

CORPORATE SOCIAL RESPONSIBILITY DISCLOSURE: EVIDENCE FROM LIBYAN MANAGERS

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ABSTRACT

This paper explains the importance and benefits for Libyan companies of engaging in corporate social responsibility disclosure (CSR). Libya, as a developing country, was chosen by the researchers as it has undergone many changes over a short period of time in terms of economic, environmental and social changes. Both quantitative and qualitative methods were used to collect data relating to CSR in Libyan companies. Perceptions of financial managers interviewed as part of the study reