wasting my time on something unwanted, let me focus on something required by Central Bank of Libya (financial information) and try to be good at it.

This absence of CSED from the agenda of the Central Bank of Libya can be seen as a main cause for the low level of CSED produced by Libyan banks. The study by Sobhani et al. (2009) represents the opposite case. The result of their study demonstrated that Bangladeshi banks were the most disclosing firms, achieving the highest level of CSED in all aspects including environmental topics, and even more so than industrial firms. The researchers attributed this finding to the efforts of the Central Bank of Bangladesh
and its strong control of Bangladeshi banks which, in turn, resulted in high awareness and a more developed corporate culture in the Bangladeshi banking sector.

When Libyan managers were asked about their attitude if the Central Bank of Libya were to change its policy and ask them to produce CSED, they were all of the opinion that such disclosure would be produced. Typical responses included, “Sure. We will do it immediately”; and “banks will comply, willingly or unwillingly, because if they do not, fines will be imposed on them. The appearance of fines in your report reflects a violation; investors will see it as a problem in the bank management”.

One manager, who most closely represented the ideal position, criticised such reasoning. He stated,

Waiting for instructions of Central Bank of Libya to change the behaviour represents the mentality of public sector: (when the public organisations claim) the state did not ask us. Such mentality ought to change, and initiative should start.

Except for this manager, all managers interviewed confirmed that the issue of CSED had not been touched on by boards of directors of their banks. Managers confirmed that they had received no instructions from their boards of directors to produce CSED. This situation reflects the absence of CSED in the discussions of the boards of directors. It therefore justifies the unusual result of the multiple regression analysis, reported in the previous chapter, where the presence of non-executive directors on the boards of directors of Libyan banks was found to be negatively associated with the level of CSED. That is, the more non-executive members on the boards, the less CSED disclosed. It is hard to expect that the level and quality of CSED will increase when social and environmental topics are absent from the agenda of the management on the boards of directors of Libyan banks. It seems that as managers become more detached from banks’ daily work, the interest in conducting social and environmental activities, and/or disclosing information on social and environmental topics becomes less. The difference between executive and non-executive managers is that the executive managers are more attached to issues of employees and customers, so they are more likely to be involved at least in activities related to these two groups, and to be interested in producing and using related information.

Members of boards of directors of banks are chosen by shareholders, and are assumed to reflect the will and attitudes of the owners. It is therefore reasonable to proceed to ask whether there is a demand for CSED from shareholders (other than the Central Bank of Libya) of Libyan banks.
There was total consensus amongst managers that making and maximizing profit is the only goal of shareholders. As such, specific financial information related to profit was what they asked for, while social and environmental information was ignored. One manager stated,

I attended all ordinary shareholders’ meetings from 2001 until 2008; no one talked about this topic (CSED). No chairman, neither general manager, nor any one. There was no such talk.

Another manager confirmed, “I have been attending ordinary shareholders’ meetings since 2007. This information has not been required. No one ask for this information”. One manager added: “All what they are worried about is the return on their shares”. Another manager said, “They focus only on the profit for distribution”. As a result, CSED was not a prime consideration of either shareholders or management. One manager said, “The goal of the investor from buying shares is to make profits. Therefore, we disclose the information we know he is interested in. He cares about financial information”.

This extreme focus on achieving profit reached the point where some shareholders asked management to reduce expenses as much as possible, even for what might be considered necessary expenses. One manager commented:

They (shareholders) focus a lot on expenses. They ask: why have you given the employees more financial rewards? Why have you given them such and such...etc.? They try to reduce expenses to have more profit.

Another manager confirmed:

In the ordinary shareholders’ meetings I attended there were those who ask: what I am going to benefit from your expenses on the employees? I do not care about them. I care only about my money.

Even the manager who usually defended the idea of social responsibility, and argued always about the importance of taking initiatives in this regard, was disappointed with the attitude of shareholders of his bank. He said, “Unfortunately, we noted that people focus only on profits. The share price is affected only by the profit, not by social contributions we made”.

Some managers pointed out that it was unrealistic to talk about considering social and environmental information when some shareholders did not even care about the
financial statements per se. One manager said that they (shareholders) tell me: “Do not tell us about financial statements. Tell us how much the profit was”.

Many researchers, such as Deegan and Rankin (1999) and Lungu et al. (2009) identified the existence of a gap between those who were responsible for producing social and environmental information (managers), and the users of this kind of information. Considering the case of Libyan banks, it seems that there is no such gap. Both sides ignored CSED. Shareholders asked for financial information, and the management provided them with it.

On a few occasions, the issue of employees was raised by some shareholders. A member of the board of directors attributed that to the fact that some employees owned shares, so they tried to direct attention to the issue of employees. Another reason given was that, as noted previously, this was related to the impact of this factor on the profit margin, rather than for fulfilling social responsibilities.

None of the managers mentioned that CSED was required by any other information users such as customers. One manager said, “Only you (researchers), who comes and asks for such stuff, collects information, and then leaves. That is it”.

Based on the discussion above, it can be seen that stakeholder theory provides a clear justification for the low level of CSED in the case of Libyan banking sector. The powerful stakeholders ignore social and environmental disclosure, and focus exclusively on financial information. As such, the absence of their interest in CSED was clearly reflected in the annual reports of Libyan banks.

VII. Education

The disclosure process is simply an interaction between sender and receiver. The impact of education is more likely to be captured if its levels are investigated in the case of information preparers and users alike. Regarding information users, it is argued that low levels of education, and awareness as a result, among the expected information users and society at large, will lead to a lack of demand for social and environmental information (Haniffa & Cooke, 2002), and low levels of corporate disclosure in regard to such information (see for example Al-Khater & Naser, 2003; Belal, 2001). As such, the participants were asked first about their opinion regarding the general level of education in Libya. Approximately 83% of the respondents believed that it was weak, and at best less than the acceptable level. When the question was asked about accounting education, just 24% of the respondents embraced the opinion that it was good or acceptable. Most of the managers, however, expressed a contrary opinion. In
the second group there was no difference of opinion: all agreed that the educational levels of general education and accounting education were low.

In regard to information preparers, some interviewees mentioned the problem of the difference between theoretical education and the reality of daily banking work. One manager said: “The new graduates are not close to accounting as a practice”. Consequently, “the new employed graduates need a period of time to become familiar with the real practices (of banking work)”, added another manager. An explanation was given by a third manager:

The problem is the disconnection between society organisations. The relationship between these different organisations, such as banks and universities, should be like a chain. For example, students of accounting division or banking and finance division, study for eight semesters. If we make three semesters include real practices in banking work, they will be ready for the job market immediately once they graduate... This idea needs cooperation between higher education ministry and other ministries.

The deputy general manager agreed with this view and suggested one year or six months for training students in banking operations inside banks.

In regard to CSED practices, no one mentioned social and environmental accounting being included in curriculums. As such, topics such as CSED were absent. One manager said, “In the period of our study in college, we did not learn about social and environmental issues. This topic has not been touched”. Another manager added: “In Bachelor, social and environmental accounting is not given, and this might be one of the reasons for the absence of CSED”. A third manager confirmed this view: “If I was taught about this topic, I would implement it and make it one of my priorities in the annual report, but I did not study it”. As a result, most managers were in favour of modifying accounting curriculums and updating them to include new topics such as CSED. The chairman of one bank emphasised that

…accounting curriculums are not in touch with the development in accounting, such as social responsibility accounting, responsibility accounting, and corporate governance...etc. These topics are not included in accounting curriculums. There is a defect in the education system.

A member of a board of directors added: “Accounting curriculums should include social and environmental accounting and be in line with the international standards”.

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Based on the above, it is reasonable to conclude that education generally, and accounting education in particular, can be deemed an important cause of the low level of social and environmental disclosure practices by Libyan banks. This gives support to institutional theory as an explanatory theory for the level of CSED. Normative isomorphism, one of three mechanisms involved in achieving institutional isomorphism, is linked to professional factors. As Amran and Devi (2008) mentioned, education is one of several major factors (such as universities, training centres, professional networks, and professional associations) which create normative pressure. Such pressure influences organisations’ attitudes and behaviour regarding the different issues, which is, in this context, CSED.

VIII. Pressure of civil society organisations
Social interest groups or so-called civil society organisations and unions are argued to have a role in increasing the awareness of society in regard to social and environmental issues. For example, Dicken (2003) mentioned that some of these organisations are working to support human rights and for these issues to be encompassed in corporate practices.

A member of a board of directors argued:

Some banks do not disclose social and environmental information because there is no demand for such information. How can I provide something when no one is interested in it?... Here, the role of civil society organisations comes.

Managers were asked if they encountered any pressure from civil society organisations related to social responsibility and CSED. No claim was made by any manager that there was pressure or even demand by any civil society organisation about issues of environment, customers, society or even employees. One manager stated that his bank had not received any demand from any party regarding the issue, and explained: “because, frankly, we did not have civil society organisations. Unfortunately, a state in the twenty first century (without such organisations)...”. Another manager denied also that there was a demand from consumer protection associations for any information in which they should, perhaps, be interested. When he was asked if there was any demand regarding environmental issues, he replied: “No. even though we are the first one who should be asked to disclose on environmental issue since the building of Environmental General Authority is next door”. Even regarding the employees’ union, the case was the same, if not worse. One manager said: “They just take subscription fees. That is all”. Another manager added:
They do not know more than participating in national celebrations... They phone us, saying: where are you? Send your employees to the ceremony. Our leader is going to deliver a speech.

This situation is in contrast with the assumed role of human resources organisations such as trade unions.

This is contrary to the case in developed countries, where civil society organisations and human resources organisations do exist and play a vital role in raising the awareness of society about social and environmental issues related to banks' operations and, in turn, create pressure on banks to take into consideration these important issues. The chairman of a bank argued that:

…in developed countries, they provide environmental disclosure due to the pressure caused by environmental organisations. Civil society organisations are the one which cause pressure on firms. Firms care about their reputation, so they do not want to have problems with these organisations, because they know that such organisations can cause damage to their reputation. No one, even in the developed countries, disclose for free. Everything is counted. It should be a benefit in short or long term. There is no cost without something in return.

Based on the above, it seems that the awareness of society about social responsibility and related information is absent. Furthermore, those factors which are suggested to raise this awareness are weak or absent as well.

7.2.2 Summary

This section has provided an answer to the sub-question: What is the managers’ attitude to the issue of CSED? And what are the factors affecting this attitude? Managers generally believed that achieving profits is the goal of the banks. As such, they focused on maximizing profits and ignoring environment and society issues.

There was some attention paid to employee and customer issues, but this seems to have been motivated mainly by economic self-interest. This suggests that the real tests of the banks’ recognition of social and environmental responsibility are the topics of the environment and their involvement in society’s activities.

The discussion of this section has revealed that the attitude of the managers to the issue of CSED was affected by different factors. These factors were divided into two sets based on the idea that the responsibility of producing CSED cannot be confined to
banks alone; it is a shared responsibility by all of those who either have an impact on banks’ performance or are affected by banks’ activities, directly or indirectly.

However, most of these factors can be attributed generally to the external environment. These factors can be summarised into (a) low quality of educational output, (b) the absence of professional and legal frameworks for CSED practices, (c) the attitudes of the banking sector to the issue, and (d) the absence of public awareness and civil society pressure. All these contribute to a subsequent lack of demand for CSED.

This study result indicates that the issue of CSED is impacted by many influential factors. Thus, it is suggested that addressing the issue of CSED cannot be done in isolation from the external environment. Improving CSED practices cannot be improved without the cooperation of all parties, such as educational institutions, civil society organisations, regulatory bodies, and so on. That is, reforms need to be made to economic, educational, and legal systems. This conclusion, therefore, leads to the following section, which elaborates more on this conclusion, and examines its validity.

7.3 General contextual factors

General contextual factors are the political, economic and social contexts in which a firm operates. These contexts are argued to be influential to the activities of firms and their practices, including social and environmental disclosure practices. This section is devoted to investigating the possible impact of these factors on CSED practices of Libyan banks. As such, it is designed to answer the following research question:

Do political factors (legal system, regulations, political rights and civil liberties), economic factors (degree of economic development), and cultural factors (education) influence CSED practices of Libyan banks?

7.3.1 Political systems

Chapter 2 explained that the banking industry in Libya has encountered significant events and changes during its period of existence. This, in turn, influenced the banking sector—its goals, activities and its impact on the national economy and the Libyan population. The most influential environment was the political one. The political, economic and social ideology of The Green Book, which has been implemented since the 1970s, had profound implications on the performance of Libyan banks over a long period. The chapter emphasised the impact of political systems on the performance of Libyan banks. Consequently, it is reasonable to investigate the impact of these systems on the issue of CSED.
In this section, four topics will be discussed: legal factors and regulations, Central Bank of Libya, Libyan Union of Accountants and Auditors, and the political environment.

**Legal factors and regulations**

Law and regulations have an important role to play in the practices of disclosing information. Inchausti (1997, p. 62) stated that “legislation appears to produce a strong increase in disclosure”. The study by Baskin (2006) confirmed that firms are strongly affected by laws implemented where they operate, and government does have the power to promote corporate disclosure. As such, the issue of whether CSED is voluntary or mandatory is an important factor affecting CSED practices. It is argued that firms provide disclosures in response to formal regulations issued by governmental bodies (Boden, 1999; Jacobs & Kemp, 2002). The amount and quality of social and environmental disclosure is affected positively by introducing and implementing related regulations (Crawford & Williams, 2010; Owen, 2003). Absence or weakness of such regulations is likely to result in absence or weak disclosure practices (Belal, 2001; Belal & Cooper, 2007; Imam, 2000).

In the Libyan case, CSED is entirely voluntary. There are no legal requirements for banks or companies to produce information on the impact of their interaction with the environment or society. This leads to low levels of CSED practices by Libyan firms and companies, a finding confirmed by many Libyan studies (such as those by Ahmad, 2004; Elmogla, 2009; Mashat, 2005) as well as the current study. Furthermore, even with the lack of legal requirements and levels of disclosure, the information disclosed was mainly positive. This result is expected in the case of voluntary disclosure, and is in line with other studies (such as that by Belal & Cooper, 2007); as such, the credibility of such disclosure is questionable (Deegan & Gordon, 1996), as it is incomplete and inaccurate (Wiseman, 1982). The attitude of managers in accounting departments of Libyan banks was in line with this conclusion, where about 71% of managers agreed that CSED should be mandatory.

What should be kept in mind is that in developing countries in particular, the existence of legislation is not a guarantee that practices will be implemented. For example, in the study by Belal (2001), it was found that more than half of firms investigated did not disseminate even the mandatory information, due to the weakness of regulatory framework and some other factors such as corruption or an unstable political situation. In the case of the Libyan context, the study by Abdudayem (2013) highlighted the lack of an effective legal implementation system. With Libyan banks, the managers
interviewed (as reported in the next chapter) believed that there was a weakness in the mechanism of implementing legislation.

Apart from the laws and regulations issued regarding CSED practices, and the issue of legal implementation systems, there are two other points about the possible impact of laws on CSED practices. Firstly, salary Law No. 15 of 1981 has affected the life of citizens over a long period. This Law was issued in 1981 and, for about three decades, Libyan employees were paid monthly under this law. This Law was repealed only in 2010. During this period the cost of living increased dramatically, while salaries remained fixed. The annual reports of the Central Bank of Libya mentioned the increase in prices of goods and services, which citizens had to buy regardless of their limited financial abilities. For example, in the annual report of 2005, there was an increase in the prices of many things such as “food, clothes, shoes, transportations, furnitures, health education services and housing”. This problem continued for almost all these services during the period 2005–2010. For example, prices of food and housing increased during the whole period, and prices of furniture, clothes, health and educational services did not decrease, except in one year only.

The impact of this issue on CSED practices can be seen in the dominance of the profit culture in the banking sector and the attitudes of shareholders. The interviews reported previously showed an extreme focus on achieving profit while ignoring other issues such as social and environmental responsibilities and related disclosures. In one case, as an example, shareholders were angry with the management because it gave the employees financial rewards. On another occasion, shareholders complained about training programs because of the expenditure involved. A chairman of a bank explained the reason clearly when he was talking about attitudes to environmental issues. He said,

> Be sure that in Libya, no one cares about the issue of environment. The citizen himself, because of his economic circumstances and his weak salary, he himself contributes in polluting the environment. He knows that he is doing so, but there are priorities. His priority is to take care of his children before taking care of environment.

This case can be explained more by looking at Maslow's hierarchy of needs. According to McLeod (2007), the basic idea of this theory is that any person is motivated to satisfy certain needs, and when he fulfils one need he moves to fulfil the next need, and so on. There are five motivational needs in Maslow's hierarchy of needs (physiological, safety, love, esteem, and self-actualization). The point is that a person must satisfy lower-level basic needs before caring about satisfying higher-level growth needs. Therefore, when
people’s salaries are barely enough to cover the minimum living standard, it is unreasonable to assume that issues of environment and society will receive any attention from individuals, whether they are shareholders, employees, potential investors, or society members.

The second point about the impact of legislation on the issue of CSED is the negative impact of some legislation on the operations of Libyan banks. In the annual report of one commercial private bank, it was stated:

We demand that the unjust tax law be amended to grant Libyan Nationals the advantages given to foreign investors. The bank is owned by more than 2,400 Libyan investors who are more worthy of tax and customs exemptions as well as the other advantages and exceptions given to foreigners. Libya is ours – the Libyan first before any other regardless of reasons or justifications.

The tone of discontent can be easily recognised in this comment. Feeling treated unjustly from the state may disappoint banks and cause them to react by ignoring some national issues such as the environment and society and related information, especially since the involvement in those issues is still voluntary.

**Central Bank of Libya**

The Central Bank of Libya is the highest authority and the dominant player in the Libyan banking system. Banks’ activities are directly influenced by policies and regulations issued and imposed by this bank. As such, social and environmental disclosure practices are understood to be shaped by policies of the Central Bank of Libya in this regard. The interviews conducted with managers of accounting departments of Libyan banks confirmed this point. They all stated that the Central Bank of Libya had not mentioned the issue of CSED in any of its directives, and focused only on financial matters. The content of annual reports of the Central Bank of Libya supported such claims, as there was no single mention of CSED in the six annual reports covering the period 2005–2010. Managers agreed that they would start producing social and environmental information if the Central Bank of Libya asked them to do so. The studies by Sobhani et al. (2009), Khan (2010) and Khan, Islam and Ahmed (2010) confirmed that social and environmental disclosure practices of Bangladeshi banks were improved due to the intervention of the Bangladeshi Central Bank in this issue. The study by Barako and Brown (2008) also confirmed that corporate social disclosure of Kenyan banks was enhanced partly by policies of the Central Bank.
Based on these outcomes, it was necessary to investigate the viewpoint of the Central Bank of Libya regarding the issue of CSED. Two interviews were conducted: (a) with the Chief of the Division of Analysis and Regulatory Review (referred to in this thesis as DARR) in the Department of Superintendency of Banks and Cash, and (b) with the Director of Banking Operations Department (referred to in this thesis as BOD).

It was important first to ask about how CSED was perceived from the viewpoint of the interviewees. The Chief, DARR, stated,

I feel that this environmental and social side is like marketing. (It is about) marketing the bank more than something might concerns the Central Bank.

The Director, BOD, referred to some duties and responsibilities of the Central Bank, which were mentioned in the \textit{Law 1, 2005}, saying,

The Central Bank of Libya operates according to the Law. It regulates monetary policy, ensures the general level of prices, manages the government’s reserves, issues the Libyan currency etc. Social and environmental disclosure is not one of those duties. Maybe in future the bank adopts it, but (now) it should be required by other parties.

These two comments reflect the impact of the Law, which specifies duties of the bank but makes no mention of any of its articles, or of the issue of social and environmental responsibilities and their related disclosure. Therefore, it justifies the absence of CSED issues from policies and daily work of departments of the Central Bank of Libya.

The next point relates to the argument of Libyan banks regarding the responsibility of the Central Bank of Libya towards the issue of CSED. The first interviewee, the Chief, DARR, put the responsibility back on Libyan banks. He blamed these banks for not complying sometimes even with essential financial requirements. He stated: “It is a priority issue. If the minimum of the information is sometimes provided incomplete, how can we ask banks to provide further information?” He mentioned that Libyan banks even register complaints against the weekly and monthly financial reports with which banks have to provide the department. He said,

Although we request the minimum of the financial information, if you ask them (Libyan banks), they will tell you frankly that the department of Superintendency of Banks and cash has exhausted us. They tell me this almost in every meeting. So how can you imagine that those banks will reach that stage to provide you with CSED? By asking them to do so, you are just putting more burdens on them.

The Director, BOD, confirmed the dereliction of the banks in this case. He said,
Banks do not implement many issues which are related to accounting work per se, such as international standards. Take another example. If you look at the financial fines issued against the banks, you realise the dereliction of many banks.

Searching the website of the Central Bank of Libya confirmed the argument of the director. In all the years from 2008 to 2011, fines were continually issued against all types of banks: public banks, private banks and banks with foreign partnerships. Some banks were exposed to four fines in the same year, and many banks violated the banking law each year. The interesting thing is that many fines were imposed because banks did not provide financial statements and statistics in due course. For example in 2009, all commercial banks were late in submitting the required data (Central Bank of Libya, 2013). The Director commented, “This was related to the basic work of these banks, so what do you think about if we ask them to provide information, which is not core in their work?” He continued, “There are always those who try to blame others, and the Central Bank seems to be easy target, but Libyan banks have a big share of responsibility”.

The Chief, DARR, continued criticising Libyan banks by relying for everything on the directives of the Central Bank of Libya. He said: “Some of Libyan banks continue to say Central Bank of Libya has not issued any directives or publications regarding CSED”. He proceeded, arguing: “Central Bank of Libya should not issue orders about everything. Banks should have spirit of initiative”.

In the same vein, the two interviewees believed that despite the fact that there was no demand from the Central Bank of Libya or other information users for such information, this should not prevent banks from producing it themselves. The chief of division of analysis and regulatory review said,

When you provide something new you should not expect that it will not attract the attention of others. Likewise, when you provide this information do not anticipate that no one will read it.

The Director, BOD, agreed with this idea, saying,

This is a common problem in many banks. They believe that information should not be produced if it was not required…This is wrong. You should provide information to create a demand for it, especially in such environment, where the awareness is absent actually in terms of the financial side and banking side.
He went further to suggest that providing social information, especially on employees, might help in managing some stakeholders and society. He said:

I believe that this information is very important in the time being. People are taking advantage of the atmosphere of the freedom and democracy in these days, and there are many strikes. Some employees are trying to show the society that they are oppressed by banks. If banks disclose detailed information on their expenditures on their employees, such as medical care, social care, training etc. I believe that things will change. The society will see that banks have fulfilled their responsibilities towards their employees.

While such comments represent a potential benefit for some social information, the Chief, DARR, believed that producing CSED “has a benefit in future, but I do not think this will happen in near future...this takes time”. Some obstacles were mentioned, such as the concentration on quick profits. He continued:

Some investors become afraid of investing in banks. The negative experience of Al-Massaraf Al-Ahliya (mentioned in chapter two) people lost the trust in banks. They started to focus in achieving a quick profit.

This means that since the benefit from disclosing information on social performance of banks is likely to emerge in the long term, such information will be neglected by this kind of investor. The Director, BOD, confirmed that “the investor in Libyan stock market is motivated only by economic motivation”.

The above comments provide justification for the attitude of the Central Bank as a regulator of the banking sector to the issue of CSED, but at the same time raised some questions. First, instead of waiting for Libyan banks to take the initiative in this issue, why has the Central Bank of Libya not taken the initiative—even in the form of advice or encouragement? Second, the Central Bank of Libya is still the owner of some large commercial banks, and it is an investor over a very long term, so why has it not requested, as an owner, such disclosure?

The answer to the first question may rely on the interviewees’ perception of the CSED as something not related to duties of the Central Bank. As such, it is reasonable to assume that Libyan banks have the same interpretation of CSED and, thus, they should not be asked to take the initiative in this regard. A part of the answer to the second question is likely to be derived from the following comment by the Chief, DARR, regarding some methods of collecting information on the performance of banks. He admitted that they did not use annual reports to collect some information on banks. He stated,
Many times we send some of our staff to some banks as detectives. They sit in banks' lounge, observing the staff of those banks and how they treat the customers, and then they prepare reports on the quality of the services. Also, if there are complaints from customers against a bank we send one of our staff to investigate the matter personally.

Two points can be noted from this comment. Firstly, collecting information was related specifically to customers, and not to other social topics. This reflects more the focus on financial implications rather than an interest in social responsibilities. Secondly, the Central Bank collected information it needed in a direct and quick way. Annual reports seemed not to be an effective medium in delivering information in due course. During the period of collecting the data for the current study in late 2012, some banks had not released their annual reports since 2008 and, until the end of 2012; the biggest bank had not issued its 2010 annual report. It is therefore understandable why the Central Bank requested many financial reports on the basis of short periods, and collected other information in a direct way. This meant that the work of the Central Bank of Libya in this manner could not result in improved CSED in the annual reports of Libyan banks.

Gray and Bebbington (2001, p. 208) stated, “Ultimately, financial institutions have the greatest power over organisations, can greatly influence them in positive ways and profoundly hinder them in negative ways.” Some researchers, such as Thompson and Cowton (2004) discussed the idea of using such power in encouraging or pushing organisations to behave in a responsible manner, socially and environmentally, and to disclose more CSED. Reflecting on the case of the Central Bank of Libya, it seems that the bank was not interested in exploiting its power to encourage or force banks to disclose more CSED, since the bank was not interested in such disclosure and it collected any information it needed in ways other than from annual reports. As a result, a great opportunity to improve the content of annual reports of Libyan banks, in terms of CSED, was lost.

The Director, BOD, directed attention to another point saying: “The other problem that Libyan banks suffer from is frankly the weakness in the efficiency of their staff”. The Chief, DARR, agreed with this viewpoint. He said,

The employee himself (the preparer of the information) thinks that the information is prepared for shareholders only…also; employees have no idea about CSED. Even inside this department, if you exclude this division, you will not find anyone who has some knowledge about it”. 
This reality leads, as the Chief, DARR, admitted, to the fact that the Central Bank of Libya did not use CSED in the process of evaluating the performance of Libyan banks—which might partly explain the disregard by Libyan banks for CSED. It is reasonable to assume that banks are motivated to meet the standards set to give indicators of the quality of their performance. Considering the quality and the level of social and environmental reports, as norms of evaluating banks’ performance, would improve such reports and benefit banks and their stakeholders alike.

Furthermore, the Chief, DARR, blamed Libyan banks for not implementing the governance guide for the banking sector in a proper way. He said: “In the governance guide, banks were directed to take care of all stakeholders. So, social and environmental aspects are included in term *stakeholders*. This guide was issued in 2010, and distributed to Libyan banks in late September (Central Bank of Libya, 2010b). A check of this guide reveals two occasions in the *Disclosure* chapter where social disclosure is mentioned. In the first one, banks are required to provide some information in an annual report on their human resources to shareholders. In the second occasion, banks are required to provide their customers and the public with information on the banks’ policies regarding donations and charitable activities.

What can be noted from this guide is that there is no indication of environmental or customer disclosure. Moreover, there is no clear mention of the involvement of banks in social activities; rather, only donations are specified. Furthermore, the guide confines the disclosure on human resources for the use of shareholders. Apart from that, what is interesting is that, except for a chairman of a bank, no one among all participants interviewed mentioned these indications of some social information in the governance guide—basically ignoring its existence. This matter reflects that these parts of the guidelines, regardless of their very narrow concept, were not taken seriously.

The last point to be mentioned here is the possibility that the Central Bank of Libya had relationships with international organisations that are interested in social and environmental issues. Such relations, if they existed, would be expected to have had a positive impact on the attitudes of the Libyan banking sector to social and environmental issues. The study by Khan et al. (2010) demonstrated that the relationship between the Central Bank and other international financial organisations—such as International Finance Corporation (IFC), a member of the World Bank Group—had a positive impact on improving social and environmental disclosure practices. In
view of this, the Chief, DARR, was asked if the Central Bank of Libya had a similar relationship and influence as a result. He denied that. He mentioned that:

we attend workshops and sessions on every new financial standards or banking issues. This side concerns us, but honestly we did not attend any workshops about CSED. As I told you, it is matter of priorities.

Based on the foregoing, although it is clear that some responsibility could be put on banks, the Central Bank of Libya still had to accept its own share of the responsibility. It is obvious that there was an absence of directives regarding the issue of CSED from the then currently implemented agenda of the Central Bank of Libya. The Central Bank seemed to be uninterested in issues other than those related to its perceived main duties—which were purely economic and financial. This lends support to the stakeholder theory as explanatory theory for the low level of CSED in the case of Libyan banking sector. The Central Bank of Libya, as the most powerful stakeholder, ignores social and environmental disclosure, and focus exclusively on financial information. As a result, Libyan banks omitted, to a large extent, the issue of CSED their annual reports.

Libyan Union of Accountants and Auditors

Accounting information, according to Inchausti (1997), is influenced by market and regulatory bodies. Belal and Cooper (2007) divided these regulatory bodies, in terms of their impact upon information disclosure, into governmental and non-governmental agencies. The accounting profession is one of those non-governmental agencies. As such, the process of preparing and releasing accounting information is affected by the profession’s performance. Further, Inchausti (1997) argued that both development of accounting objectives and practices are influenced by the accounting profession. However, the interviews conducted with Libyan managers revealed that they were dissatisfied with the performance of the Libyan Union of Accountants and Auditors (subsequently referred to in this section as just the “Union”), which should be responsible for developing accounting practices in Libya. The criticism of the Union can be summarised in three points. First, the role of external auditor was absent in the issue of social and environmental disclosure, since this issue had not been raised by them before. Second, there were no implemented standards for CSED or even standards for financial disclosure; and no role for the Union in this regard. Third, the Union had not spread awareness regarding the issue of CSED.
Based on the above, it was necessary to interview the chief of the Union in order to gain a full picture of the role of this organisation in the issue of CSED. The first question was about the membership requirements of the Union. He responded that the requirements were stipulated in Law No. 116, which was issued in 1973. These requirements include holding a Bachelor certificate, experience in accounting for 5 years, being a Libyan citizen and paying subscription fees.

From the beginning, two inferences about the issue of CSED can be built on this answer. Firstly, the law 116 was issued in 1973. At that time, according to Mathews (1997), social and environmental accounting was in its very early stages. During the period 1971–1980, researchers focused more on social accounting, especially on employees and product disclosures. The empirical studies were descriptive and relatively uncomplicated, and knowledge about this new kind of accounting was not considered sufficiently significant to be included in educational programs for undergraduate students at that time. Of course, Mathews (1997) was considering the case of developed countries. As such, Law 116, which remains current at the time of writing, was issued in 1973—a period when there was growing interest, even in developed countries, in the importance of social and environmental accounting. Thus, the issue of CSED was absent in the Law, and logically the law cannot be criticised for that. However, the continued implementation of this law over four decades casts doubt, not just on relatively new accounting disclosures, but also on the quality of even traditional accounting practices per se.

Second, the continued requirement of holding a bachelor's degree for obtaining a licence as an external auditor is not expected to improve the case. The reason is that, as the managers interviewed stated, social and environmental accounting was still absent from the curriculum of this degree. Consequently, the issue of social and environmental accounting and the related disclosures were not expected to be raised by external auditors, and this was highlighted by the managers interviewed.

The supposed negative impact of these two points can be mitigated by adopting continuous training programs designed to address new topics in the field. Keeping in touch with new events is one of the objectives of establishing the Union. However, the Chief of the Libyan Union of Accountants and Auditors admitted that currently there were no such programs.

The interview moved on to discuss the general efforts of the Union in improving accounting practices. The Union chief was asked if he considered whether the current
accounting practices needed to be reviewed in order to be improved, and become suitable for addressing new issues such as social and environmental ones. He replied:

Unfortunately, and you might hear the word unfortunately many times in this interview, accounting practices are very weak in Libya. You do not need to be clever to realise the size of the tragedy in accounting profession in Libya.

The next question was about the adequacy of the disclosure provided; that is, whether the information disclosed was adequate for information users. He answered: “Unfortunately no. It does is not meet the need of information users”. As such, it could be expected that the Union may have increased its efforts to deal with this problem, so the Union chief was then asked whether the Union issued instructions, directives or advices about the kind of information that should be included in the annual reports. His answer was, “No. The Union has not done so.” He explained: “The Union does not have any means to do so, neither a website, nor a journal, nor any other means to present its ideas or to mainstream the instructions and guidelines “. This might create a need for the cooperation of other parties, so the question was posed as to whether there was a need to seek the help of other organisations to develop current accounting practices. The chief agreed, saying

Yes. The efforts of the Union will be limited. Its abilities and possibilities do not allow it to do much. It is right that the law put the responsibility of developing and enhancing the accounting practices (on the Union), but it does not provide any (financial) support to do so. As such we need a cooperation of other related parties, such as the State Accounting Bureau (which is responsible for auditing public companies), universities, research centres, and private accounting offices, to develop accounting profession and address its problems.

After this introduction to the interview, which necessarily covered more-general accounting practices, the interview turned to the specific issue that related directly to the current study. The chief was asked if there was any social and environmental accounting, implemented by Libyan companies, and whether there was a need for it. He denied the existence of such accounting in practice, but emphasised that there was, indeed, a need. However, he pointed out that the role of accountants in this regard depended on several pre-conditions. He stated,

We need ideas, initiatives…we need workshops…We need to benefit from efforts of those who are experts in this field… we need this issue to be discussed first in media: television, journals and magazines. It is very important to spread these ideas to the public, to raise their awareness (regarding the impact of economic activities on society and environment).
Then, the role of accountants will come, to address these issues (social and environmental issues) from accounting perspective, and disclose information on them.

Since it was argued that the role of accountants comes after the roles of other parties have been established, the chief was asked if accountants and auditors at that time had the necessary knowledge about social and environmental accounting and disclosure. He confirmed the claim of those managers who believed that the role of external auditors in social and environmental disclosure was absent. He said:

Unfortunately, (they do not)... they graduated from institutes and universities. In the curriculums of those institutions there is no social and environmental accounting... and when they start their jobs there was no discussion on such ideas. Thus, the idea per se is absent.

Some Libyan studies, such as those conducted by Mashat (2005) and Elmogla (2009), confirmed the absence of social and environmental accounting from accounting curriculums at Bachelor level. As a result, the Union chief stressed the need for relevant training programs.

Attention then turned from the responsibility of universities to that of the Union. The Union chief was asked if there was a need for delivering local standards for social and environmental disclosure. Here, the subject of standards seemed to be a sensitive one. The chief said,

We feel bitterness and sorrow when we talk about issuing standards. In 2006 we had a conference about the issue of accounting and auditing standards. The conference was a result of cooperation of the Central Bank of Libya and the Union. Unfortunately, the conference recommendations have not been implemented, and till these days, we have no accounting and auditing standards.

He added,

When you read an annual report, you find the statement *the financial reports were prepared according to the accepted and recognised standards*, and if you ask which standards do you mean, your question will not be answered...I believe that we should implement international standards, because standards and the accounting per se are not Libyan made. You are talking about social and environmental accounting. This is not Libyan made. This is a culture imported from developed countries... imported ideas.

This comment highlighted the absence of standards in financial accounting, and showed an inability by the Union to resolve the problem. This was one of the criticisms of the
Union made by Libyan managers. In addition to that, it is clear that the Union chief was against the idea of issuing local accounting standards, financial or otherwise. As such, another question was posed about whether the Union could issue a simple guide, explaining how to prepare and provide social and environmental disclosure, or alternatively adopting some related international initiatives such as Global Reporting Initiative (GRI). He answered the researcher’s question with: “This idea (CSED) will impose itself in future. For the time being, let us be honest, this is not one of our programs or strategies”. He then added:

After you finish your study, transfer your study to action plan, and the Union will welcome your work. Why not? But for the time being, our projects, at least in 2013, honestly do not include any topic related to social or environmental accounting.

He proceeded saying, “Currently, our concern is about three things: Secure sources of financial support for the Union, rearrange the Union from inside, and focusing on the issue of accounting and auditing standards”.

This comment demonstrated that the absence of social and environmental accounting and the low levels of related disclosures were yet to be seen as a source of concern. Confirming this attitude, the Union chief explained that the Union had taken no steps to encourage CSED practices such as financing related studies; publishing articles, books or leaflets regarding CSED; or introducing awards for banks producing good social and environmental disclosures. The reason for this passive attitude appeared to be caused largely by the financial difficulties the Union had been experiencing. The Union chief stated that the Union was established to be self-funded. Thus, it had not been provided with funds from government bodies. The problem was that there was no database for the Union members, and some members stopped paying their membership fees over many years, even though the fee value had not changed since 1973. In view of this, he explained, “we reached that point where it became difficult even to cover the normal costs, such the rent of the office and the services bills” and admitted that:

…the Union became unable even to cover subscribe fees of some accounting unions, such as The Arab Federation of Accountants and Auditors …to date we are not member of International Federation of Accountants (IFAC).

He added:

We talk about developing the accounting profession, and about social and environmental accounting? How this can happen, when the accountant is in coma. If we are isolated from
others, from where will the development in accounting come to us? Libyan accountant is isolated. We have not even related periodicals, like others.

The absence of financial support from the government was deemed by the Union chief to be an essential reason for the Union’s stalemate and paralysis. It prevented the Union from fulfilling the goals of its establishment in 1975. Ahmad (2004, p. 153) mentioned article No 3, which includes five goals, starting with these two: (1) to organise and improve the conditions of the accounting profession and to raise the standards of accountants and auditors professionally, academically, culturally and politically; and (2) to organise and participate in conferences and seminars related to accounting internally and externally and to keep in touch with new events, scientific periodicals, lectures and so on.

It is obvious that these goals had not yet been accomplished, and many previous studies had demonstrated a failure by the Union in fulfilling them. For example, the study by Buzied (1998, cited in Ahmad, 2004, p. 154) concluded that the Union had:

(1) no role in developing accounting and auditing standards nor a code of ethics; (2) a very limited role in conducting effective research programmes to help develop or modify accounting in order to be useful and relevant to the Libyan context; (3) a limited role in issuing instructions about accounting practice and methods; and (4) a weak professional control over accounting practice and policy and deficiencies in monitoring accounting education in Libya.

After another fifteen years following Buzied’s (1998) study the situation remained as it had been—if not worse. Research conducted by Mohamed (2013) reconfirmed that the Libyan Union of Accountants and Auditors had no role in raising the awareness of auditors in regard to the importance of implementing International Standards of Auditing, and that the Union had played no role in developing the external auditing profession.

In summary, this interview demonstrated the validity of managers’ criticisms of the Libyan Union of Accountants and Auditors in that the Union had maintained a passive role in regard to accounting practices generally, and CSED practices in particular. Although this can be attributed to the financial, legal and technical difficulties facing the Union, the result does not change the fact that accounting practices, including CSED, were affected negatively in the long term. This confirms the argument of Radebaugh (1975) that development of both accounting objectives and practices is influenced by the accounting profession. This conclusion lends support to institutional theory as
explanatory theory for the CSED practices of Libyan banks. Amran and Devi (2008) mentioned that professional associations are major factors in creating normative pressure (which leads to normative isomorphism). This pressure influences organisational attitudes and behaviour regarding the different issues, including CSED. From another angle, it is useful to mention the statement by Fogarty (1996, p. 248), which emphasised the importance of accounting bodies in the US. He stated that “Ample evidence exists to establish that accounting regulatory agendas in the US reflect a dynamic body of external expectations”. Reflecting on the Libyan case, it is fair to say also that the Libyan Union of Accountants and Auditors has played no role in raising the external expectations of information users (in addition to information preparers) regarding the issue of CSED.

**Political environment**

Corporate social and environmental disclosure is a communication process between sender and receiver. This interaction is likely to be influenced by the political environment, which includes political rights, civil liberties and the type of political system. Many studies (e.g. Williams, 1999; Haniffa and Cooke, 2005) have shown that the quantity of social and environmental disclosure and its growth are influenced by political and civil systems.

The study by Amran and Devi (2008) demonstrated the positive impact of government on social disclosure. In justifying this result, it was argued that the ruling party was using the issue to enhance its position and image, locally and internationally, and to distinguish itself favourably against its competitor parties. This is not the case in Libya, where there was a single person in political control, Muammar Al Gaddafi, the absolute ruler of Libya for more than four decades. In this situation, there was no need to adopt CSED as a tool to enhance the position of the ruling individual.

Libya, according to the evaluation of Freedom House (FreedomHouse, 2014), scores very badly, as a free country (see Table 7.3).
Table 7.3 Freedom Scores achieved by Libya since 2005.

<table>
<thead>
<tr>
<th>Years</th>
<th>Status</th>
<th>Freedom rate 1-7, (7 = worst)</th>
<th>Civil liberties 1-7, (7 = worst)</th>
<th>Political rights 1-7, (7 = worst)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>Not free</td>
<td>7</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>2006</td>
<td>Not free</td>
<td>7</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>2007</td>
<td>Not free</td>
<td>7</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>2008</td>
<td>Not free</td>
<td>7</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>2009</td>
<td>Not free</td>
<td>7</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>2010</td>
<td>Not free</td>
<td>7</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>2011</td>
<td>Not free</td>
<td>7</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>2012</td>
<td>Not free</td>
<td>6.5</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>2013</td>
<td>Partly free</td>
<td>4.5</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>2014</td>
<td>Partly free</td>
<td>4.5</td>
<td>5</td>
<td>4</td>
</tr>
</tbody>
</table>

Source: Freedom House (2014)

As shown, the scores were always the highest (worst) in terms of freedom, civil liberties and political rights during the period of this study (2005–2010). That is, there was no freedom at any level in the political environment. This situation did not change until the collapse of Al Gaddafi’s regime in 2011. In such an environment, companies and banks are more likely to be conservative, and less likely to be proactive, in regard to communicating social and environmental information pertaining to their effects on the environment and society. In such an environment, the roles of two effective mechanisms that support CSED are weak or absent. These mechanisms are the press and civil society organisations.

Under political repression, the role of the press in highlighting the importance of issues that touch the daily lives of people—such as social and environmental issues—is very weak or absent. This is revealed in the work of Farook et al. (2011), who argued that the press’s activities are more likely to be restricted by a repressive government. The situation of the press in Libya is illustrated in Table 7.4.

As shown in Table 7.4, the press in Libya was not free over the period of the study (2005–2010), and the situation continued until political change occurred in 2011. Consequently, the press was not expected to take a role in raising the awareness of society in regard to social and environmental matters, or to put pressure on companies to be socially and environmentally responsible. For example, in such an environment the press cannot criticise polluting companies or ask them to disclose information on their impact on the environment because, as Otman and Karlberg (2007) point out, most of the companies are government owned.
Table 7.4 Status of the press in Libya (2005 to 2013)

<table>
<thead>
<tr>
<th>Years</th>
<th>Press status</th>
<th>Press freedom 0-100 (100 worst)</th>
<th>Environment</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Legal 0-30 (30 worst)</td>
<td>Political 0-40 (40 worst)</td>
</tr>
<tr>
<td>2005</td>
<td>Not free</td>
<td>95</td>
<td>29</td>
</tr>
<tr>
<td>2006</td>
<td>Not free</td>
<td>96</td>
<td>29</td>
</tr>
<tr>
<td>2007</td>
<td>Not free</td>
<td>96</td>
<td>29</td>
</tr>
<tr>
<td>2008</td>
<td>Not free</td>
<td>94</td>
<td>29</td>
</tr>
<tr>
<td>2009</td>
<td>Not free</td>
<td>94</td>
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</tr>
<tr>
<td>2010</td>
<td>Not free</td>
<td>94</td>
<td>29</td>
</tr>
<tr>
<td>2011</td>
<td>Not free</td>
<td>94</td>
<td>29</td>
</tr>
<tr>
<td>2012</td>
<td>Partly free</td>
<td>60</td>
<td>16</td>
</tr>
<tr>
<td>2013</td>
<td>Partly free</td>
<td>59</td>
<td>15</td>
</tr>
</tbody>
</table>

Source: Freedom House (2013)

A weak press has a negative effect on the role of civil society organisations. Islam (2009) found in his study that civil society organisations depend on information disclosed in the media in playing their role in raising the awareness of society and putting pressure on companies in regard to social and environmental issues.

In Libya, during the period 2005–2010, there was no role for civil society organisations in regard to CSED issues. All the managers interviewed in this study agreed that they had not been exposed to any kind of pressure from these organisations. This can be understood, as Gastil (1990) argued that as repression, and political and civil violations increase, the impact of societal interest groups and human resources organisations is likely to decrease. As such, societal organisations and groups seem to be unable to criticise the harmful conduct of wayward companies (Farook et al., 2011) or to ask these companies to discharge their responsibilities more appropriately.

In fact, before the collapse of the previous regime, the establishment of civil society organizations in Libya needed special approval from a political agency; thus there were very few organisations, and all of them were expected to serve within and for the regime (Luis, 2011). The process of registering such organisations used to take up to two years, without a guarantee that the approval would be granted; but after the collapse of the regime, in less than one year about 861 civil society organisations were registered in the two main cities of Tripoli and Benghazi alone (Ezieddin, 2013).

The weak (or absence of) role of both the press and civil society organisations (as confirmed in the interviews conducted in this study) is another reason for the low level
of social expectations and pressure on banks. This confirms the argument of Williams (1999) that there is a low level of social expectations and pressure on companies operating in countries controlled by repressive governments. The study by (Farook et al., 2011) added further confirmation by reporting that the level of social disclosure made by Islamic banks was affected negatively by the level of political and civil repression existing in the countries where these banks were operating.

Another aspect to look at in regard to the political environment is the corruption resulting in a non-democratic environment. Sung (2004, p. 187) stated that “Democratization generally, and eventually, decreases corruption”. Conversely, a non-democratic environment increases corruption. In a report issued by Transparency International and covering the period 2007–2011, it was stated that:

The main anti-corruption indices show Libya to consistently score the worst out of all five countries [Egypt, Morocco, Jordan, Tunisia and Libya] focused on in this paper and among the lowest scorers globally (Transparency International, 2014, p. 7).

The ranking of Libya on Transparency International’s Corruption Perceptions Index over the period 2005–2011 is shown in Table 7.5.

Table 7.5 Transparency International’s Corruption Perceptions on Libya, 2005–11

<table>
<thead>
<tr>
<th>Years</th>
<th>Scores: 0–10, (0 worst)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>2.5</td>
</tr>
<tr>
<td>2006</td>
<td>2.7</td>
</tr>
<tr>
<td>2007</td>
<td>2.5</td>
</tr>
<tr>
<td>2008</td>
<td>2.6</td>
</tr>
<tr>
<td>2009</td>
<td>2.5</td>
</tr>
<tr>
<td>2010</td>
<td>2.2</td>
</tr>
<tr>
<td>2011</td>
<td>2</td>
</tr>
</tbody>
</table>

Source: Transparency International (2013)

From Table 7.5 it can be seen that since the year 2008 there was a continuous decrease in the score; that is, the country became more corrupt. The World Bank’s Governance Indicators revealed that

…since 2008 there has been a worsening of political corruption in the country, relating to a perceived increase in the exercise of public power for private gain, as well as an increase in state capture by elites and private interests of the government (Transparency International, 2014, p. 9).

This might explain, in part, the result of the content analysis of this study showing that the level of CSED was in continuous decline since 2008.
The term *corruption* was described by the World Bank as a situation that “increases wealth for the few at the expense of society as a whole” (Neu & Gomez, 2006, p. 5). When this happens the focus of people and organisations on public interest decreases, and achieving personal interest starts to become the main goal. As social and environmental responsibilities and related disclosure generally lies in the public-interest circle, such practices are expected to decrease when the corruption is widespread. In such cases, the concept of *state* starts to have another meaning. It turns to a handful of powerful people who enjoy the wealth of the country at the expense of its citizens. As a result, people and organisations lose their desire to participate in social and environmental issues.

Some might maintain that this argument seems unconvincing when it comes to the situation in Bangladesh, for example. Corruption in Bangladesh was described by Belal and Owen (2007) as being widespread among Bangladeshi companies, resulting in illegal activities such as bribery, tax evasion, loan defaults and share scandals. Nevertheless, in a study by Sobhani et al. (2009) banks were found to be the most disclosing firms, achieving the highest level of CSED in all aspects, even in environmental topics. However, it can be argued that the fact that the country is rich or poor might make a difference. In a rich and corrupt country, organisations are convinced that the government has no excuse for not doing enough to resolve social and environmental problems and increase the welfare of society. Organisations will not find the motivation to play the role of the state simply because they cannot, and their role in an assistant capacity is not a substitute. Another reason is that they see the government as individuals rather than an organisation, and as a result they do not feel motivated to expose the corruption of those individuals and their inability to manage the country.

In Bangladesh, which is poor, banks have no excuse to turn away from societal and environmental problems. Natural disasters such as floods happen frequently, and there is an obvious need for help from inside and outside the country. Banks have no choice but to help, and they might find this as an opportunity to show and highlight their participation in resolving society’s problems. Moreover, the relationship of the Central Bank with international organisations such as IFC put pressure on banks to respond to social and environmental issues.

One last point to be mentioned in regard to the impact of the political environment in the Libyan case and the issue of CSED is the right of people to have access to public documents. Absence of this right is not encouraging for disclosing information,
generally, or in regard to social and environmental issues. Luis (2011) stated, in regard to the Libyan case, that “There is no law to ensure access to information and citizens have very little information on public spending.” This is in contrast with the case of Swedish people. In the study by Tagesson et al. (2009) it was found that companies owned by the government disclosed more social and environmental information on their websites than privately owned companies did. National culture in Sweden was highlighted in this study as a main cause of the improvement in social and environmental disclosure made by public companies. According to Tagesson,

In Sweden there is a long tradition of transparency in the public sector, which is also legally regulated in the principle of public access to official records. This principle gives all Swedish citizens the right to inspect State documents (Tagesson et al., 2009, p. 361).

All the above discussion gives support to political and economic theory as a way of explaining the level and quality of CSED practices of Libyan banks. This theory suggests that social, political and economic factors have an impact upon corporate social and environmental disclosure (Gray et al., 1995). This theory helps in the understanding of social and environmental disclosures by considering the political and economic environment.

7.3.2 Economic development

In this study, the Human Development Index (HDI) was used to measure the level of economic development of Libya. According to this measurement, Libya is considered as a country that has high human development (Human development report, 2014). Table 7.6 illustrates the value of the index at three time points: 2005, 2008 and 2010.

<table>
<thead>
<tr>
<th>HDI rank</th>
<th>HDI value, 2005</th>
<th>HDI value, 2008</th>
<th>HDI value, 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>55</td>
<td>0.772</td>
<td>0.789</td>
<td>0.799</td>
</tr>
</tbody>
</table>

As can be seen from Table 7.6, there was an increase in the value of this index over the period 2005–2010, represented in these three years. This is in contrast with the case of CSED made by Libyan banks. The perceived importance given by banks to CSED decreased continuously over these three years (6.67%, 6.19% and 4.52% respectively). This gives an indication that the increase in the level of economic development did not lead to a similar increase in the importance of CSED; rather, the opposite obtained.
Although this result contradicts the findings of other studies, such as those of Xiao et al. (2005) and Liu and Anbumozhi (2009), it is in line with the results of research such as that conducted by Williams (1999). In his study, Williams provided justifications for the results obtained: one of these was that social pressure, and not economic pressure, is the cause of releasing social and environmental information voluntarily. This social pressure was absent in the Libyan case, as demonstrated many times in many parts of this study.

There are other indications that can provide more support for this result. First, it is argued that accounting development in a country is also affected by the stage of development in that country (Adhikari & Tondkar, 1992). This was not the case in Libya, since the accounting profession was at that time encountering many difficulties, as was demonstrated in other parts of this study. As such, the increase of economic development did not have a positive impact on the accounting profession as a whole or on CSED practices. Second, it is expected that in countries with a high level of economic development, there will be a diversity of economic activities (Haniffa & Cooke, 2005), and companies will try to raise more capital (Archambault & Archambault, 2003). As a result, there is a great need to report the results of these activities to many interested groups such as investors. This argument might be applicable in regard to financial information, but in the Libyan case, as shown in this study, no interest was found in social and environmental information. This leads the discussion to the case of the Libyan stock market, as stock markets reflect the development of economies in countries.

The result of the multiple regression analysis is consistent with this result—an odd result regarding the Libyan stock market. The relationship between the level of CSED and listing on this market was negative. Nowhere in the sixty articles of the resolution that established this market, or in the listing requirements and the procedures of the follow-up of disclosure (which were discussed in another 44 articles), is there a single mention of a demand for social and environmental information. All the focus is on legal procedures, documents and financial information. This might have convince the listed banks that only financial information is what really matters, and as a result they increased their focus on financial disclosure at the expense of the already-negligible levels of CSED. Interestingly, according to the web site of the Libyan stock market, six out of the seven Libyan listed banks were listed in late 2007 and 2008 (Market, 2014). This might add more justification, in addition to the corruption issue, to the result of the
content analysis of this study that the level of CSED was in continuous decline since 2008.

The performance of the Libyan stock market per se has been weak over the period of its existence. The annual reports of the Central Bank of Libya for 2007, 2008, 2009 and 2010 all mention that the trading volume in the market was weak during the years. This weakness continued even after the period 2005–2010. For example, according to the magazine issued by the market (Market, 2012a), the number of traded operations in seven days did not exceed 10 per day, and on one day there was no operation at all.

This market was criticised by some interviewees. The Chief of the Division of Analysis and Regulatory Review (Chief, DARR) said,

> The stock market is already... what I can say to you? It cannot be even considered as an emerging market. It is a dead market. Even the listed banks their final financial statements have not been prepared for years.

According to issue No 49 of the market’s magazine (Market, 2012b), until June 2012 there were five banks (representing about 90% or more of the banking sector) that have not held their ordinary shareholders meetings since 2009.

The Chief, DARR, drew attention to another weakness in the Libyan stock market. He stated that there was no watchdog over this market. One chairman of a bank confirmed this fact saying,

> This market was established prior to establishing a body to monitor the market. This is a mistake. The market is an ideal place for cheating and causing damages to investors' interests.

He explained the reason for the problems of the market by saying,

> This market was not established on a scientific basis. It was established for a political reason. It was established to satisfy the international community. Libya, in late nineties, started to go back to the international community. It tried to assure this community that Libya left Socialism, and started to adopt the market economy. The most obvious indicator that you adopted the market economy is to establish a stock market. That is really why this market was established. It was not established on a scientific basis, and that is why you see its ineffectiveness.

Luis (2011, p. 10) agreed with this view, saying:
Between 2006 and 2008, the consulting firm Monitor Group was hired to assist Libya to reform the economy and to better exploit its potential. In fact, these reforms were cosmetic and designed only to make Libya attractive to the international community.

This comment explains the weakness of the Libyan stock market and its ineffectiveness regarding the issue of CSED practices, and therefore clarifies why the level of economic development is not related to the issue of CSED. Political intervention seems to be the genuine reason for this problem and gives support to political and economy theory, which proposes that social, political and economic factors have an impact upon corporate social and environmental disclosure (Gray et al., 1995). Xiao et al. (2005) believe that the impact of social and economic development on social and environmental disclosure is dealt with only by political and economy theory.

7.3.3 Education

Gray (1988) argued that education influences accounting systems. As such, since disclosures are the product of these systems, then disclosure practices are similarly influenced. Interviews conducted with managers of accounting departments unveiled many reasons behind the low levels of CSED practices provided by Libyan banks. One of those reasons was the lack of knowledge of both managers and staff about the issue of CSED. This confirms the result of Lodhia’s (2003) study, which established the weakness of environmental accounting practices, including reporting, in Fiji. This finding was attributed to the voluntary nature of the practices and the lack of qualified staff to master this kind of accounting. Among the solutions suggested to improve the situation was educating accountants on environmental accounting issues.

The Libyan managers who were interviewed believed that the level of education in general was low. In some annual reports of Libyan banks the issue was also mentioned. In the annual report of one bank, it was stated that “the output of educational system in institutions and universities is still not ready or qualified for the practical banking work”. This was attributed by many managers to the difference between theoretical education and the reality of daily work in the banking environment. Many Libyan researchers agreed on this point. For example, among the papers presented at two conferences held to discuss accounting education and the accounting profession in Libya, and how these can be improved, about 14 papers (e.g. Ahmed, 2007; Ali & Nadia, 2007; Tariq & Abdul Hafeez, 2013) mentioned the issue of accounting curriculums. It was claimed that they were not appropriate for the needs of the job market, and as such they needed to be updated with new topics and to be more related to
the practical accounting practices inside companies. However, there was no paper presented on the issue of social accounting, environmental accounting or the issue of CSED. The only cursory reference to social accounting was in one paper, when the authors listed examples of the topics absent from accounting curriculums.

Three accounting curriculums of Libyan universities were checked in this study to search for topics on social accounting, environmental accounting or issues of CSED. These three curriculums were designed and implemented by the University of Benghazi (the oldest, and the leader university in the accounting field), the University of Tripoli (university of the capital city), and a third one suggested by the higher education ministry in Libya. In those three accounting curriculums, social accounting, environmental accounting and CSED issues were absent. This confirms what was documented in the studies by Mashat (2005) and Elmogla (2009) regarding the same point, and provides an explanation for the low level of CSED since, as illustrated in the interviews, in 12 banks there was no employee at the time of the interviews who possessed a Master’s degree in accounting.

The issue of CSED seems to be absent from the agenda of Libyan universities and the minds of academics alike. Mathews (1997) reviewed twenty-five years of social and environmental accounting research and divided this period into three stages. He stated that in the first stage (1971–1980), knowledge about this new kind of accounting was not considered sufficiently significant to be included in educational programs for undergraduate students during this period. Consequently, the accounting education and profession in Libya seems to be stuck at that stage.

One solution to remedy this shortcoming is, as some Libyan researchers and most of the managers interviewed suggested, to modify accounting curriculums and to update them to include new topics such as CSED. This confirms the suggestion of Deegan and Rankin (1999) that teaching programmes should be modified (by professional bodies and institutions of higher education such as universities), not just for both accountants and responsible managers, but also for commerce students, to increase their awareness of environmental (and social) issues in relation to firms’ activities.

Another subject to examine, apart from education and accounting curriculums, is training programs. Baskin (2006), who found no substantial difference (in reporting corporate responsibility) between emerging market companies and companies in developed economies, noted that the first group is likely to give more importance to the
continuous training of their employees, and the second group is no different in this regard.

The Central Bank of Libya established the Institute for Banking and Financial Studies mainly to provide training programs for Libyan banks in all aspects of banking. The Deputy Director of the Institute for Banking and Financial Studies stated that plans for training programs were based on the needs expressed by Libyan banks.

In order to investigate whether CSED was a topic in some of these programs, the training programs for the years 2006, 2007, 2008, 2010 and 2011 (provided in three folders by the institution to the researcher) were checked. None of the programs focused on CSED. This illustrates the absence of this topic from the agenda of Libyan banks—which made no request for such training programs.

The Deputy Director was asked about the reason for running the training programs. He answered,

The employee is an important factor. He should be always trained and qualified because he is the first factor in achieving profits. Of course, this is the interest focus of the banks…the goal from training the employee is to achieve profits.

This comment confirmed the views expressed by managers interviewed. The financial interest (not the desire of fulfilling social responsibility) was the motivation for banks’ focus on their employees. The same reasoning was found in regard to running many sessions and workshops on customer-related topics. When the question was asked about why there were no sessions or workshops on environmental topics or involvement of banks in society activities, the Deputy Director said, “Our training programs are built on the banks’ needs, which are expressed by them. They did not ask for training programs on these issues”. He added: “The role of the institute comes after the banks become convincing in idea of CSED”.

Consequently, although initially Libyan banks seem to have been the focus of blame for not requesting training programs on CSED, this omission was, to a large extent, the result of external factors discussed previously. Haniffa and Cooke (2002) argued that high quality information is unlikely to be provided in the case of the absence of implementing laws and regulations, and absence of the demand for such information. No training programs on CSED issues were expected to be included when there was no demand for such disclosure.
In conclusion, educational systems and training programs can be claimed to be other reasons for CSED practices being low. However, addressing these two issues cannot be an effective step unless other related issues, such as absence of demand for such disclosure, are addressed as well. One last point to mention here is the institutional theory as an explanatory theory for education and training issues in terms of their impact on CSED practices. It is obvious that the above discussion gives support to the institutional theory (Normative isomorphism) as an explanatory theory for the low level of CSED in Libyan banking system. Amran and Devi (2008) mentioned education, universities, and training centres as major factors in creating normative pressure. Such pressure influences organisations’ attitudes and behaviour. It is argued that education represents a central component of a nation’s institutional profile, due to its important role in preparing individuals for acting in society, and its role in transforming societal norms, traditions, values and beliefs from one generation to another (Trevino & Thomas, 2008).

7.3.4 Summary

In Section 7.3, the impact of several general contextual factors—political factors, the level of economic development and education on CSED practices conducted by Libyan banks—has been discussed. Through these, answers have been given to the following research question: “Do political factors (legal system, regulations, political rights and civil liberties), economic factors (degree of economic development), and cultural factors (education) influence CSED practices of Libyan banks?”

The discussion in this section has revealed that legal systems, regulations, political rights and civil liberties have a negative impact on CSED practices. The lack of freedom at any level in the political environment results in an ineffective role for the press, the absence of civil society organisations, and corruption. These eventually reduce the desire of banks to consider social and environmental issues in their activities, and cause the related disclosure practices to be low.

The level of economic development did not have a positive impact on accounting issues—either on the accounting profession as a whole or on CSED practices. It seems that, as argued by Williams (1999), social pressure, and not economic pressure, is the reason for releasing social and environmental information voluntarily and, as illustrated, this social pressure is absent in the Libyan case. The Libyan stock market also had a negative impact on CSED practices of Libyan banks. Its focus on financial information,
shortcomings associated with its establishment and its current performance left no place for the possibility that this market might have a positive impact on CSED practices.

Education also appears to be deficient in terms of social and environmental accounting in general and CSED in particular. Universities, their accounting curriculums and academics leave a lot to be desired in terms of shedding light on the importance of CSED. Training programs have failed to offer something different. Banking training programs are still devoted to serving the primary goal of banks, which is no more than maximising profits.

7.4 Conclusion

This chapter addressed the following two research questions:

- What is the managers’ attitude to the issue of CSED? And what are the factors affecting this attitude?

- Do political factors (legal system, regulations, political rights and civil liberties), economic factors (degree of economic development), and cultural factors (education) influence CSED practices of Libyan banks?

The results show that profits are the primary goal of Libyan banks. As such, environment and society issues are generally neglected. This attitude is affected by several factors, some of which are related to the bank itself, while external parties cause others. However, most of these factors can be attributed generally to the external environment, represented by different forces such as legal systems, regulations, political rights, civil liberties, economic development, and educational systems and training programs. These interrelated factors together led to a lack of demand for CSED.

This indicates that the issue of CSED is impacted by many influential factors. As such, reforms need to be implemented in economic, educational and political systems. That is, improving CSED practices needs the cooperation of all parties, inside and outside the banking sector, including educational institutions, civil society organisations, regulatory bodies, and so on.

Last point to be mentioned here is the appropriateness of the theories applied in this study for justifying the attitude of Libyan banks towards social and environmental issues in general and the issue of CSED in particular. The study results give support to Institutional theory, stakeholder theory and political and economic theory as explanatory theories for the low level of CSED provided by Libyan banks.
Chapter 8. Manager Attitudes to Using CSED and the Connection Between Disclosing and Using CSED

8.1 Introduction
This chapter focuses on the other side of CSED in the banking sector; namely, the use of this information. In this, and unlike many other organisations, banks play a dual role: they produce CSED, but at the same time, they use such information provided by clients in their lending decisions. The previous chapter revealed the position of Libyan banks on disclosing social and environmental information in their annual reports. Thus, this chapter is devoted to completing the picture by investigating their position on using such information in their lending decisions, and the factors affecting this position. This was done by conducting interviews with the credit department managers of all 17 Libyan commercial banks and two of the four Libyan specialized banks. Further, to elaborate on the prevailing banking culture, the viewpoints of a chairman, a member of a board of directors, a deputy general manager, a finance manager in four different banks, and the director-designate of environment impact assessment department (in the Environmental General Authority) were gathered and analysed. The remainder of the chapter is structured as follows. Section 8.2 reports on the interviews conducted with the two groups. To complete the picture of CSED practices in the Libyan banking context, Section 8.3 describes the connection between the production and use of social and environmental information. Section 8.4 provides a conclusion to the chapter.

8.2 Attitudes of Libyan banks to CSED in lending decisions
This section addresses the approach taken to answering the second main research question: “What is the position of Libyan banks in relation to the use of social and environmental information, disclosed by companies, in their lending decisions? And what are the factors affecting this attitude?” The aim was to investigate whether Libyan banks used CSED in their lending decisions, and what factors were assumed to affect such use. Therefore, this section is devoted to providing answers to the following research sub-questions:

2.1 Do Libyan banks use environmental information (as disclosed by companies seeking loans) in their lending decisions?
2.2 Do Libyan banks use social information (disclosed by companies seeking loans) in their lending decisions?

2.3 What are the factors affecting the issue of using environmental and social information (disclosed by companies seeking loans) in lending decisions of Libyan banks?

It was considered useful first to have some basic information on the study participants regarding their qualifications and expertise, since their answers were likely to be, to a large extent, a reflection of these two important elements. Table 8.1 shows educational qualifications of the participants, and their relationship to their banking work.

<table>
<thead>
<tr>
<th>Qualification</th>
<th>Number</th>
<th>Qualifications related to accounting or banking and finance</th>
</tr>
</thead>
<tbody>
<tr>
<td>The First Group</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Master degree</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>College diploma degree</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Bachelor degree</td>
<td>9</td>
<td>6</td>
</tr>
<tr>
<td>Secondary</td>
<td>4</td>
<td>0</td>
</tr>
<tr>
<td>The Second Group</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Doctorate degree</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Bachelor degree</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Higher diploma</td>
<td>1</td>
<td>1</td>
</tr>
</tbody>
</table>

As shown in Table 8.1, more than 76% of managers possessed a bachelor’s degree or higher, but the percentage of participants who held qualifications related to accounting or banking and finance was about 59%. This is less than what was recorded for the managers in accounting departments in the same banks. In the second group, the qualifications were all related, and two (out of four) participants possessed a doctorate, the highest level of academic degree, while the third and the fourth participants held a Bachelor Degree and Higher Diploma respectively.

In regard to their expertise, Table 8.2 shows that more than 76% of the participants spent more than 10 years in the banking sector and, specifically, more than half the participants had banking expertise for more than 20 years. This seems to provide some compensation for the reduction in the related qualification compared to the case of accounting managers, and at the same time should reflect knowledge of the issues that face the banking sector. However, the point is that the participants’ answers and attitudes were likely to be affected by their qualifications and experience.
8.2.1 Libyan banks’ use of environmental information in lending decisions

Firstly, managers were asked whether they had credit policies implemented in their workplace. Seventy-six per cent of the respondents answered that they had such policies, and 23% of them said that these policies were put in place just one or two years previously. This was encouraging, as the existence of credit policies is assumed to mean that there are clear rules regarding lending issues, the activities and industries targeted by finance activity, and the information required for undertaking lending decisions. Thus, the following question was related to the documents that banks required from their clients in order to consider their requests for loans. The managers mentioned that their customers should provide many documents, such as articles of association of the company, licences for commercial activity, economic feasibility studies, collateral, and financial reports such as balance sheets and income statements.

The interesting note is that annual reports were not mentioned; instead, banks asked for the financial statements of the loan seekers. This meant, from the beginning, that any social and environmental information expressed in descriptive or qualitative (not monetary) form in the annual reports of the clients was not considered, or even required, by the banks. The result of the content analysis of the annual reports of Libyan banks, presented in Chapter 6, revealed that Libyan banks preferred to present their CSED in quantitative, not monetary terms. As such, if banks' clients were following the same pattern, a major part of CSED provided by those clients would be omitted. The same thing will happen if clients disclose their CSED in the manner implemented by their counterparts internationally. Othman and Ameer (2009, p. 302) stated that:

Accounting researchers have investigated the amount and content of social and environmental disclosure from the perspective of social accounting. Most of these studies find that firms tend to disclose social and environmental issues in narrative (non-monetary) terms.

Another observation is that information required in the documents was either legal or financial. Thus, a question that might be asked is whether there was another form of

<table>
<thead>
<tr>
<th>Years of experience</th>
<th>Number of Participants</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 10 years</td>
<td>4</td>
</tr>
<tr>
<td>10–19</td>
<td>3</td>
</tr>
<tr>
<td>20–29</td>
<td>7</td>
</tr>
<tr>
<td>30–39</td>
<td>4</td>
</tr>
<tr>
<td>40 or more</td>
<td>1</td>
</tr>
<tr>
<td>Not mentioned</td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
<td>21</td>
</tr>
</tbody>
</table>
information banks were interested in and, if so, how it was collected. Some managers indicated that they took different kinds of information into consideration. One manager stated,

…(additionally) we analyse the information regarding the reputation of the firm (which asks for a loan), its share in the market, its product, its owners, how long it has been operating in the market, and whether there is a foreign partner. This information helps in taking the decision of granting a loan or refusing the customer request.

Another manager emphasized the importance of reputation. He said:

We ask about the reputation of the customer (who made a request for a loan). If the transaction is related to, for example, food industry, we already have some special customers in this market, so we ask for their information about this firm which asks for a loan. We do that in personal and secret way.

This means that banks, in addition to the information provided by the customer seeking a loan, did their own research and collected further information from other sources. This confirms the argument of Thompson and Cowton (2004, p. 215) who stated that banks “can obtain the information they desire through private provision”.

Regardless of whether the information required is obtained from the customer himself or other sources, an explicit question was directed to the managers—whether they asked their clients to present information about the impact of their activities on the environment. Eighty-two per cent of the managers stated that environmental information was not included in their official requirements or policies. This includes those whose bank did not have a written credit policy. One manager said,

We hear this talk (considering environmental information in lending decisions) only abroad, but I am telling you that we do not ask for such thing.

Another manager who spent more than 35 years in the banking sector confirmed that

...honestly, our bank has not look[ed] at the issue of environment, and (has not consider[ed]) the damage which might be caused to it.

One manager went so far as to say:

Let us assume for example that … a cement factory (which has a bad reputation in Libya for its negative impact on environment and people) asked for a loan. To be honest with you I cannot refuse it. This factory was established by the state, and if we refuse to grant it a loan, other banks will do. This is a successful factory, and you know, there is a demand for
cement in the market. We have mentality of the trader. The bank finances the profitable projects.

This position was implemented by all Libyan banks. The annual reports showed that in each year over the period 2005–2010, the largest five Libyan commercial banks, which represent more than 90% of the banking sector, financed some polluting companies, such as cement and steel industries. Otman and Karlberg (2007), who published their book on 1 January 2007, stated that atmospheric concentrations of lead and particulates in Northern African cities often exceed WHO guidelines by a multiple of two, with cement and steel industries, both present in a large scale in Libya, producing as much as 50 per cent of the total particulate emissions.

Even so, the annual report of the Central Bank of Libya on the year 2007 mentioned an increase in the credits granted to economic activities. It also stated that the biggest five commercial banks together granted long-term loans to steel and iron companies (Central Bank of Libya, 2007).

This situation is in contrast with that found in many studies conducted in developed countries, including those by Thompson (1998), Thompson and Cowton (2004) and Weber (2010). These studies demonstrated that environmental information had become an important factor in the process of lending decisions.

However, there were two Libyan credit managers who claimed that they officially asked customers to provide a certificate (proving that the project would not be harmful to the environment) from the Environmental General Authority, a governmental body responsible for environmental issues. One manager claimed that an economic feasibility study, which the customer should provide to the bank, already included information on environmental implications.

Another manager claimed that there was an indication of an environmental issue in the lending policy of the bank, but...

...non-availability of adequate (environmental) information makes this indication just configurable rather than something real. The one who is supposed to conduct the study has no set of rules to rely on (in determining whether the project has negative implications on environment or not).

As such, the blame for not considering environmental issues in lending decisions seemed to be directed at another party.
Another manager stated that the lending policy of his bank did not address environmental issues, but stipulated that the bank was not allowed to finance those projects that violated the culture of the country. It may be more accurate to say the culture that was emphasized by the law, since Libyan culture depends essentially on Islamic teaching, which prohibits earning usury from lending activities. These two managers directed the discussion to the role of the state and its laws on the issue.

However, an observation can be made about the answers of all who expressed, in one way or another, their environmental concerns, and that is their definition of *environment*. In contrast to the law No. 7 of 1982, which defines environment as “the surrounding in which man and all organisms live, including air, soil, and food”, they confined their meaning to residents who lived around the location of polluting companies. Their concern was solely about the people and not about the environment as a whole, which includes land, air, water, all organisms, etc. This is clear in the comment of one manager, for example, who claimed that his bank took environmental factors into account in its lending decisions. He said,

God willing, we try as much as we can, especially in regard to industrial projects, to ensure that these projects will be established far from populated areas, so negative implications will not impact on citizens.

It seems as if it was just a matter of people, not the environment itself. He did not mention in his confirmation that these projects would undergo scrutiny, such as outlining the necessary processes to monitor and control the industrial processes, using filters to control the emission of gases, or treating chemical waste. This reflected more caring about, or being afraid of, people, rather than genuine care of the environment.

In concluding this point (whether environmental information is considered in the lending decisions), more explanation is needed about the claims of a few managers that they *did* take environmental issues into consideration in the process of lending decisions. They argued that they either asked their clients to provide a certificate from the Environmental General Authority (proving that the project would not be harmful to the environment), or to provide an economic feasibility study which should include assurances on the environmental aspects.

The interview conducted with the Director-designate of the Environment Impact Assessment Department (in the Environmental General Authority) revealed that the Department issued certificates regarding the environmental impact of some industries such as cement and soap. However, the Director-designate acknowledged:
To put you in the picture, it is not as you might expect. Sometimes just one or two cases a year came to our department. Actually most of our work is with oil companies.

In regard to the economic feasibility study, the chairman of a bank commented:

Banks require their customers (who seek loans) to provide an economic feasibility study (for their proposed projects for which they ask loans), but as a matter of fact, it is not an economic feasibility study. It is merely another complementary document for the other documents. It is just another document, but the spirit (real meaning) of the study is not there. When the demand for such information is not good, and when decision makers do not need it, then, in reality such information does not mean anything”.

A deputy general manager also revealed that:

In the economic feasibility studies provided to the bank, there is some information missing. For example, in some industries, you will not find any indication to the effect of the dust (on the surrounding environment) in the economic feasibility study. This side is hidden.

In addition to this, it is worth mentioning that these studies were normally prepared by external auditors. They were professional in respect to financial aspects of the study, but on the other hand had no qualifications, expertise, or reasonable knowledge to gauge or evaluate environmental impacts of the production activities. The interviews conducted with some managers in accounting departments, and the interview with the Libyan Union of Accountants and Auditors, confirmed that external auditors were unfamiliar with CSED. As such, relying on economic feasibility studies as a guarantee for the safety of the projects from an environmental perspective seems to have been a wrong choice.

What confirms such a conclusion is that banks re-checked the validity of financial statements of their clients, although these statements were audited by external auditors. A typical comment was,

Sometimes we visit the site of the company (which requests a loan) to check its site, its accounting cycle, and its assets, to ensure that the financial position of the company is strong.

However, some banks accepted economic feasibility studies as proof regarding environmental issues, although these studies had been prepared by external auditors who had scant knowledge of the subject.

Based on the above, in answering the first sub-question “Do Libyan banks use environmental information (as disclosed by companies seeking loans) in their lending
decisions?” it is obvious that the majority of Libyan banks did not take environmental information into account in their lending decisions. Although there was some personal interest by a few managers in environmental information, the subject generally represented a narrow concept, where the environmental implications were seen only from the angle of their impact on residents. This is not to question the way they relied on this information to ensure that the project was not harmful to the environment.

### 8.2.2 Bank use of social information in lending decisions

Based on what managers’ answers regarding the documents and information that banks required from their clients in order to consider their requests for loans, managers were asked whether they requested their clients to present information on their human resources, their customers and their involvement in society’s activities.

Seventy-six per cent of the managers stated that they did not ask their loan-seeking customers to provide information on their employees. The majority believed that such information had nothing to do with lending decisions. They expressed this view with comments such as: “There is no interest in such information”; “I do not refrain from granting a loan to a customer due to information about his relationship with his employees. It is his own policy”; and “This information has nothing to do with granting loans”.

Other managers stated that employee-related information such as employees’ qualifications and employee turnover rates could be used to enhance the quality of lending decisions. One manager believed that such information might be more useful in the case of firms where “their main production factor is human factor”. Another manager said,

> On one occasion, while we were in a middle of lending process to one company (which has a foreign partnership), its employees started a strike against the company. We froze the lending process until the company reached an agreement with its employees, and provided us with a copy of that agreement, so we could proceed in the process granting the loan.

What can be understood from this comment is that such information was used only in the case where it was negative (not positive or neutral) and when it had the potential to threaten the viability of the bank loan. The same manager made it even clearer by saying,

> The absence of information on employees does not stop the process of granting a loan, but existence of a problem between the company and its employees might stop the process.
In regard to customer-related information, 88% of credit managers stated that they did not ask for such information when they evaluated the creditworthiness of firms who applied for loans. They believed that such information was irrelevant to the lending process. One manager stated,

I do not ask for social information. The most important two things to me are the ability of my customer, and his desire, to repay the loan and pay the interest.

For those who claimed that they used this information in their lending decisions, they stated that such information was collected by directly contacting customers of the company that had applied for a loan. Even if some information was provided by the company itself, as a credit manager said, “We will continue collecting information in our own way, because it is more reliable”.

In respect to the possibility of using information on the firms’ involvement in community activities in lending decisions, the situation was disappointing. None of the credit managers claimed that such information could be used to enhance the chance of a customer being granted a loan. One manager stated, “We have not thought about this information. Even if this information is available, it is not effective”.

In general, it is clear that the use of social information in lending decisions is not greater than that of environmental information in these decisions. In fact, only information about employees was used more than environmental information, although this information was ignored by more than three-quarters of the managers. Lack of interest in using social information in lending decisions was also found in the study by Thompson and Cowton (2004). Furthermore, in a study by Emad (2010) of Libyan banks operating in Benghazi city (the second largest city in Libya), he provided the managers of credit departments with proposed social information to see if it would be used in their lending decisions. He found that social and environmental information was ignored, and it made no difference to the perspectives of decision makers in the lending process.

To sum up this point, and in answering the second sub-question, “Do Libyan banks use social information (disclosed by companies seeking loans) in their lending decisions?”, it is clear that the vast majority of Libyan banks did not consider social information in their lending decisions, although there was slight interest in information about employees of firms that ask for bank loans.
8.2.3 Factors affecting the use of environmental and social information in lending decisions of Libyan banks

The discussion will now focus on factors affecting the credit managers’ attitudes. It aims to report on that part of the investigation which dealt with why environmental and social issues and the related information were not considered in lending decisions. As such, this part seeks to answer the third sub-question: “What are the factors affecting the issue of using environmental and social information (disclosed by companies seeking loans) in lending decisions of Libyan banks?”

Similar to the case of disclosing social and environmental information discussed in the previous chapter, these factors can be divided into two groups. The first group includes factors that are more related to the bank itself, while the second focuses on external factors that influence management’s attitude to using environmental and social information provided by clients in lending decisions.

**First group: internal factors**

These factors include the following:

I. Managers’ perceptions of (and attitudes to) the relationship between banks activities and environmental and social issues

II. The need for training programs regarding the use of environmental and social information in lending decisions.

*1. Managers’ perceptions and attitudes*

Personal attitudes appeared to play a role (albeit limited) in how managers considered environmental issues when making lending decisions. Two managers indicated that they took some steps in supporting the environment. One of them mentioned that his bank (a specialised bank) stopped financing some projects due to their harmful impact on food and humans, and commented that

> Although there is no official care, there is a relationship at the personal level by those who conduct the studies, or as a general culture, which starts to prevail (among us) and encourage us to consider the environment.

The content analysis of the annual reports of Libyan banks revealed that this bank was the only bank that disclosed environmental information (in two of its annual reports), and the information disclosed was about a decision taken by the bank to refuse to finance projects because of their harmful environmental impacts. The other manager, from a public bank, indicated that,
…on one occasion, there was a lending request for establishing a factory. After checking the documents I refused to process the transaction for three reasons. The suggested location for the factory was outside the industrial schemes, on an agricultural land, and there was a possibility to harm the residents…this attitude was a result of a personal conviction.

This confirmed the argument of Branco and Rodrigues (2008b, p. 177) that

...some companies engage in social responsibility activities and disclosure because their managers’ personal values are aligned with CSR values. Social issues may merit moral consideration apart from their interest to stakeholders and lead managers to consider the social impacts of corporate activities in their decision making.

To investigate further the managers’ perceptions and attitude to environment issues, managers were asked whether they would consider the action of financing transactions, such as purchasing filters used for reducing emissions from production operations, as an indication from the banks of their role in protecting the environment. There was unanimity among all managers that this kind of transaction did represent participation by banks in protecting the environment. One manager said, “We welcome this kind of transaction”. Another manager stated that

…it is right that lending policy of our bank did not prevent the bank from financing polluting projects (as long as it does not violate the law), but we support any project which support the environment. We will be enthusiastic for such projects, and we will publish this in the journals.

Another three managers indicated that this participation should be profitable. One of them stated: “If I found that the repayment period is reasonable, and this project will generate revenues, there is no problem (in financing it)”. Another manager stressed,

When such project is presented to me, the first thing comes to my mind is whether this project capable of repaying the loan and generating interests for me. This is the first thing crosses my mind.

One of the managers made it very clear in regard to environmental issues. He emphasized the interest of his bank, which should be the motivation of any decision. He said,

Honestly, I am just the financier of that project. What is my benefit in this story (taking environment issue in the lending decisions)? What is the advantage that I will get from that?
When the question was posed in a different way, the managers’ opinions were divided. The question was whether banks should be deemed to be partners in polluting the environment if they financed projects that had negative impacts on the environment. Fifty-three per cent of the managers agreed that such finance represented a participation in polluting the environment. However, this did not mean necessarily that recognizing the connection would lead them to revise their policies. In fact, some of the managers admitted that they sometimes made decisions that were contrary to their opinions. One manager said,

Yes, sure. When the bank grants loans to polluting companies, it participates in polluting environment. However, we do not follow such reasoning.

Another manager confirmed this attitude and explained it further by stating:

Let me detail this matter to you. Personally, as a manager of credit department of this bank, if I left this chair (chair of the manager) and sat on that chair, the picture in my mind would change. I would criticize the polluting projects, and I would say that banks should not grant loans to such projects, but when I come back to set on chair of the credit manager, this talk means nothing to me. This kind of convictions has no relationship with my work. As a banker, all what I wish is to make profit (regardless of environmental issues). If you sit on this chair (the manager chair) you will say the same thing. If you leave this chair, you will say the bank should not grant loans to polluting companies.

In contrast with the attitudes of managers whose personal beliefs overcame the banking culture, this comment shows how the profit culture in the banking sector overrides the personal convictions of some credit managers. This is congruent with the argument of Buhr (2001, p. 416) that the behaviour of the managers was very likely to be influenced (and therefore changed) to suit the culture of their companies. He stated that

in actuality, the manager…will come under a corporate sphere of influence that determines what conduct counts and to whom one is accountable”.

In addition to that, he pointed to the argument of DiMaggio and Powell (1983) that managers influenced by such a sphere were likely to behave in a homogeneous way.

Other managers, who did not accept the idea that banks are partners in polluting environment by granting loans to polluting firms, put the responsibility on parties other than their own banks, and provided different reasons to defend banks’ attitudes in acting in an irresponsible manner in terms of the environment. This will be discussed later when examining the issue of external factors.
In regard to using social information in lending decisions, there was a common belief that social information as a whole was something that concerns the companies themselves, not the banks. In some cases, managers went so far as to interpret such information as a negative sign. For example, one manager assumed that

…expenditure of a company on employees can be also taken as an indication that the company spends its money on unnecessary activities instead of repaying loans, the matter which impact its ability of repayment.

The useful link between such information and lending decisions was generally unseen or in some cases overlooked by managers. This confirmed the result of previous studies (Benjamin & Stanga, 1977; Deegan & Rankin, 1997; Teoh & Shiu, 1990) which were mentioned in the work of Milne and Chan (1999, p. 442), who asserted that

…bankers and investment analysts seem to be the most likely to state that social or environmental information has little or no importance for them.

Nevertheless, some managers did not deny the usefulness of some social information such as that related to employees; but this was not enough to convince them to use such information in their lending decisions. One manager said, “Sure. This information has an impact. I believe it is important, but it is not required in lending decisions”. Another manager admitted that he knew that

whenever the bank increased in the granting of advantages for its employees, the performance of those employees will improve as a result. This is an investment in human resources, and companies should have such investment.

Nevertheless, he continued, saying that “if a company did not do so, I will not refrain from granting loans to this company because of that”. The difference between bankers’ attitudes and perceptions on one side, and their decision-making behaviour on the other side (which was also seen in the case of environmental issues) has been shown in earlier results. Milne and Chan (1999, p. 443) stated:

The possibility that people’s perceptions and attitudes might not correlate with decision-making behaviour is something that has long been recognized in the psychology literature.

He mentioned the argument of Schuman and Johnson (1976) that the assumption that the attitudes cause, reflect, or at least correlate substantially with behaviour should be taken with caution. Schuman and Johnson (1976) mentioned many studies (Kutner, Wilkins, & Yarrow, 1952; LaPiere, 1934; Saenger & Commission, 1948) that clash with
this assumption by demonstrating not only small correlations between attitude and behaviour, but sometimes none at all.

Apart from the potential conflict between the managers’ attitude and their behaviour, few managers expressed their personal conviction that some social information might be usefully looked at, although it was not mentioned in their lending policy. However, even personal opinions regarding the possible benefits of this information seemed to be built on financial reasons and personal relations, not from an ethical stand that implies banks should encourage companies to behave in a socially responsible manner. A manager represented this attitude by saying:

 Honestly, I ask for some information about the employees of the customer (who applied for a loan), but this is not for the social reasons. I need to ensure that this company is able to continue its business, and it has human resources which guarantee this continuation. I look at the issue from this perspective, but the idea of looking at this information from social dimension? This is an ideal idea [then the manager laughed].

Another manager summarized this view saying, “The main objective remains always and purely business”.

In proposing other possible reasons behind some managers’ attitudes, one manager stated:

 To me, it is unreasonable to help (finance) a company which oppresses its employees. This is a human side, not written in the lending policy but personally I care about it.

The interesting thing is that the same manager mentioned, when discussing environmental issues, that his bank had refused to finance a tobacco company because the product was harmful to individuals, but at the same time they saw no problem in financing cement companies—although they were well aware of the negative impact of these industries on human beings and the environment. Although such contradictions seem puzzling, two reasons might be given as justification. First, while there was no positive impact on society resulting from the tobacco industry, the cement industry did have a role to play in economic development, in spite of its negative effects. Second, personal relationships might have influenced the attitude of managers. For example, this same manager stated,

 Our city (where the headquarters of the bank exist) is a small city. If you ask me about any company I will give you information on it, at least I will give you 50% of the information without even going to that company. For example, if you ask me about the cement company, half my relatives are working there, thus I have very latest information on it.
Apart from confirming the fact that some banks collected information through different means other than annual reports, it seems clear that the attitude of the manager was very likely to be influenced by his blood and friendship relations, so their interests (represented by the continuity of the company in the market) were likely to be considered in lending decisions related to their companies. This leads to the idea that in such small cities, granting loans to companies that oppress their employees might be seen as a harmful act against relatives and friends. Mashat (2005) commented that Libyan society is dominated by tribal and personal relations. Further, Amer (1999) indicated that personal relationships affect the decisions of granting credit facilities by Libyan commercial banks. This provides a support to the institutional theory (Normative isomorphism) as an explanatory theory for the attitude mentioned above. Kostova (1997, p. 180) included “social norms, values, beliefs and assumptions that are socially shared and carried out by individuals” in the normative component of a nation’s institutional profile.

The case did not differ in regard to other types of social information. For example, some managers’ statements about the involvement of the customer in society activities include: “It is not important to us. It concerns him alone”; “It may become important in future”; “It is maybe important but we do not request it”; and “This information has an impact on the customer reputation”. However, as has been stated previously, none of the banks considered such information in the process of their lending decisions. A member of a board of directors stated, regarding information on employees and customers,

This information is not important in lending decisions. What we are interested in is the ability of repayment, and achieving profit from that.

The deputy general manager commented, regarding information on the customer’s involvement in society activities, “This information concerns his reputation”.

What might be interesting to note in all opinions and comments is that no one expressed the idea of the role of banks in encouraging companies to behave in an environmentally and socially responsible manner and to disclose more social and environmental information publically. For the most part, bankers were disregarding social and environmental information, or in the few cases where some benefits of this information were perceived, the banks' interests were the ultimate goal behind such perceptions.

Gray and Bebbington (2001, p. 208) stated:
Ultimately, financial institutions have the greatest power over organisations, can greatly influence them in positive ways and profoundly hinder them in negative ways.

Thompson and Cowton (2004) discussed the idea of using such power to encourage or urge organisations to behave in an environmentally responsible manner, and to disclose more information on that aspect. In their study, they found that such an idea has two problems. First, banks were found to be interested in the possible impact of the environment on their lending, not in the impact of their lending on the environment. Consequently, when considering loans, as long as their interests were not at risk due to legislation or regulations, banks cared nothing about the negative impact of their customers’ activities on the environment. Second, banks were unwilling to put pressure on their clients to disclose more environment information publicly, because banks could obtain extra information in a private way.

This argument is applicable to the case of Libyan banks. They were not interested in the impact of their lending upon the environment and society, as long as the environment and society could not impact negatively upon the lending of Libyan banks. As such, they were not interested in putting pressure on their customers to behave in an environmentally and socially responsible manner or to disclose more information on that aspect. Moreover, it seems that Libyan banks were following in the footsteps of the Central Bank of Libya in this matter. The interviews conducted regarding the issue of CSED revealed that the Central Bank of Libya was not interested in exploiting its power to encourage or force banks to disclose more CSED, since the bank was not interested in such disclosure and it collected any information it needed in different ways other than through annual reports. As a result, the chance to improve the content of annual reports of Libyan banks in terms of CSED was lost.

II. The need for training programs
Recognizing the importance of environmental information in taking lending decisions is the first step towards using such information in these decisions. The next step is to have the necessary knowledge to evaluate and interpret this information in order to estimate the risks that might result from financing some projects. Thus, managers were asked whether there was a need for training the staff in their departments who dealt with and used environmental information in the lending process. Just 12% denied a need for such training. This was because they believed that environmental information should be certified by a trustworthy third party whose credibility the bank could trust. One manager said, “When the study (including environmental information) is certified by
related parties, then [there is] no need for training programs”. A member of a board of directors and the deputy general manager agreed with this opinion.

Other managers agreed on the need for training programs that included the use of environmental information in lending decisions. One manager stated,

Any new development in the banking sector which changes banking thinking creates a need for related training programs. For example, we have done intensive training programs on money laundering when such problem emerged. By the same token, there should be local and abroad training programs regarding environment and its relationship with banking activities.

Another manager went further to suggest that “the credit department should have a qualified employee in this topic (environment)”. This suggestion, if implemented, would reflect a real interest and seriousness of the bank about this issue.

However, some managers pointed to certain obstacles, such as cost, which needed to be addressed or at least taken into account. One manager argued, “This will cost the bank”. Another manager said, “Our bank is small. Maybe big banks, as they grant more credit facilities, are more interested and capable of doing so”.

These considerations did not differ from those related to social information. One manager said, “We do not have a staff qualified in evaluating and using this information. I myself cannot do that. We need training and workshops”. Another manager mentioned the existence of interest in such information as a precondition for taking this issue seriously and establishing intensive training programs on the subject. A suggestion provided by another manager seemed most interesting. She said,

If banks start to take such information into account in their lending decisions, we need either workshops on this matter or employing those who have an expertise on social topics. Employing staff who are qualified in social issues would reflect a genuine interest in the impact of banks’ activities on society. It is an advanced step, and needs a very open mentality.

Lastly, it is worth mentioning that the case regarding the importance of training programs, in the issue of using CSED in lending decisions, lends support to the institutional theory (Normative isomorphism) as an explanatory theory for absence of such use. Amran and Devi (2008) mentioned training centres as a part of many major factors in creating normative pressure, which influences organisations’ attitudes and behaviour.
Second group: External factors

These factors include those that affect bank managements’ attitudes and desire to use environmental information in the process of making lending decisions. These factors can be broken down into the following:

I. The state’s attitude to environmental and social issues
II. The attitudes of other banks
III. Legislation and risks associated with environmental and social issues
IV. Effectiveness of the mechanism of implementing legislation
V. Public awareness and pressure of civil society organisations
VI. Availability of environmental and social information
VII. Credibility issue in the information provided
VIII. Demand for using CSED in lending decisions.

I. The State’s attitude to environmental and social issues

In discussing the managers’ perceptions of the relationship between their banks’ activities and environmental issues, some managers did not accept the idea that banks are partners in polluting the environment by granting loans to polluting firms. They put the responsibility on parties other than their own banks, and provided different reasons to defend the banks’ attitudes in acting in an irresponsible manner in terms of the environment. The state was the first to be blamed for not taking environmental concerns into account in lending decisions.

The first issue raised was that all polluting companies had been granted a license from government authorities. As such, managers who defended the attitude of their banks in financing polluting projects argued that banks dealt with companies whose activities were licensed by the state. For those bankers, having licenses somehow legitimised the process of granting loans to the holders of these licenses, regardless of the impact of their activities on the environment. A typical comment was: “It is the responsibility of those who evaluated the activities of those firms and gave them licenses to carry on these activities”.

One manager explained:

If the authorities, which give licenses, considered activities of these firms (which are criticized for being pollutant) harmful to the citizens, they would not issue licenses to these firms (so, they should be safe as long as they were licensed). This is first. Second, everything licensed is legally permissible. Thus, this issue (considering environmental side
in the economic activities) should be addressed beforehand, prior to seeking banks' loans. This dilemma should be already resolved by then. Do not put banks in the corner.

Although this comment confirmed that some banks do not care about the negative implications of financing economic activities as long as these activities are legal, it leads to an important point. The issue of taking the matter of environment into account should not be raised just when the polluting companies seek loans from banks. It should be raised, discussed, stressed and addressed at the level of the state and community, before reaching the point of granting loans. Ignoring this point raises a question regarding those polluting firms which do not need bank finance. How can they be stopped? Protecting the environment, thus, seems to be much greater than banks’ capacity. It requires that this protection start from the state and its citizens, then the role of banks would subsequently complement these efforts. A deputy general manager held the same opinion. He said, “When you come to address this issue, we should focus on the root of the problem, not jumping to the role of the bank, which represents the pre-final stage”.

Some managers did not want banks to be seen as policemen, or another governmental body that tries to monitor others and prevent certain actions. One manager stated, “This is the perspective we implement. The state should fulfil its role, and we will fulfil ours”. One chairman of a bank was clearer in his viewpoint. Even though he agreed that financing polluting companies represented a participation of the bank in polluting the environment, he said,

I do not care. It is not my responsibility. If there is a smoke… pollution, then it is responsibility of the state 100%. I am responsible for people's money. I am responsible for investing this money and making as much return as possible for them. Do not say to me think about the public interest. There are those who are responsible for public interest. It is not my responsibility”.

Playing the police role is likely to increase the burden on banks in terms of (a) the financial and time costs incurred by checking on environmental issues and (b) the possibility of losing profitable opportunities, etc. However, other managers held different opinions. One manager said, “Our bank (a specialised bank) is a part of the state. It cannot grant loans, which lead to harming the state”. This comment revealed a sense of a loyalty to the relationship, which linked the bank to the state. This made the bank behave in a way similar to that of the state. Thus, it refrained from acting in an irresponsible manner, depending on the government’s definition of what things were considered to be irresponsible. What might underpin this idea is the absence of profit
pressure on this type of bank. The credit manager of the other specialised bank offered another reason for considering the environmental side, even for licensed projects. He argued:

This (ignoring the environmental issue) might create a problem to the customer and causes its project to fail…there are some projects did fail due to their obvious harm to the regions where they operate, the matter which led the residents to act against these projects, and eventually close them down.

This manager, in addition to supporting the interests of the state, did not ignore the interests of the bank itself. He was considering the risks that the bank itself might incur when customers became unable to repay loans.

The second issue raised about the attitude of the state to the environment was that government companies and projects were themselves participating in polluting the environment. In fact, Otman and Karlberg (2007, p. 373) stated that “most polluters (are) owned by the public sector”. Managers gave many examples and named many government factories and companies that negatively affected the environment. One manager commented that “petrochemical plants, factories of steel and cement were established by the state”. Another manager stated,

There is a cement plant near to the city of Benghazi. People of the city and the land surrounding the plant have negatively been affected. Yet, this factory is still operating as if the damage it caused to the environment and people is something insignificant. No one suggested resolving this problem. The same situation is in the city of Derna.

Such problems began with the implementation of economic and social plans (mentioned in the second chapter) in the 1970s. Concentration by the government on developing the economy resulted in massive pollution. Otman and Karlberg (2007, p. 372) mentioned the report of the World Bank in 1995:

Since much of Libya’s industrial base was developed in the 1970s, the equipment of most plants and industries is old and highly polluting. The situation is further complicated by the dominance of the public sector in industry, which provides little incentive for adopting more efficient and cleaner industrial technologies. Few enterprises have air emission controls, and a lack of maintenance and spare parts often impairs the performance of the existing systems.

Such attitudes taken by the state are likely to discourage banks from behaving in different ways. One manager stated, “If the state does not care about environment, as
banks we have no solution for such case”. Another manager argued, “If there was a concern for the country from the beginning, we would not reach that point”.

Another manager went further, and blamed everyone for polluting the environment. He complained:

Sewage is flowing into the sea... petroleum factories release (gases)... All these are polluters... ships empty oils of their engines in the sea... even you when you drive your car, in front of patrolman, while it is not environmentally fit to be used.

This comment can be interpreted in the following question: Why me? If everyone has participated in polluting the environment, why blame the banks? This kind of thinking gives support to institutional theory as an explanatory theory for such behaviour. Banks’ culture cannot escape the general culture of the country in which they operate. Banks seem to consider the morality, knowledge or behaviour of employees, managers and citizens in general as a source of normative pressure.

The state was also held to blame in regard to the situation with social information. One manager, in justifying why he did not consider information on customers in the process of lending decisions, said,

Legislations and laws of the state always and simply change. The bank granted, for example, a loan to a firm which administratively followed a trustworthy party. After a while new legislation emerges to make that firm belong to another party, and as a result the bank loses its loan. Law changes in the previous period (before 2011) caused distrust, and that is why banks focus always on securities.

The transfer of ownership of companies from one administrative body to another can cause some banks to lose loans and suffer an increase in the number of their non-performing loans. Such problems occur even at the national level, where the administrative structure of the country has changed several times, and thus many public companies were affected. Therefore, the responsibility for their financial transactions, including those with banks, became unclear, and this resulted in losing bank loans, and in turn losing the banks' trust in information.

Another point was mentioned by a manager of a public bank. He found an excuse for those public firms that do not conduct and publish information on their involvement in societal activities. He said,

As a public bank, there are some activities in which we cannot involve, because there are some restricted directives, from supervisor bodies and Central Bank of Libya prevents
public banks from specific activities such as donation. In the past, we provided some
donations and subsidies for families of the deceased. Now we are not allowed to do so.

Consequently, some managers blame governmental bodies for non-availability of
certain information. Laws and governmental policies might not help in regard to
fulfilling social and environmental responsibilities, simply because they were designed
based on a narrow perception of maintaining public money.

II. The attitudes of other banks

It is reasonable to assume that the attitude of a bank to banking issues is a result of
many factors, including the attitudes of its counterparts to the same issues. Thus,
managers were asked whether their attitude to using environmental information in their
lending decisions was affected by the attitudes of the banking sector to this issue
generally. Only two managers claimed independence in their attitude. A credit manager
of a specialised bank presented one reason for not being affected by the attitudes of
other banks. He said,

For commercial banks, their main concern is how to achieve profit. In contrary, we focus
on providing services. When we do so we aim to help and protect both our customer and
environment.

The other manager (public bank) said,

It is right that we do not ignore the matter of competition, and we aim at having the biggest
share in the banking sector, but at the same time, we should have a big interest in
environmental side of the projects that we are considering in our lending decisions,
regardless the attitude of other banks towards the same issue.

Apart from the fact that the word should does not have the same meaning as the word
do, being a big public bank may mitigate the pressure of making a profit, and make the
matter of missing some transactions for any reason, including an environmental one,
insignificant to the continuation of the bank.

In contrast, the importance of other banks’ attitudes in determining the individual
attitude of each bank was highlighted by many managers. It was found at the beginning
of the interviews that banks generally did not use environmental information in their
lending decisions; it was assumed that individual attitudes of banks were in line with
this reality. One manager stated,

This is what we face currently. If I ask my customer (who seeks a loan) to provide some
specific information, such as environmental information, he will turn to other banks. They
will grant him what he wants, and my bank will lose this opportunity. The competition pushed some banks to grant loans with minimum conditions, in order to increase their shares in the banking market.

As a result, another manager underestimated the ability of any bank to make a difference if it chose to act in a responsible way. He affirmed:

> For the sake of argument, let us say that we refused granting a loan to that (polluting) company. This will not prevent its project from being established and financed. Other banks will finance the (polluting) project of this company.

He drew attention to the idea that not exploiting the opportunity to make a profit did not make sense, as it would not benefit either the environment or the bank. As such, it was not wise to take such a stand. Refusing to grant a customer a loan due to an environmental issue was “not the right decision from [an] economic perspective” another manager argued.

The root of this position can be found in the annual reports of the Central Bank of Libya (Central Bank of Libya, 2005, 2006, 2007, 2008, 2009, 2010a). Table 8.3 shows how the total excess cash within commercial banks increased each year.

<table>
<thead>
<tr>
<th>Year</th>
<th>Total excess cash (in millions)</th>
<th>Percentage of the increase</th>
<th>Page numbers in the annual reports</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>6935.1</td>
<td>48.1%</td>
<td>P. 103</td>
</tr>
<tr>
<td>2006</td>
<td>8684.3</td>
<td>25.2%</td>
<td>P. 76</td>
</tr>
<tr>
<td>2007</td>
<td>14915.6</td>
<td>71.8%</td>
<td>P. 79</td>
</tr>
<tr>
<td>2008</td>
<td>24915.8</td>
<td>67.8%</td>
<td>P. 99</td>
</tr>
<tr>
<td>2009</td>
<td>27226.1</td>
<td>8.6%</td>
<td>PP. 83-84</td>
</tr>
<tr>
<td>2010</td>
<td>31126.7</td>
<td>14.3%</td>
<td>PP. 86-87</td>
</tr>
</tbody>
</table>

One of the reasons for the increasing excess cash held by commercial banks (mentioned repeatedly in all the above-mentioned annual reports) was the limited investment opportunities available for these banks. This situation shows the enormous pressure Libyan commercial banks have faced in their business. As such, it is hard to expect that attitudes of banks would differ in regard to exploiting opportunities to finance a legally permissible project, even if it was not environmentally friendly. This matter casts doubt on the validity of the claim made by Gray and Bebbington (2001, p. 208) that “financial institutions have the greatest power over organisations, can greatly influence them in positive ways and profoundly hinder them in negative ways”. In the case of Libyan banks, it seems that the opposite is true. Libyan banks with excess cash and limited investment opportunities available to them seem to have been in a weak position, and
they could not influence firms in positive ways; rather, they financed their projects regardless of the harm caused by these projects. This, as a result, questions the dual role of banks in the issue of CSED. Libyan banks seem to be unable to encourage or force companies to behave in a socially and environmentally responsible manner. As a matter of fact, the opposite seems to be true. Banks seem to be forced to disregard the issues of environment and society if they are to survive in such a competitive environment.

Additionally, in line with institutional theory, the issue of considering environmental information in lending decisions is something new for the banking sector. Thus, it is understood that banks would prefer to stick with what is known in their traditional work rather than become involved in new practices that are not required and are not economically profitable from a banking perspective.

In regard to social information, the situation was identical. One manager indicated that there was no point in taking a stand-alone approach while others remained unconcerned about this issue. He summarised the case by saying,

Do you know the story of Don Quixote, who fought windmills? We fight windmills. We can ask for this kind of information, but we will lose good customers. They will go to another bank that does not ask for this information. They take from you, in five minutes, the customer whom you spent many years encouraging his loyalty towards the bank. This is due to backwardness of the entire community, not just the banking sector. Those who work in banking sector are members of the society, and the society is still backward unfortunately. They look at the customer as a victim. Who is going to hunt him first? As such, banks will not look at the side effect of their loans. If the bank decides to take social issues into account in its lending decisions, others will not, and as a result you will find yourself alone.

This comment emphasises the immense competition between banks due to the increasing excess cash. The manager who is quoted above attributed this to the backward culture of the society, and this lends support to normative isomorphism—one of the mechanisms of institutional theory where the behaviour of an organisation is influenced by “social norms, values, beliefs and assumptions that are socially shared and carried out by individuals” Kostova (1997, p. 180).

Another manager also provided support to institutional theory—specifically to mimetic isomorphism—another mechanism to achieve institutional isomorphism. She said that if other banks started to ask for, and used, social information “I will be encouraged to do
the same. I will be more interested than them even, but if no one does such thing, then I will not care, especially if it is a new issue”.

III. Legislation and risks associated with environmental and social issues

One manager, who holds foreign citizenship, stated:

In Libyan market, no [We cannot be considered as a partner in polluting environment, because]. There is nothing prevents banks from financing polluting industries. As a bank, if I refrain from financing a polluting project then it is something ethical, but there is no commitment [to do so]. Sometimes, business mentality of the decision maker overcomes the social side.

He was actually blaming the deficiency in legislation, which does not hold banks accountable for financing polluting projects.

In the literature review chapter, three risks associated with the environmental issue were mentioned: indirect risk, direct risk and reputational risk. The first two result from the existence and implementation of environmental legislation. Indirect risk emerges when a borrower causes damage to the environment and, as a result of the law, he pays fines, the cost of cleaning up contaminated sites, or losing revenues because of bad reputation, etc. These costs impair the ability of the borrower company to repay loans, and may end with the bank losing its loans. The second and direct kind of risk occurs when banks incur the liability of cleaning up the contaminated sites owing to insolvency of the borrower. The cost of remediation can exceed the amount of the original loan, and in this case the bank will lose its loan and pay additional costs. These two risks, in addition to reputation risk, have caused banks to change their credit policies and, as a result, refuse some loan applications for environmental reasons, and exclude some industries from future transactions due to their negative impact on the environment (Coulson & Monks, 1999). Banks therefore started to take environmental risks into consideration in their loan assessments (Gray & Bebbington, 2001).

Based on this, credit managers of Libyan banks were asked whether there was any legislation that would introduce such risks to their activities. There was a consensus that such legislation was non-existent.

In regard to Libyan environmental legislation, Otman and Karlberg (2007, p. 354) stated that

In Libya, since 1958, there have been a series of Laws and Decrees concerning environmental protection, which have dealt with the treatment of effects and risks of
environmental pollution, with, in theory, the imposition of severe penalties on violation of the provisions of such laws. In this respect Libya can be said, on paper at least, to be a leading country in this field among the developing countries.

They mentioned a list of the main environmental laws, which included (a) The Libyan Maritime Law, issued on 28 November 1958; (b) Law No. 81 of 1971 regarding seaports; (c) Law No. 8 of 1973 with respect to the prevention of oil pollution to sea waters; (d) Health Law No. 106 of 1973 and its Executive Regulations regarding all aspects of the environment and environmental protection; (e) Law No. 25 of 1976, amending certain provisions of the Maritime Law; (f) Law No. 7 of 1982 with regard to environmental safety and its accompanying Executive Regulations, issued by the Resolution of the General People Committee No. 386 of 1998 and considered to be Libya’s most important law on environmental protection; and (g) other laws issued in the years 1982, 1984, 1989, 1992, 1996. Otman and Karlberg (2007, p. 360) concluded that all these laws make special provisions and stipulations for environmental protection, defining principles, rules, and controls for its protection. In these laws, deterrent penalties are set for violators in accordance with the magnitude and type of violation.

It seems, therefore, that there is a contradiction between the opinion of credit managers and reality. In fact, there is no contradiction. The managers were talking from their own experience. These laws had not had an impact on their banking work, either directly or indirectly. No Libyan bank customers were unable to repay loans due to environmental issues, and banks had not become liable for environmental problems caused by their clients. As such, banks were not exposed to the two risks (indirect risk and direct risk) mentioned above which relate to the environmental issue. One of the credit managers said, after mentioning a cement company and its polluting factories operating in some cities,

There are no (environmental) legislations, and the proof of this is that the cement company has not been held accountable even once (for the damage is caused to people and surrounding environment)...and the same is happening with other factories...this is what exists in reality. This is a proof that there are not legislations regarding the environment.

Another manager said, “Even if these (environmental) legislations exist, then they are in drawers (not implemented)”.

The implication of this reality can be seen in the following comment of the credit manager of a bank:
I do not think that we have such (environmental) legislations. Thus, if a customer comes to our bank seeking a loan for its project, and this project has some negative impact upon the residents, I will finance this project as long as the project is profitable and the customer provides me with securities and an economic feasibility study. No one can prevent me from doing so.

It is obvious that the absence of environmental legislation that would influence banking operations and revenues was a prime reason why banks continued to ignore environmental issues. One manager said, “We are ready for adjusting our policies immediately if such legislations emerge”. Another manager confirmed this:

This is the main reason. If there is a specific law regarding this issue, I will care, because there is a financial fine. Banks will consider the environment issue prior to even looking at the securities (provided by the customers).

In regard to the interest of banks operating in developed countries and the consideration of environmental issues in their lending decisions, the manager commented, “Of course, this interest is not in environment, but in preventing losses”. This confirmed the argument of Thompson and Cowton (2004, p. 215) who stated that “banks are not so much interested in the impact of bank lending upon the environment as in the impact of the environment (as filtered by regulators, etc.) upon bank lending”.

Considering the case of social information, as mentioned in the literature review chapter (Chapter 3), there is a possibility that legislation can cause indirect risk as a result of ignoring social information in lending decisions. For example, when employees or customers of a company (granted loans from banks) sue it, the company might end up being unable to repay the loans. However, this was not the case in the Libyan context. None of the managers interviewed mentioned such a circumstance; that is, no Libyan bank customers became unable to repay their loans due to social issues. One manager stated, “In the past, and based on our previous experience, we have not faced such cases”.

Even if there is a possibility that this situation could occur, banks take securities as a guarantee for their money. One manager said,

As a bank, we will not be responsible for legal problems of our customers. When we gave a loan to that customer we took securities from him. If there was no securities provided we would not grant a loan. If the company become unable to repay the loan I have these securities under in hand and I can follow the legal procedures which are implemented in this matter.
A member of the board of directors of one bank confirmed this argument saying: “This kind of risk does not exist. Granting loans is based on taking mortgage from the debtor. He will repay the loan whatever happens”.

The direct risk (where banks become liable for social problems caused by their clients) was far from the minds of management in Libya. One manager said, “We have not yet reached this ideal case”. A member of a board of directors of a bank stated, “There are no such legislations. The customer will incur his problem alone”. This reflects a weakness in the capacity of laws to track all the factors that contribute to social violations. It is reasonable to think that banks financing a company which, for example, uses child labour, should be deemed as partners in such a crime. This is because they enable such a company to commit such a violation.

Laws seem to concentrate only on those who commit the offence, and ignore other actors who participate in the violation, but in a less obvious or direct way. This situation can be noted in many legal cases. For instance, alcohol is found to be a cause of many crimes—such as rape, murder, theft, mugging, assault, domestic violence and vandalism, as well as a reasonably high proportion of road accidents. Yet the law does not punish companies producing alcohol; rather, it considers only the person who committed the crime. Confining the responsibility to just one party and not extending this responsibility to others, who participate in one way or another in causing the problem, may explain the attitude of banks to the idea of using social information in their lending decisions.

Based on the above, banks have not been exposed to the two risks (indirect risk and direct risk) and, thus, ignoring environmental and social information in lending decisions will not lead to legal and financial problems. This means that banks will not change their credit policy for the benefit of both the environment and society as long as there is an absence of a legislative framework for such issues. Financing firms’ projects as a partner, not as a lender, will create the possibility that the direct risk might occur if the project causes harm to the environment or society. Banks will find that they have no option other than to take care of any possible implications as a result of lending to companies undertaking questionable projects (i.e. those that cause harm to the environment or society).

The solution for this case might rest in the idea of transforming Libyan banks from conventional banks to Islamic banks. Financing firms’ projects as a partner, not as lender, would create the possibility that the direct risk might occur if the project cause
harm to environment or society. Banks would find that they had no option but to be careful about the implications of the projects in which they participate.

More broadly, the idea of transforming conventional banks into Islamic banks, or providing Islamic banking services that focus on the partnership concept, has the potential to provide a solution to the problem of ignoring environmental and social information in lending decisions. For Islamic countries, transformation of the conventional banks to Islamic banks would serve society in two ways. First, banks would benefit from the philosophy of Islamic banking, which is based on the idea of avoiding harm to humans and all living organisms, as well as to air, soil and food. This would provide the motivation for considering environmental and social issues. Second, transformation from lender to partner would push banks to be more serious and careful about studying suggested projects. They would be keener on their success, because the responsibility for such projects would change from indirect responsibility to direct responsibility. This would be especially so in countries where legislation does not extend the responsibility to the financier party. The risk would be direct in all cases of financing, and would lead to avoiding anything that causes this risk, such as social and environmental issues. This would convince banks to look at other social issues such as those related to employees, customers and society, because any ensuing problems and/or risk would be direct to the banks. Other issues—such as holding securities as a guarantee of banks’ loans, credibility issues, availability of environmental and social information, and the attitudes of other banks—would be less influential.

In the case of non-Islamic countries whose legislation does not extend the responsibility to the financier party, the second point is still applicable. In regard to non-Islamic countries, where their legislation holds the financier accountable in certain cases, transformation of conventional banks to Islamic banks, or the commencement of Islamic banking services that focus on the partnership concept, would increase interest in social issues (which tend to receive less attention than environmental information) as a potential source of risk.

IV. Effectiveness of the mechanism for implementing legislation

Managers were asked if they believed that there was a weakness in the mechanism of implementing legislation. Their answers were in agreement that the problem exists. One manager said, “This is what in reality. If you come to legislations in any field you will find them strict, but implementing these legislations?” Otman and Karlberg (2007, p. 354) stated that in Libya, in regard to environmental protection, “Libya can be said, on
paper at least, to be a leading country in this field among the developing countries”. However, the reality, as they found in their investigation, was a different story. Another manager went further regarding the environmental issue, saying:

There is a problem in implementing laws. This problem is not confined to environment. Legislations and laws do exist, but who will implement them? This problem affects also the work of banks themselves.

Another manager said,

We, banks, suffer from this problem. We have some non-performing loans. According to the law, I have the right to force the borrowers to repay in any way (even taking over the property), but we could not.

Managers offered some explanation for this case. One manager stated that “social relationships (such as blood relationships; friendship relationships) cause the failure of legislations implementation”. Another manager was more specific regarding the case of public companies. He said,

Sometimes laws exist, and courts issue adjudications, but there is no implementation... In that period (before 2011) all those big projects which negatively impacted on the environment belong to the state, thus, whom do you want to sue?

This point was clearly affirmed by Otman and Karlberg (2007, p. 373) who stated,

In the current situation, it is incumbent on the Libyan authorities to introduce clean air legislation based, as in Europe, on the ‘polluter pays’ principle, although in view of the fact that most polluters owned by the public sector may lead to difficulty in its enforcement.

Concluding this point, the absence of an effective mechanism for implementing legislation makes the idea of introducing strict environmental legislation unrealistic. Without an effective mechanism, legislation is no more than documents in an archive collection.

V. Public awareness and pressure of civil society organisations

In light of the absence of legislative pressure, it seemed logical, in pursuing this study, to investigate other possible mechanisms for forcing banks to take environmental issues seriously in their activities, particularly in their lending activity. Society is claimed to be a very powerful force in shaping the attitudes of organisations whose activities are highly dependent on individuals and entities alike. Therefore, managers were asked whether there was awareness about environmental matters in Libyan society. There was unanimity that there was no such awareness. One manager asked, “If the citizen is still...
throwing household rubbish on the floor instead of putting it in rubbish bins, how he would be interested in environment?” Another one stressed, “There is no interest in environment by people”. This opinion was identical with that of accounting managers interviewed in this study. Some managers mentioned the education system, the media, and families as parties to blame for such a situation. One manager said,

I see that Libyan citizen is completely ignoring environmental issue. I emphasise the role of media, especially the TV and journals. They should give this issue (environment) great attention.

Another manager suggested that “taking care of [the] environmental should start from the house. Children should grow up on such values, and then schools should continue this trend”.

The absence of society’s awareness of environmental issues generally, leaves no room to expect that society might consider the impact of banks’ activities on the environment. This leads to the conclusion that reputational risk that results from financing polluting projects did not exist in the case of Libyan banks. That is, people did not consider banks as partners in polluting the environment, even though they might have financed firms whose activities caused pollution. One manager indicated that the possibility of deeming banks as partners in polluting the environment was “far…very far”. Another one said,

People will focus on the direct party (the polluting company)…they have not reached that stage (of becoming aware of the connection between loans and polluting environment) yet.

The deputy general manager added:

The other side is that normal people do not know that Cement Company, for example, was granted a loan from this or that bank. They do not even know that the company was granted a loan. In addition to that, financial information is not detailed to the extent of mentioning the names of banks, which granted loans. It is just written as credit facilities. Such financial information is merged.

Another credit manager argued that society’s awareness was not what it was expected to be. He stated that

regarding bank reputation, actually it is on the contrary, the bank which grants loans, and is not strict in its conditions is considered a good bank (in eyes of people), and the bank, which works accordance with the regulations is considered otherwise”.
In view of this, it can be concluded that the reputation of banks is safe, despite the differences in awareness.

This case may add additional explanation why Libyan banks did not adopt Equator Principles. First, reputational risk is one of the risks that financial institutions are trying to avoid by adopting EPs. In their study, Eisenbach et al. (2014, p. 390) found that the reputational risk is “one of the main drivers for adopting a voluntary code of conduct such as the EP”. Mulder (2010, p. 207) went further to argue that the EPs “were triggered by credit and reputational risks that banks increasingly faced in their project finance practice”. In the case of absence of this kind of risk, it is understood why banks are not interested in adopting initiatives such as EPs. Second, Conley and Williams (2011) mentioned the dilemma that banks are facing in regard to considering social and environmental issues in their lending decisions. The Bank encounters reputational risk if it finances projects that have negative impacts on society and environment, but at the same time, it also fears losing profits if it refuses to finance such projects when other banks do not mind doing so. The EPs help to solve this issue by serving as a possible mediator between banks' interest and public interest (Wörsdörfer, 2015). In Libyan case, banks do not face reputational risk, no matter how much harmful the financed projects are. As such, there is no difficult choice confronting banks, and as a result no need for initiative such as EPs.

At this point, one might consider the role of civil society organisations in raising the awareness of society in regard to social and environmental issues. However, the interviews revealed the absence of such a role. Managers denied that they were exposed to any kind of pressure from any civil society organisation about environmental issues.

The chairman of one bank believed that “now, after civil society organisations have been established, they became a possible danger. They start to talk and intervene in many issues... It is possible that they can damage reputation of some organisations and threatening their revenues.

The deputy general manager admitted that reputation risk might occur if civil society organisations started to raise awareness among people, but he was convinced that “this will take long time”.

Once again, this situation may add additional explanation why Libyan banks did not adopt initiatives such as Equator Principles. The importance of non-governmental organisations (NGOs) in this issue cannot be omitted. These organisations have actively engaged, through their criticisms, commentaries and pressure, in drafting the different
versions of the Equator principles (Liu & Zheng, 2013; Mulder, 2010). For example, Mulder (2010, p. 208) pointed out that NGOs criticised the EPs for “vagueness; absence of enforcement mechanisms; limited coordination among the banks; indirect (or no) coverage of project bonds; consultation only (not consensus) with affected communities; and the implicit, indirect reference to human rights (just “socially responsible”).” This reflects the reality that NGOs function, in this matter, as watchdogs by "monitoring, comparing and contrasting individual Equator Principles financial institution efforts"(O’Sullivan & O'Dwyer, 2009 , p. 572). Confirming this fact, Conley and Williams (2011) found that one of the major themes, emerged from their study, was the related role of NGOs pressure and risk management in motivating the financial institutions, which implement EPs, to form this initiative. They stated that banks participate in the EPs “in response to NGOs pressure, real or threatened” Conley and Williams (2011, p. 567). Based on this, it seems obvious how the absence of these organisations contributed in not applying initiatives such as Equator Principles in lending activities.

In respect to social issues, managers were also of the opinion that society’s awareness of these issues generally, and social responsibilities of companies in particular, were absent. One manager said, “It is still too early for the citizen to realise such things. They are something new to us”. A member of a board of directors of a bank confirmed this view and added,

The public does not have such awareness. The public per se is corrupted, and therefore whoever has something missing, he cannot give that thing. The public is already passive.

Consequently, the link between bank lending and the activities of companies that behaved in a socially irresponsible manner was unclear. One manager said, “People only look at the company itself. They do not even know if this company was granted loans or not”. As such, there was no possible reputation risk, since the bank’s reputation was not affected even if the bank financed companies that did not fulfil their social responsibilities to their employees, customers and society.

One manager directed his blame for such a situation at the economic difficulties citizens face every day. He said, “As long as the citizen can hardly keep his head above water, he will not care about this talk (social responsibilities). Let him eat and drink first”. Such economic pressures are likely to dull the awareness of people about issues that appear irrelevant to them under the circumstances. This confirms the discussion about the impact of Law 15 of 1981 regarding salaries (discussed in the previous chapter). In
spite of people’s economic situation, some managers suggested tools to raise their awareness about these wider issues. Another manager said,

The most important thing is how to raise the awareness. This should be done through media mediums, families, governmental bodies, education, etc. The efforts should be done by different parties.

Another manager explained,

It is a matter of general culture. It needs efforts of media and civil society organisations. These organisations play a very important role in educating people.

This comment leads to the need to investigate whether managers were exposed to any type of pressure from civil society organisations regarding social issues. All of them agreed that they had not been exposed to pressure from workers unions, consumer protection associations or any other civil society organisations about the impact of their lending on the relationship between borrowers and their employees, customers and society activities. One manager stated,

It has not happened before. I have spent 22 years in credit department, and such thing has never occurred”. Another manager confirmed: “All of these organisations do not exist.

Another manager expressed his willingness to take any such pressure seriously if it did exist, although his attitude appeared to be motivated purely by the bank's interest. He said, “I care about my loans”. A third manager claimed that “if such organisations did exist, such a pressure would happen”.

Some credit managers mentioned that they were occasionally contacted by various persons in an attempt to stop them financing some firms. On one occasion, the liaison officer of a company had personally advised a bank not to grant his company a loan because of the financial problems it was currently experiencing. On a second occasion, some employees of a firm contacted a credit manager of a bank asking him not to grant a loan to their company due to administrative corruption in that firm. Regardless of the reasons for such requests (personal, ethical), these cases show that the banks were asked to refuse finance to some firms, although these requests were more in the form of advice (not pressure) and were individual (not organisational) initiatives.

As a conclusion to this point, it is obvious that the case of societal awareness regarding the possible connection between loans granted by banks and the impact of their customers’ activities on environmental and social issues was no better than the case of legislation and its implementation mechanism discussed previously in this chapter. Civil
society organisations as an engine for this awareness played no role in improving the situation. This provides additional explanation for why banks did not take environmental issues into account in their lending decisions. This obviously gives support to political and economic theory as a way of explaining the attitude of Libyan banks to using CSED in their lending decisions. This theory suggests that social, political and economic factors have an impact upon CSED practices. The absence of such use can be attributed here to the political and economic environment in Libya, which was discussed in chapter seven (7.3 General contextual factors).

VI. Availability of environmental and social information
Apart from all the factors discussed above, it is axiomatic that before banks start requesting their loan-seeking customers to provide environmental information, the customers should produce such information first. Therefore, managers were asked if their customers were producing and providing the banks with environmental information. Managers were in agreement that Libyan companies that dealt with banks did not produce information to be used in making lending decisions. One manager stated, “We do not ask for environmental information honestly, because it will not be provided even if we request it”. Another manager explained,

    Libyan companies are not capable of producing environmental information... (In addition) there is no specialist company in conducting environmental studies (so companies can use its service).

One manager believed that the case was normal since “we are still in stage of hoping that the financial information reaches an acceptable level”.

In respect of social information, the case was no better. One manager said, “Libyan companies have financial accounting, and sometimes it is incomplete”. Another manager stated, “An accounting system should develop. Companies which do not provide information on all of their activities will lose the chance of moving forward”. These opinions confirmed those expressed in the interview with the Chief of the Libyan Union of Accountants and Auditors in this regard. That is, social and environmental accounting was not implemented in the accounting work of Libyan companies.

This could be a result of the legal system ignoring the issue of CSED. As mentioned in the previous chapter, CSED was voluntary. As such, it can be said that the problem of not producing social and environmental information by companies was a direct result of not mandating such disclosure.
VII. Credibility of information

Banks, as credit managers stated at the beginning of their interviews, use sources other than annual reports to collect necessary information on their customers to evaluate their creditworthiness. This raises the issue of credibility, since trust in credibility of information is an essential condition when using it in the decision making process. Therefore, in order to clarify whether information provided by banks’ customers suffered from credibility issues, managers were asked whether they thought that this problem existed. Their answers revealed that it did.

The absence of environmental audit was deemed “a reasonable reason for banks to not require environmental information,” one manager stated. In fact, there was a credibility problem even with the certified financial information. One manager stated, “Some customers provide us with financial statements, which are different to those provided to tax authorities”. This led banks to recheck the validity of this information in different ways, including personal visits to project sites to ensure the existence of assets, as well as focusing extensively, as mentioned before, on investigating the reputation of those firms that ask for loans. One manager advised: “Ignore 50% of the information which you have been provided with, because it is not credible”. Another manager added, “That is why we look first at the reputation of the customer”. This can be seen as a direct result of the rampant corruption in the state. When corruption spreads, documents lose their credibility. In the annual report of General People's Committee for Inspection and Public Control (General People's Committee for Inspection and Public Control, 2006 , p. 78), various types of legal violations were listed, including “…forgery in the official documents, using false documents…” In the annual report of 2010, types of legal violations included

...paying phantom payroll, phantom supply… forgery of tax receipts… using false documents, forgery in the official documents… spending on phantom projects” (General People's Committee for Inspection and Public Control, 2010 , p. 96).

The issue of credibility was one of the root causes of the increasing accumulation of excess cash by Libyan commercial banks over the period 2005–2010. In all annual reports of the Central Bank of Libya during this period, it was stated that among the reasons for such phenomena was “the lack of sufficient collaterals that encourage banks to grant more credits”. This sentence appeared six times in the six annual reports, reflecting the ongoing issue of credibility.
In the absence of a specialist, neutral, trustworthy and official party to certify the environmental information provided by firms, banks cannot rely on such information in their lending decisions. One manager stated, “I want official information from a neutral party, which has no interest in granting or not granting loans to my customer”. Another manager suggested that...

...there should be specialist centres or offices for certifying environmental information, similar to those offices responsible for property valuation, and they should be supported by the Central Bank of Libya and a related ministry (to environment issue).

Another manager added, “In light of absence of such party, environmental information has no credibility. Its existence is similar to its absence”.

A member of a board of directors in one bank confirmed the credibility issue. He stated,

In Libya, you can get anything. You get any certificate, any document. There is no credibility in information. This disaster makes the matter of relying on any certificate (useless).

Another manager confirmed this view and went as far as to say:

Providing me with a statement that the project has no negative impact on environment, without certifying this statement from international organisation or local organisation (which has credibility abroad), means nothing to me. It is just words. It is not going to work with me.

Such cases indicate that the issue of considering environmental information in lending decisions was more complicated than it at first appeared. Convincing banks to consider environmental information needs effort from the different parties involved. Restoring banks’ trust in the information, in general, entails studying and addressing many economic, cultural or political issues that relate more to the environment.

Interestingly, one manager provided an opinion different from those of other managers. He found no problem with credibility of environmental information. He stated:

Foreign banks, which established special departments in their organizational structures, they do that because by the law they are responsible for environmental damages resulted from their loans. They have to take environment in their account. In contrast, to us as banks in the developing world we are not responsible by the law for such things. So, I would consider environmental information, which is provided by our customers, as truthful information.
This comment illustrates that the credibility issue was relatively insignificant to some banks because provided that no legal responsibility resulted from relying on this information, there was no perceived risk to the bank. That is, the bank remained unconcerned about the indirect risk because it (a) held securities as guarantee, (b) was undaunted about the direct risk, because no laws hold banks accountable for financing polluting projects and (c) was not concerned about reputation risk because of the absence of public awareness regarding environmental issues in the developing world. Consequently, it seems that there was no necessity to be concerned about the credibility of environmental information. This should reflect a direct relationship between credibility and the existence and effectiveness of laws. That is, credibility increases with the existence and implementation of effective laws, and vice versa.

The case of social information is similar to that of environmental information. One manager said,

If the customer provided me with social information, how can I ensure its credibility? Even though the financial statements are certified by external auditor, we recheck them by visiting the company site to ensure the existence of assets. The employee, who conducted the visit, prepares a report about his visit, and this report should be supported by taking pictures for assets, and (in addition to that) we collect other information on the company.

This comment demonstrates that the credibility issue was not confined to social information; the audited financial information per se and the report of the credit employee needed to be supported by additional evidence. In order for this situation to change, another manager argued:

Accounting profession in Libya should develop to a large extent. Auditing profession should develop to include social and environmental aspects. Civil society organisations and other organisations in the state should all have roles in this issue.

**VIII. Demand for CSED in lending decisions**

From the interviews conducted with managers of accounting departments, it was found that the attitudes of executive managers of Libyan banks to producing CSED were largely influenced by the attitudes of three powerful players: shareholders, board of directors, and Central Bank of Libya. Therefore, it is interesting to examine whether the attitudes of credit managers were also influenced by these three parties.

In view of this, managers were asked whether there was an example of shareholders raising the issue of using environmental information in lending decisions. The answers were negative. That is, there was no such case in any bank. One manager said, “There is
no such culture”. Another manager stated, “Shareholders are interested only in the return on their shares. No more no less”. Thus, when this powerful party ignores the impact of the environment on bank lending, management is expected to do the same. This is supported by the statement of one manager who said, “We, the management, are employees of the shareholders”.

There was only one manager who provided an excuse for shareholders’ lack of interest. He stated that

...the culture of banks’ shareholders plays a major role in this issue. The majority of our shareholders are simple people. They have no clue about the banking work. Especially in our bank, buying banks’ shares in some cases was not an optional act. As such, percentage of the attendance of ordinary shareholders meeting was low.

He was alluding to the case of a monthly compulsory contribution by Libyan employees (1.5% of their monthly salaries) to the National Investment Company (mentioned in Chapter 2). These contributions were invested in many Libyan companies, including banks and, as such, the contributions of many employees were transferred to Libyan banks. Apart from the interesting observation that this is an unusual method of owning shares in companies and banks, there is another implication: this might direct the attention of the boards of directors to their wider responsibilities to their shareholders.

The directors of these boards are chosen by shareholders. Thus, they should reflect the attitude of shareholders to environmental issues; but in addition to that, their educational levels and expertise might improve the general attitude to the issue of using environmental information in lending decisions. In view of this, managers were asked whether they were directed by boards of directors to consider this issue. The answers revealed that there was no difference between the attitudes of shareholders and boards of directors. A credit manager said,

As a banker, I am required to focus on achieving the profitability. If I insist to take environment into account in lending decisions, those who supervise me will say to me: sorry. We respect your concern for the national interest, but want one plus one equals two. You can continue your work as a consultant (not as a manager), and if you refuse we will find someone else… let the business continue.

Focusing solely on the goal of profitability and ignoring other issues such as the environment was a common attitude from both shareholders and members of boards of directors. Even in banks that included foreign shareholders and had foreigners on boards of directors, the attitude was the same on both sides.
Some managers argued that the board of directors of any bank was not in a position to take a different stand as long as the issue of taking the environment into account in lending decisions had not been raised by the Central Bank of Libya. In this regard, there was a consensus among managers that there were no directives from the Central Bank regarding this matter. One manager said,

It has not happened in any day that Central Bank of Libya asked Libyan banks to consider environment issue in their lending decisions. In fact it directs them to finance all economic sectors.

Another manager said,

We are operating under the supervision of the Central Bank of Libya, and if there were directives in this regard we would implement them.

In the absence of such directives, one manager added,

If the board of directors decided to direct executive management to consider environment in lending decisions, the bank will be exposed to loss” [and customers will go to other banks].

It is clear how crucial the role of the Central Bank of Libya has been in this issue, since the bank has been the regulator and controller of the banking sector as well as the owner of some big banks. As one manager described it, “the Central Bank is the authority. It is the father of banks”. However, the issue of the environment seems to have been totally absent from the agenda of the Central Bank of Libya. In all its annual reports over the period 2005–2010, there was no indication of the role of environmental information in lending decisions. In each annual report there were details of how lending could be improved, but not even a general comment on its relationship with environmental issues.

It is obvious that intervention by the Central Bank of Libya is essential if the issue of considering the environment in lending decisions is to be taken seriously. However, at the time of this study, the level of interest was very low. One manager drew attention to the importance of cooperation with bodies outside the banking sector. He said,

If the Central Bank requested considering environmental information in lending decisions, and it was easy to ask my customer to provide me with environmental study for his project, and this study is certified by a centre which has a credibility abroad, whereupon I will accept and use such information.
In the case of the two specialised banks affiliated with the agriculture ministry and industry ministry, the case was also identical. No directive was issued to these banks to use environmental information in lending decisions.

The case of considering social information in lending decisions was consistent with that of the environmental issue. Banks’ shareholders had not raised the subject of taking social information into account in the process of taking lending decisions. As one credit manager said, they were just interested in “how much the profit is? How much will it be distributed on us?”

The attitude of the Central Bank of Libya was also passive in regard to social information. Managers stated that there were no directives from the bank regarding this matter. The content of annual reports of the Central Bank of Libya during the period 2005–2010 confirmed this fact. There was no single indication about considering social information in lending decisions.

One manager blamed the Central Bank for ignoring these concerns. He argued:

The Central Bank of Libya is responsible for the policies implemented in the banking sector. The bank has a team of consultants. It is not reasonable to stay closing itself up.

Another manager did not even believe that the Central Bank would afford attention to this subject in the near future. The impact of such a passive attitude was emphasised in a comment by a manager who said, “If the highest authority of the banking system did not issue related resolutions or directives, then banks cannot take steps in this regard”. The role of the Central Bank on this topic was highlighted by several managers. One said, “If the Central Bank of Libya issues directives relating to this issue, I will abide even in the case when I am convinced that it is not important”.

The attitude of boards of directors of Libyan banks was similar to attitudes of shareholders and the Central Bank. A manager explained,

...the Board of directors cannot take the issue of using social information in lending decisions into account. This might happen in the future when the Central Bank of Libya issues directives to do so. At that time, boards of directors of the banks will implement.

Based on the foregoing, the absence of demand for considering environmental and social issues in lending decisions is clear. Neither banks’ shareholders, nor boards of directors, nor the Central Bank of Libya, nor agriculture and industry ministries deem environmental and social issues as important factors affecting, and being affected by, lending decisions. This should explain, to a large extent, the attitudes of credit managers
to these issues since, according to stakeholder theory (managerial branch), managers consider only, and satisfy in return, the attitude and demand of powerful stakeholders. As these powerful stakeholders ignore environmental and social issues and focus only on financial goals, management does the same.

8.2.4 Summary

This section has been devoted to answering the second research question: “What is the position of Libyan banks in relation to the use of social and environmental information, disclosed by companies, in the lending decisions?” This entailed investigating whether Libyan banks use CSED in their lending decisions, and what factors were assumed to affect such use.

The analysis of the interviews conducted with credit managers in Libyan banks and the related documents revealed the following. First, social and environmental information is yet to be utilised in lending decisions of Libyan banks. There is an obvious disregard of the impact of banks’ loans on the environment, society and customers and employees of those companies which are granted the loans. Although there is very little unofficial interest in certain information, this is mainly motivated by personal attitudes, and this lack of interest is based either on a narrow concept (as in the case of environmental issues) or on purely financial interests.

Second, many factors were found to affect the issue of using social and environmental information in lending decisions, most of which are not related to the banking sector; rather, they can be attributed to the external and wider environment, including political, economic and social settings. The managerial attitudes of Libyan banks seem to be the result of the influence of all these factors. Libyan banks appear not to have the choice of being proactive in this issue. As such, before convincing Libyan banks to use CSED in their lending decisions, many problems first need to be resolved (such those related to issues of credibility, society awareness, absence of demand, absence of civil society organisations, weak legislations, etc.), all of which are more related to political, economic and social issues.

8.3 Connection between the production and use of social and environmental information

In concluding their report on the use of environmental information in lending decisions, Thompson and Cowton (2004, p. 216) suggested that “Future researchers might wish to go beyond the environmental focus of this paper to examine bankers’ views of the
usefulness of other elements of social accounting in making lending decisions”, and added, “it would be interesting to know whether banks are keener to produce social information than to use it and whether they perceive any connection between the two activities.”

The current study—in addition to examining the level of CSED made by Libyan banks and the factors that influenced such practices—explored managers’ attitudes in respect of CSED practices, and what affects these attitudes. Furthermore, in regard to the role of banks as a potential user of social and environmental information provided by loan seekers, the study examined bankers’ views of the usefulness of environmental information and other elements of social information (information on employees, customers, and involvement in society activities) in making lending decisions.

The point for further discussion and investigation is whether there is a connection between the attitudes of banks as producers of social and environmental information, and attitudes of banks as users of such information when it is provided by their loan-seeking customers. As such, this section attempts to answer the final research question: “Is there a connection between the production and use of social and environmental information by Libyan banks?”

In the discussion about the factors that affect (a) the disclosure of social and environmental information by banks and (b) the use of customers’ disclosures when they seek loans, many factors were identified and discussed. Based on the opinions of bank officers, eight of these factors were found to be common to both “providing CSED by banks” and “use of CSED provided by banks’ customers”. The eight common factors in the two cases are (i) the need for training; (ii) credibility issue and the need for social and environmental auditing; (iii) the impact of other banks’ attitude; (iv) public awareness; (v) pressure of civil society organisations; (vi) the attitude of the Central Bank of Libya; (vii) the attitude of the boards of directors of Libyan banks; and (viii) the attitude of shareholders.

These eight factors were common in the two cases (disclosing and using CSED). Thus, the percentage of the managers’ agreement on the impact of these factors on their attitudes to and decisions about the issue were examined in terms of whether there is a correlation between the opinions of accounting managers and credit managers, and whether this correlation (if it exists) presents a direct relationship or inverse relationship, and how strong this relationship is. Therefore, Pearson’s correlation coefficient was used as follows:
As can be seen, the result revealed that there is a very high positive correlation between the attitudes of Libyan bankers to disclosing social and environmental information and using the same kind of disclosure that is produced by loan seekers. The result that a relationship exists means that both groups of managers consider those factors relevant to their attitude to the issue of CSED. Finding a positive relationship implies that both groups are in agreement that these factors are driving in the same direction. The fact that this relationship is strong means that both groups confirm their united attitude to this issue.

According to the result, both groups of managers confirmed the need for the introduction of training programs on both issues: preparing and disclosing social and environmental information to all stakeholders of the banks; and, in their lending decisions, using similar information released by customers seeking loans. Second, in light of the absence of an auditing service relating to this kind of information, and in addition to a credibility issue of financial information per se, both groups agreed that social and environmental information suffers from lack of credibility. Third, both groups were of the opinion that an advanced stand on this issue cannot be taking by one bank alone. They admitted that the attitude of the banking sector as a whole is very difficult to change via individual initiatives. Fourth, managers on both sides emphasised the importance of both society awareness and the pressure of civil society organisations in improving the status of CSED and its use in lending decisions. Fifth, both groups agreed that changing the current practices of disclosing and using social and environmental information cannot be advanced if the Central Bank of Libya, boards of directors of Libyan banks, and banks’ shareholders, continue to ignore this issue.

Chizema and Buck (2006, p. 494) stated that “Within an organization are different groups with diverse interests and value perceptions”. However, the results obtained in the current study demonstrate that managers of accounting departments and credit departments have the same views in regard to the impact of those eight factors on their attitude to the issue of CSED. This gives more credibility to the managers' answers, and
highlights the importance of these factors in shaping the supposed dual role of banks in both environmental issues and society. The role of banks as organisations in fulfilling their duty to their employees, their customers, the environment and society should encourage—if not force—companies to behave in an environmentally and socially responsible manner; however, this role needs the support of all parties, inside and outside the banking sector.

Based on the above, the final research question, “Is there a connection between the production and use of social and environmental information by Libyan banks?” has been answered. There is a strong connection between these two activities. Managers of accounting and credit departments in Libyan banks are in agreement that in order for the issue of CSED to be recognised by banks, it first needs to be recognised by other parties, such as government, the accounting profession, civil society organisations, and society as a whole. It also needs further political, economic and social reforms.

8.4 Conclusion

This chapter has provided answers to the following two research questions:

- What is the position of Libyan banks in relation to the use of social and environmental information disclosed by companies, in the lending decisions? And what are the factors affecting this attitude?

- Is there a connection between the production and use of social and environmental information by Libyan banks?

The result of the analysis and the discussion revealed that there is very little official interest in using CSED generally; and Libyan banks ignore such disclosure in their lending decisions. This attitude is influenced by a group of factors that are mostly related to the the political, economic and social environment—factors such as credibility, society awareness, absence of demand, absence of civil society organisations, weak legislations, etc.

This result is similar to that found in the case of disclosing social and environmental information by banks. These influential factors were found to play a role in the low levels of CSED provided by banks. Managers on both sides—disclosing and using CSED—believe that those factors are affecting attitudes about the use of CSED. As such, this casts doubt of the validity of the claim that banks have a dual role to play in employing CSED.
In order for banks to play their role by behaving in a socially and environmentally responsible manner and encouraging their customers to do the same, support needs to be provided by many different parties such as the government, the accounting profession, civil society organisations, and society as a whole. The issue of CSED reflects the surrounding environment and, as such, addressing the case of disclosing and using social and environmental information requires reforms to be implemented in the political, economic and social environment.
Chapter 9. Conclusion

9.1. Introduction

The central purpose of this thesis was to investigate the position of Libyan banks in relation to social and environmental disclosure. To achieve this, the dual role of banks (as both producers and users of CSED) was examined. This was done by investigating the CSED practices of Libyan banks over the period 2005–10 and statistically examining the relationships between some banks’ characteristics, and some internal contextual factors and CSED. In clarifying the results, general contextual factors, managers’ attitudes to CSED and the connection between disclosing and using CSED were extensively investigated. This chapter summarises the results of all these points and provides a conclusion to the thesis.

The chapter is structured as follows. Section 9.2 summarises the thesis, Section 9.3 outlines its contributions to both theory and practice and Section 9.4 details the thesis limitations. Finally, Section 9.5 provides some suggestions for future research.

9.2. Summary of the thesis

The purpose of this study was to investigate CSED in the Libyan banking sector. As such, the general research problem addressed in this study was: What is the position of Libyan banks with respect to social and environmental disclosure? In order to address the problem, the following three main questions were formulated:

1- What is the position of Libyan banks in relation to the production of social and environmental information?

2- What is the position of Libyan banks in relation to the use of social and environmental information, disclosed by companies, in the lending decisions?

3- Is there a connection between the production and use of social and environmental information by Libyan banks?

In achieving the purpose of this study, the thesis consisted of nine chapters. Chapter 1 Introduction starts with a general background for the topic of the research. The chapter then discusses the research context, motivations, objectives and questions. The structure of the thesis is outlined at the end of that chapter.
Chapter 2 The Banking Sector in Libya introduces Libya—including its geographic location, resources, population and culture—and illustrates the structure of the Libyan banking system. It discusses in detail the historical development of the banking system in the context of the political, economic and social environment; some results of this discussion are: First, the fundamental reason behind establishing Libyan banks was to implement national economic and social development plans. Second, the political, economic and social ideology of The Green Book had profound implications on the performance of Libyan banks for a long period of time. Third, the pressure from the international community due to the political and economic sanctions was a major motivation for re-evaluating many Libyan policies on many issues, including establishing the Libyan Stock Market, turning towards a market economy, and opening the Libyan market to foreign investment. As a conclusion, the culture of the Libyan banking system is seen to be a result of mixed circumstances, and thus understanding the attitudes of Libyan banks to an issue entails understanding this culture in its context.

Chapter 3 Empirical Literature Review discusses first, the role of the bank as a producer of CSED. It reviews CSED practices and reflects on a number of pertinent issues including, for example, the increase of CSED practices, the weakness of some practices, and the channels used in providing CSED. This chapter also details the factors influencing CSED practices, including bank characteristics and both internal and general contextual factors. Bank characteristics (such as profitability, size, ownership structure and listing on a stock market) and internal contextual factors (such as chairman of the board with multiple directorships, non-executive directors on the board, foreigners on a bank board, the attitude of managers) have been found influential in determining the level and quality of CSED. In regard to general contextual factors, it was widely reported in the research that disclosure is influenced by the political, economic and cultural atmosphere wherein such disclosure takes place. The chapter then moves to the other side of the issue, by addressing the role of the bank as a user of social and environmental information in its lending decisions. This focuses on the risks caused by environmental issues, direct and indirect risks, and reputation risks. These risks are the main cause for considering environmental issues in making lending decisions. It is argued in the chapter that the absence of similar risks in the case of social information is the reason for not considering this information as important as in the environmental case. The chapter then refers to the possible connection between the production and use of CSED by banks, and concludes by discussing CSED practices in Libya, and the resulting research gap.
Chapter 4 The Theoretical Framework of Social and Environmental Disclosure elaborates on the topic of social and environmental accounting and its historical development which led to the emergence of CSED. Four areas of social and environmental accounting literature have developed rapidly, along with a significant number of related studies. The four areas are (a) investigating the motivations for providing social and environmental disclosure, (b) investigating what firms should do to act ethically and be accountable to the various stakeholders, (c) considering cost issues by investigating topics such as full cost accounting, accounting for energy, and life cycle costing, and (d) focusing on share price reaction to social and environmental disclosure. The chapter then moves on to discuss the three theories that are used in the study, so as to provide justifications for the behaviour of companies and banks in addressing the issue of social and environmental disclosure.

Chapter 5 Research Methodology provides details on the research methodology used to examine the position of Libyan banks in relation to the issue of CSED. It presents the methods used to answer the research questions, and thus discusses the empirical research design and methodology applied in conducting the research. It elaborates on the quantitative and qualitative approaches implemented in gathering and analysing the data; therefore, explanations are given for the historiography approach, content and statistical analysis techniques and the interviews conducted in the study. As such, a discussion is provided on the triangulation that was implemented to achieve the credibility goal.

Chapter 6 Empirical Results: Content and Regression Analysis is devoted to answering a large part of the first research question, which is about the position of Libyan banks in relation to the issue of producing CSED. This entailed investigating two points: examining the level and nature of CSED over the study period (2005–10) and examining the impact of some banks’ characteristics and corporate governance on CSED practices during this period. The chapter then reports on the results obtained from the content analysis and the statistical analysis.

The results related to the first point—that is, results gained from applying the content analysis—were as follows. First, CSED was included in 57 of the annual reports obtained from Libyan banks. However, 97% of the annual reports disclosed information on no more than two (out of four) categories. Information on human resources was the category which received the most attention in all annual reports, whereas environmental information was mentioned in just two annual reports. Second, the analysis showed that
the perceived level of importance of CSED—despite decreasing in 2006 and then increasing in 2007—was in continuous decline since 2007. In terms of the frequency (incidence) of CSED themes, generally there was a problem in recognizing the issue of some CSED categories in all the years (except one year). Third, Libyan banks provided their CSED (different from what was found in the literature) mostly in quantitative terms. Fourth, the investigation of the annual reports of Libyan banks revealed that some negative news was disclosed.

Based on this, it can be said that CSED practices of Libyan banks were low in terms of the content of disclosure, the level of its importance, and its nature. This result created other questions about the reasons for such a situation. What attracts attention is why there was a decrease in the level of importance of this disclosure, and what caused such a decrease. However, as mentioned in Chapter two detailing the Libyan banking sector, some positive steps (from the perspective of CSED literature) were occurring in the banking sector and the economy; these included an increase of private ownership in Libyan banks, increase in the size of banks, the dominance of non-executive directors on boards of directors of Libyan banks, the establishment of the Libyan stock market, and the entry of foreign investors in the Libyan banking sector. These questions could not be answered by relying solely on content analysis and annual reports. Consequently, a further step needed to be taken in order to broaden the understanding about the CSED practices of Libyan banks.

Regarding the second point, the general result concerning the impact of some banks’ characteristics and corporate governance on CSED practices was that except for the profitability variable, all other variables had an influence on the level of CSED. Applying the multiple regression analysis revealed that the significant and positive impact was caused by size, and foreigners on boards of directors and public ownership. In contrast, listed and non-executive directors on boards of directors of banks had significant negative relationships with CSED.

Regarding public ownership, the result indicated that the privatization policy encouraged by the Central Bank of Libya and government might work in terms of financial matters, but it affected CSED practices negatively. This raises the question why the culture of private entities does not support social responsibilities and their related disclosure. Moreover, the negative impact of the last two variables (listing on the stock market and having more non-executive directors on boards of banks) raises serious questions about the circumstances that turn these factors from enhancing CSED
practices (as claimed by many researchers and found in results of many studies) to producing the opposite effect, or having only a low, or even neutral impact.

Results of statistical analyses provided short answers, without comprehensive justifications for the case in question. These outcomes are normally about confirming or rejecting a claim about a certain issue, but the justification seems to be something derived from other information tools and sources. For example, interviews are believed to be more about reasons and justifications. They reveal the attitudes of decision makers to the related issues, and provide reasons for such attitudes.

Chapter 7 Empirical Results: Managers’ Attitudes to CSED and General Contextual Factors completes the answer of the first main research question. It reports on these two points: managers’ attitudes and general contextual factors. Historiography approach and interviews were conducted to investigate these points. Managers’ attitudes to the issue of CSED is another internal contextual factor. The interviews were conducted with accounting managers in order to answer the following question: “What is the managers’ attitude to the issue of CSED? And what are the factors affecting this attitude?” The interviews revealed that managers generally believed that achieving profits is the major goal of the banks. As such, they focused on maximizing profits and ignored environmental and social issues. In a few cases, the issue of private ownership was mentioned as a reason for focusing more on profit goals; and this confirms the results of the statistical analysis. However, there was little interest in the issues of employees and customers, although this was purely the result of economic self-interest of banks, rather than of fulfilling their social responsibilities. The attention paid to the issue of employees and ignoring other issues such as environmental and society involvement also confirms the results of the content analysis in this regard.

The interviews also unveiled other factors that influence managers’ attitudes to CSED and cause levels of disclosure to be low. The first group of these factors can be considered as internal factors, since they are likely to be considered, at first glance, as being more related to the banks’ themselves. These factors include lack of managers’ and staff knowledge about the issue of CSED; believing that CSED is not an important issue in conducting banking business; fearing the impact of disclosing negative news; wanting to keep the information provided in annual reports very brief and limited to what is required by the readers (financial information), rather than congesting it with less important information; managers’ and employees’ ownership in their banks; the routine implemented in disclosing the same information every year; and the small
contributions of some banks to social issues that are not considered deserving of publication.

Managers pointed to another group of factors as causes for the low level of CSED practices. These factors can be attributed to other parties, and not the banks themselves. The factors included the absence of external auditing for CSED; the absence of standards of CSED or even standards of financial disclosure; the absence of the role of the Libyan Union of Accountants and Auditors and Libyan banks association in this regard; the voluntary nature of CSED; the passive attitude of other banks regarding the issue; the absence of public awareness of social and environmental issues; the lack of demand for such disclosure from the powerful parties (the Central Bank of Libya, boards of directors, and shareholders); low levels of education generally and accounting education in particular; and the absence of pressure from civil society organisations regarding social and environmental issues and related information.

This result indicates that the responsibility for producing CSED cannot be confined to banks alone. It is a shared responsibility to be borne by all of those who either have an impact on banks’ performance or are affected by banks’ activities—directly or indirectly. The result reveals that the CSED issue is a reflection of many influential external factors and, thus, addressing this issue cannot be done in isolation from the external environment.

However, the results did not provide an explanation for some outcomes. For example, the results did not explain why there was an absence of standards of CSED or even standards of financial disclosure; or why there was no demand for such information from powerful groups; why there is a lack of public awareness regarding the issue; and why there is no role for civil society organisations regarding social and environmental issues and the related information. As such, the research went further to investigate the impact of the general contextual factors on CSED practices in order to determine the root of these problems.

The question considered was: “Do political factors (legal system, regulations, political rights and civil liberties), economic factors (degree of economic development) and cultural factors (education) influence CSED practices of Libyan banks?” In respect to the legal factor and regulations, in Libya, there is no legal requirement for banks or companies to produce information on the impact of their interaction with the environment or society at large. This has naturally resulted in low levels (or absence) of CSED practices. In addition to that, there is a lack of an effective legal implementation
system. Moreover, salary Law No. 15 of 1981 had an indirect negative impact on CSED practices. The implementation of this law for about three decades, with the dramatic increase in the cost of living, had led to the dominance of a profit culture in society, in the banking sector and in the attitudes of shareholders. This explains why there was no demand for CSED from shareholders and boards of directors. Furthermore, some annual reports of Libyan banks showed that certain legislation negatively affected the operations of these banks. In regard to the Central Bank of Libya, there was an absence of the issue of CSED from the bank’s implemented agenda. The Central Bank seemed to be uninterested in issues other than those related to its main duties, which are purely economic and finance-related. In respect to the Libyan Union of Accountants and Auditors, the interview conducted with the chief of this union revealed that there was no role played by this union in the accounting profession, not to mention social and environmental accounting and the related disclosures. This was attributed, by the chief of this union, mainly to its financial difficulties.

The last point was about the political environment. The investigation revealed that during the period 2005–10, there was no freedom in Libya at any level in the political environment. This affected negatively the role of the press and civil society organisations. This negative impact explains why there was no pressure from civil society organisations on banks to take social and environmental issues into account in their activities and disclosures. The weak role (or absence of role) of both the press and civil society organisations led to low levels of social expectations and awareness about the issue. Moreover, the prevalent corruption phenomenon seemed to detach organisations, including banks, from being more involved in issues other than financial ones.

Second, In regard to the level of economic development, the increase in its level during the period 2005–10 did not lead to a similar increase in the perceived importance of CSED—rather the opposite occurred. The increase in economic development did not have a positive impact on the accounting profession as a whole, or on CSED practices. Furthermore, the Libyan stock market, which should represent a certain level of economic development, completely ignored the issue of CSED and focused entirely on financial performance. This might provide some explanation for the reverse relationship between listing on the market and the level of CSED of Libyan banks. The performance of this market itself has been weak since its establishment, and during the period 2005–
10 there was no watchdog to the stock market. In fact, it is argued that the establishment of this market was for political reasons, and that is why there were such shortcomings.

Third, regarding the issue of education, accounting curriculums of Libyan universities do not include topics of social accounting, environmental accounting or CSED practices. Libyan academics also seem uninterested in these topics. Training programs organised by the Institute for Banking and Financial Studies also neglected the issue of CSED because Libyan banks did not ask for training programs on such issues. As such, the educational system and deficiencies in training programs can be claimed to be other reasons for the low levels of CSED practices. Based on the above, it can be argued that general contextual factors had an impact on CSED of Libyan banks. They explain why there was an absence of standards on CSED or even standards on financial disclosure; why there was no demand for social and environmental information from any powerful groups; why there was a lack of public awareness regarding the issue; and why there was no role for civil society organisations regarding social and environmental issues and the related information.

Having reached the end of reporting on the results on the position of Libyan banks in relation to producing social and environmental information, there are now two comments to be made. First, Gray et al. (1996, p. 49) stated:

\[\text{we should note that we are a very long way from any complete understanding of why organisations do (and do not) undertake social and environmental accounting and disclosure.}\]

Campbell (2000) confirmed that it is difficult to find an explanation for the phenomenon of CSED; consequently, this study investigated all the factors that have been claimed to be influential in the case of CSED. The study investigated the impact of banks’ characteristics, internal contextual factors, and general contextual factors in order to have a deep understanding of the phenomenon of CSED in the Libyan banking sector. By doing so, the results gained became more understandable as the researcher moved from investigating one group of factors to another group. This way of searching reduces the chance of yielding incorrect interpretations of CSED practices and provides more accurate suggestions to improve these practices.

The second comment to be made in regard to CSED practices of Libyan bank is related to the theories implemented in this study. Institutional theory, stakeholder theory, and political and economy theory all provided explanations, as explanatory theories for the CSED practices of Libyan banks. For example, institutional theory was used to justify:
the impact of education on CSED practices; the attitudes of other banks on CSED; and the attitude of Libyan Union of Accountants and Auditors. Stakeholder theory, on the other hand, was used to justify: the impact of powerful stakeholders’ attitude (such as Central Bank of Libya, shareholders and boards directors) on the level of CSED; and the impact of the demand for CSED on the level of this disclosure. In regard to political and economy theory, it was used to justify the impact of political environment and political intervention on the level of CSED of Libyan banks.

This supports the argument of Gray et al. (1995b) that disclosing information on corporate social responsibility is a complex activity and, as such, cannot be explained or justified by the use of one single theory. This led to the idea that different theoretical perspectives should be taken into consideration when analysing social and environmental disclosure practices (Deegan, 2009).

*Chapter 8 Managers' attitudes to using CSED and the connection between disclosing and using CSED* gives an account of answers obtained to the second and third main research questions. It first reports on the analysis of interviews conducted with credit managers and another group of directors, and examines in detail (using Historiography approach whenever appropriate) the factors affecting the issue of use of CSED in lending decisions. The results revealed the following: (a) Libyan banks generally do not use environmental information in their lending decisions, (b) the vast majority of Libyan banks ignore social information in their lending decisions and (c) there are many factors that influence the issue of using social and environmental information in lending decisions; these include at the beginning the managers’ perception of the relationship between bank activities and environmental and social issues. In general, the interviews revealed that the managers were not interested in the impact of their lending decisions on the environment and society, as long as the environment and society could not negatively affect the banks’ activities. Consequently, such attitudes resulted in social and environmental information being omitted from considerations leading to lending decisions.

In regard to other factors that affect the use of such information in lending decisions, most managers agreed that there was a need for training programs that dealt employing CSED in their lending decisions—if indeed such disclosure is to be considered in these decisions. Apart from that, all other factors are related to the external environment. These factors include participation of the state in polluting the environment and permitting polluting activities; the impact of the passive attitude of the banking sector as
a whole towards the issue of CSED due to limited investment opportunities; the absence of related legislation, which can cause direct and indirect risks to banks’ activities; the absence of an effective mechanism for implementing legislation; the absence of public awareness and pressure of civil society organizations that can cause reputational risk to the banks; non-availability of environmental and social information; credibility issues in the information provided; and, lastly, the lack of demand by powerful stakeholders to use CSED in lending decisions. This gives support to the three theories used in this study as valid theories for explaining the case of CSED practices of Libyan banks.

Based on the above, it is clear that the issue of using CSED in lending decisions is a complex one. In order to convince Libyan banks to use CSED in their lending decisions, many problems need to be resolved first, such as those relating to credibility, society awareness, absence of demand, absence of civil society organizations, and weak legislation.

The second section of Chapter 8 reports on the results of investigating the connection between disclosure and use of CSED. In comparing the attitudes of Libyan bankers to providing CSED, and using such disclosure in their lending decisions, some common factors appear to have an impact on these attitudes. These are (i) the need for training, (ii) credibility issues and the need for social and environmental auditing, (iii) the impact of other banks’ attitudes; (iv) public awareness; (v) pressure applied by civil society organizations; (vi) the attitude of the Central Bank of Libya; (vii) the attitude of the boards of directors of Libyan banks; and (viii) the attitude of shareholders. Based on the use of Pearson’s correlation coefficient, the results revealed that there was a very high positive correlation between the attitudes of Libyan bankers to disclosing social and environmental information, and using the same kind of disclosure produced by loan seekers. This result reflects the credibility of the managers' answers, and emphasizes the impact of these factors in undermining the supposed dual role that Libyan banks should play in the issue of CSED. Lastly, all the theories implemented in this study (institutional theory, stakeholder theory, and political and economy theory) provided explanations for the attitude of Libyan banks to the issue of using CSED in their lending decisions.

In conclusion, the three main research questions have been answered and, therefore, the general research problem has been addressed. The result of the study can be summarised as follows:

1- There was a low level of CSED made by Libyan banks over the period 2005–10.
2-Many factors were found to influence the performance of Libyan banks in regard to the issue of CSED. In fact, all three major factors discussed in the literature (namely, company characteristics, the internal contextual factors and the general contextual factors) were influential in the case of CSED practices of Libyan banks. However, the general contextual factors were the most influential factors, as they were the main cause of the negative impact of most other factors.

3- Environmental and social information is yet to be addressed seriously by Libyan banks in terms of disclosure and use alike. As such, the dual role of banks in the issue of CSED is absent in the case of Libyan banks.

Based on the above, it can be said that the key to address the issue of CSED is to give the priority to address the general contextual factors. Thus, in order to enhance the CSED practices by Libyan banks, many important points should be considered by different influential actors. These include, and not limited to, the following:

- The awareness should be raised in regard to the importance of social and environmental issues, and the impact of banks’ activities on society and environment.

- The role of press and civil society organizations are essential in raising the levels of social expectations and awareness about the issue of CSED. This role cannot effectively be played in the absence of free political environment.

- The corruption phenomenon needs to be addressed.

- Laws, regulations and mechanism for implementing legislation should be developed to address social and environmental implications of the industrial and banking activities alike.

- The regulations that, even indirectly, impair the ability of banks to fulfill their social and environmental responsibilities should be abolished.

- The Central Bank of Libya should pay its attention to social and environmental implications of the banking activities, and take serious action to encourage Libyan banks to become active in the issue of CSED.

- The Living standards should be improved, so people can look at social and environmental issues and other issues that exceed their basic and immediate needs.
• Libyan economy is in need to many reform programs and initiatives, to improve its performance, and this should lead to providing more investment opportunities to Libyan banks.

• Libyan stock market needs fundamental reforms to improve its performance and to enlarge its interest to include the issue of CSED.

• The Libyan Union of Accountants and Auditors should issued local standards for CSED practices, or adopt the related international initiatives to encourage Libyan banks to disclose ample information on their social and environmental responsibilities.

• Accounting education, accounting curriculums and syllabuses of the Libyan universities should include social and environmental accounting.

• Libyan academics should participate in CSED research.

• Institute for Banking and Financial Studies should provide training programs on social and environmental accounting and CSED.

9.3. Contribution of the thesis

The study contributes to the literature in several key ways. First, the study investigated the position of banks in regard to both the disclosure of CSED by banks themselves and their use of CSED in their lending decisions. To the best of our knowledge, this is the first known study to investigate these important issues jointly. Second, the study comprehensively investigated the impact of bank characteristics, internal contextual factors, and general contextual factors on CSED practice. There are only a few studies, including a study by Archambault and Archambault (2003), that have conducted such a comprehensive investigation. Finally, the study significantly extended the literature on CSED practice into the context of developing countries, especially those in the Middle East and North Africa. In doing so, the results will be useful in comparative accounting studies, especially in those countries with diverse political, economic and social systems.

This study is the first of its kind to focus exclusively on the case of Libyan banks as a producer and a user of CSED. As such, it provides a useful background for Libyan academics and other groups who are interested in CSED issues—in all Libyan economic sectors and the banking sector in particular. Libyan banks can find this study as a starting point to enhance their attitude to social and environmental issues and the
related disclosure practices. Even in terms of economic viewpoint, keeping pace with what is widely implemented abroad is an essential step to continue their business in long term. In regard to accounting bodies, this study casts light on the importance of taking steps forward in considering the field of social and environmental accounting and its related disclosures. It is an important branch of the accounting profession and cannot be ignored in the business world these days. Accounting bodies need to take this issue seriously if they want to have a role in the business market. In respect to customers, this study draws their attention to the impact that social and environmental issues can have on their business. As such, they should start considering CSED in their investment decisions in order to make the right decisions. Finally, regulators can find this study a useful background on which to build their regulations, in regard to addressing the impact of economic activities on the environment, employees, customers, and society at large. This study provides the regulators with important information on the overlapping relationships between all factors that affect social responsibilities and CSED practices. The study draws attention to the fact that Libyan banks are not the only party to blame for their low levels of CSED practices. It highlights also the importance of participation and cooperation of all influential parties such as educational organisations, civil society organisations, legislator and legal bodies, and the Central Bank of Libya in changing the current attitude of Libyan banks to social and environmental issues and their related disclosure. Comprehending this idea makes the plans and decisions of the regulators more realistic and achievable.

Lastly, Although the situation in Libya since 2011 has not been stable at all levels; political, economic and social, and this in turn has the potential to affect the performance of Libyan banks and their attitude to the issue of CSED, Libyan banking system and all influential actors in the issue will be able to benefit from the study results when the situation of the country improves.

**9.4. Limitations of the thesis**

In any study, there are some limitations that need to be taken into account when interpreting the results, and this is applicable to this study. The first limitation of the current study is its exclusive focus on annual reports of Libyan banks as the only documents employed to measure their CSED. Although the practice of using annual reports to measure the level of CSED is very common (see Aerts et al., 2008; Amran & Devi, 2008; Aribi & Gao, 2010; Azim et al., 2009; Barako & Brown, 2008; Deegan et al., 2002; Elijido-Ten, 2004; Gao et al., 2005; Haniffa & Cooke, 2002, 2005; Hope,
2003; Hossain & Hammami, 2009; Khan, 2010; Khan et al., 2010; Naser et al., 2006; Popa et al., 2009; Sobhani et al., 2009; Tsang, 1998; Xiao et al., 2005), there are other different mediums for disclosing social and environmental information, such as advertising, websites, separate reports, and promotional leaflets. As such, CSED by Libyan banks may not be fully captured. Second, the focus of the study on the banking sector in Libya may limit the generalizability of the study results to other sectors (in regard to the disclosure side) and other countries. Third, the nature of developing countries such as Libya makes it difficult to gather ample information to obtain the most accurate results. Regarding this study, some banks did not provide the researcher with their annual reports, and some others provided just financial reports. Moreover, it was difficult to gather information on many factors that affect CSED practices, such as the chairman of the board having multiple directorships and qualifications of the staff during the study period. This might reduce the accuracy of the results obtained from conducting content and statistical analysis. However, this is beyond the researcher’s control, and reflects the hardship related to conducting studies in developing countries.

Lastly, the study analysed the CSED of Libyan banks, in their annual reports of the period 2005-2010. As such, the related result represents the level of this disclosure in this specific period of time. It is worth mentioning that Libya has changed significantly since 2011, due to the change of its political system. This has led to instability at all levels, political, economic and social. Therefore, it can be expected that the CSED of Libyan banks might be affected accordingly, and this might limit the benefit of this study, in terms of the ability to predict the trend of such disclosure in the current years.

9.5. Suggestions for future research

Notwithstanding the limitations mentioned above, this study provides some promising avenues for further studies. First, it is worth investigating whether conducting a similar study in a different country that has a different political and economic context might produce a differing result. It is also of interest to ascertain whether banks in other countries are keener to produce social and environmental information than to use it, and if there is a connection between the two activities. Second, future Libyan studies may consider conducting similar comprehensive studies on sectors other than the banking sector (in regard to disclosure). It would be interesting and insightful to see whether CSED practices are affected in the same way. Moreover, for future studies on CSED of Libyan banks, mediums other than annual reports—for example advertising, websites,
separate reports, and promotional leaflets—should be considered in determining the level and quality of such disclosure.

Using other methods in conducting similar investigations might be another suggestion for future studies. Questionnaire method can be useful tool to gather information from large numbers of different participants, and thus raise the level of accuracy of the results. Furthermore, investigating the perceptions of other groups, such as bank employees, customers, external auditors, analysts, and brokers, will enrich the results regarding the issue of CSED, and should result in deeper understanding of this phenomenon.
References


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Banking Law No. 1 of (2005).


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# Appendix A: List of banks

<table>
<thead>
<tr>
<th>Banks</th>
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<tbody>
<tr>
<td>Sahara bank</td>
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<td>Gumhouria Bank</td>
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<tr>
<td>National Commercial Bank</td>
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<tr>
<td>Wahda Bank</td>
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<tr>
<td>North Africa Bank</td>
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<tr>
<td>Commercial and Development bank</td>
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<tr>
<td>Alwaha Bank</td>
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<tr>
<td>Aman Bank for Commerce and Investment</td>
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<tr>
<td>United Bank for Commerce and Investment</td>
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<tr>
<td>Arab Commercial Bank</td>
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<tr>
<td>Assaray Trade &amp; Investment Bank</td>
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<tr>
<td>Al-Ijmaa Alarabi Bank</td>
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<tr>
<td>Mediterranean Bank</td>
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<td>Al Wafa bank</td>
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<td>First Gulf Libyan Bank</td>
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<td>Agricultural Bank</td>
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<tr>
<td>Development Bank</td>
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Appendix B Categories of Social Responsibility Disclosure

A. Environmental disclosure

1- Environmental policies or company concern for the environment
   • actual statements of policy, statements of formal intentions, commitments and targets;
   • reference to compliance with statutory or regulatory provisions;
   • general statements of the “the company will, the company does” nature;
   • reference to compliance with voluntary codes of best practice, industry codes, charters, voluntary schemes and initiatives, etc.

2- Environmental management, systems and audit
   • environmental management systems (including references to total quality management (TQM), ISO 14000 series, *Eco Management and Audit Scheme – EMAS*, etc.);
   • reference to environmental review, scoping, audit, assessment including independent attestation.

3- Lending policies

4- Conserving natural resources and recycling activities (e.g. recycling glass, metals, oil, water, paper; using recycled paper; efficiently using materials resources).

5- Sustainability
   • any mention of sustainability or sustainable development;
   • any reference to future generations, inter- and intra-generational equity, social(eco)-justice, etc.;
   • any mention of plans or attempts to develop systems of accounting for sustainable development, sustainability, full cost accounting, or similar initiatives.

6- Conservation of energy in the conduct of business operations:
   • using energy more efficiently;
   • discussing the company’s efforts to reduce energy consumption;
   • third party recognition/awards for energy conservation programmes;
   • voicing the company’s concern about the energy shortage;
   • disclosing the company’s energy policies.

B. Human resources disclosure

7- Employee Health and Safety
• reducing or eliminating pollutants, irritants, or hazards in the work environment;
• promoting employee safety and physical or mental health;
• disclosing accident statistics;
• complying with health and safety standards and regulations;
• third party recognition/awards related to health and safety;
• establishing a safety department/committee/policy;
• conducting research to improve work safety;
• compensation, litigation or enquiries, related to safety;
• providing information on industrial action related to health and safety;
• information/education/training of employees on safety and health related matters;
• reference to health and safety law and/or inspectorates.

8- Employment of minorities or women
• recruiting or employing ethnic minorities and/or women;
• disclosing percentage or number of minority and/or women employees in the workforce and/or in the various managerial levels;
• employment of youth or local community personnel;
• establishing goals for minority representation in the workforce;
• programmes for the advancement of minorities in the workplace;
• employment of other special interest groups, e.g. the handicapped, ex-convicts or former drug addicts;
• disclosures about internal advancement statistics;
• proposals, plans or initiated actions for equal opportunity, ethnic equality and sexual equality.

9- Employee training
• training employees through in-house programmes;
• giving financial assistance to employees in educational institutions or continuing education courses;
• establishment of trainee centres.

10- Employee assistance/benefits
• providing assistance or guidance to employees who are in the process of retiring or who have been made redundant;
• providing staff accommodation/staff home ownership schemes;
• providing recreational activities/facilities;
• providing scholarships for employees children;
• providing low cost health care for employees.

11- Employee remuneration
• providing amount and/or percentage figures for salaries, wages, pension and social security costs;
• any policies/objectives/reasons for the company’s remuneration package/schemes.

12- Employee profiles
• providing the number of employees in the company and/or at each branch/subsidiary;
• providing the occupations/managerial levels involved;
• providing the disposition of staff - where staff are stationed and the number involved;
• providing statistics on the number of staff, the length of service in the company and their age groups;
• providing per employee statistics, e.g. assets per employee, sales per employee;
• providing information on the qualifications of employees recruited.

13- Employee share purchase schemes
• providing information on the existence of or amount and value of shares offered to employees under a share purchase scheme or pension programme;
• providing any other profit sharing schemes.

14- Employee morale
• providing information on the company/management’s relationships with the employees in an effort to improve job satisfaction and employee motivation;
• providing information on stability of the workers’ jobs and the company’s future;
• expressing appreciation or recognition of the employees;
• seeking employees opinions and input to planning;
• providing information on the availability of a separate employee report;
• third party recognition/awards for effective communication with employees;
• providing information about communication with employees on management styles and management programmes which may directly affect the employees.

15- Industrial relations
• reporting on the company’s relationship with trade unions and/or workers;
• reporting on agreements reached for pay and other conditions;
• reporting on any strikes, industrial actions/activities and the resultant losses in terms of time and productivity;
• providing information on how industrial action was reduced/negotiated.

C. Products and consumers disclosure

16- Product quality
• Third party recognition/awards;

17- Consumer complaints/satisfaction;

18- Provision for disabled, aged, and difficult-to-reach consumers;

D. Community involvement disclosure

19- Charitable donations and activities:
• donations of cash, products or employee services to support community activities, events, organisations;
• programs to encourage employee volunteer efforts in the community;
• aid to disaster victims.

20- Support for education (e.g. sponsoring educational conferences and seminars, funding scholarship programmes or activities);
• Support for the arts and culture (e.g. sponsoring art exhibits);
• Support for public health (including aid to medical research);
• Sponsoring sporting or recreational projects;

E. Decision rules

21- Discussion of directors’ activities is not to be included as discussion on employees.
22- All sponsorship activity is to be included no matter how much it is advertising.
23- All disclosures must specifically relate to the company and its actions. General background information about an action was not considered.
24- If any sentence has more than one possible classification, one sentence is attributed to each of the themes/categories of possible classification.
Appendix C. Ethical Clearance

Dear Mr Elsakit,

I write further to the additional information provided in relation to the conditional approval granted to your application for ethical clearance for your project "NR: The disclosure and use of social and environmental information by Libyan banks" (GU Ref No: AFE/17/12/HREC).

This is to confirm receipt of the remaining required information, assurances or amendments to this protocol.

Consequently, I reconfirm my earlier advice that you are authorised to immediately commence this research on this basis.

The standard conditions of approval attached to our previous correspondence about this protocol continue to apply.

Regards

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email: g.allen@griffith.edu.au
Appendix D. CSED provider questions

Sample of interview questions regarding providing CSED

1. Accounting managers of Libyan banks
   • What are the bank’s goals?
   • Why do banks focus on their employees?
   • Is there a need for training the departmental staff on how social and environmental information should be prepared and presented?
   • Do you see any benefits in providing social and environmental information?
   • Does the cost of disclosing such information affect corporate disclosure?
   • Does the financial capacity of banks impose restrictions on conducting social and environmental activities and the subsequent disclosure of information on these activities?
   • Do you mind disclosing negative information?
   • Do external auditors pay an attention to this kind of information? and is there a need for their services in this regard?
   • Are there any local standards applying to CSED? And is there any role for the Libyan Union of Accountants and Auditors or Libyan Banks Association in this regard?
   • Should CSED be mandatory?
   • Is your attitude regarding producing CSED affected by the attitudes of other banks?
   • What do you think of the awareness of Libyan society towards issues of environment, employees, customers and community involvement?
   • Is there a demand or directives from the Central Bank regarding CSED?
   • What is your opinion regarding the level of education in general, and accounting education in particular, in Libya?
   • Was there a pressure from civil society organizations and unions in regard to social and environmental issues and related disclosure?

2. Central Bank of Libya
   • What is your viewpoint regarding CSED?
   • What is the responsibility of the Central Bank of Libya towards the issue of CSED?
   • Is there any demand from the Central Bank of Libya for such information?
   • Is there a relationship between the Central Bank of Libya and international organizations that are interested in social and environmental issues and their related disclosure?

3. Libyan Union of Accountants and Auditors
   • What are the membership requirements of the Union?
   • What are the general efforts of the Union in improving accounting practices?
   • Do the current accounting practices need to be reviewed in order to be improved, and become suitable for addressing new issues such as social and environmental ones?
   • Is the current information disclosed adequate for information users?
   • Is there a need for help of other organizations in developing current accounting practices?
   • Is there social and environmental accounting implemented by Libyan companies?
• Do accountants and auditors have the necessary knowledge about social and environmental accounting and disclosure?
• What do you think of issuing local standards for social and environmental disclosure?
• What is your opinion about the idea that the Union should issue a simple guide, explaining how to prepare and provide social and environmental disclosure, or alternatively adopt some related international initiatives such as Global Reporting Initiative (GRI)?
Appendix E. CSED user questions

Sample of interview questions regarding using CSED in lending decisions

- Libyan banks’ use of environmental and social information in lending decisions
  - Is there an implemented credit policy in your bank?
  - What are the documents you require your clients to provide in order to consider their requests for loans?
  - Is there another information, other than financial and legal one, you need it in lending decisions, and if so, how is it collected?
  - Do you ask your clients to present information about the impact of their activities on environment?
  - Do you request your clients to present information on their human resources, their customers and their involvement in society’s activities?

- Factors affecting the use of environmental and social information in lending decisions of Libyan banks
  - What do you think of the importance of environmental and social issues in making lending decisions?
  - Would you consider financing projects such as purchasing filters, used in reducing emissions from production operations, as an indication of banks’ participation in protecting the environment?
  - Should banks be deemed partners in polluting the environment if they financed projects that have negative impacts on the environment?
  - Is there a need for training your staff how to use environmental and social information in lending process?
  - Why do you think that some banks do not care about the impact of their activities on social and environmental issues?
  - Do you think attitudes of other banks, in regard to using environmental and social information in lending decisions, affect the attitude of individual banks in the same matter?
  - Is there a possibility that legislation can cause risks to banks due to ignoring environmental and social information in lending decisions?
  - Are there laws regarding environmental issues?
  - Are there laws regarding the impact of banks’ activities on social and environmental issues?
  - What do you think of the mechanism of implementing legislation?
  - What is your perception of the awareness of society regarding environmental and social issues and related disclosure?
  - Do you think banks can be seen sometimes (due to their lending activities) as partners in damaging the environment or causing harm to society?
  - Have you been exposed to any type of pressure from civil society organisations regarding social and environmental issues?
• Do you think your customers can provide you with social and environmental information? If so, would you use it in lending decisions? Why/why not?

• What are the attitudes of banks’ shareholders, board of directors, and Central Bank of Libya regarding the use of social and environmental information in lending decisions?

• The director-designate of environment impact assessment department (in the Environmental General Authority)

• Do you issue certificates regarding the impact of economic activities on environment?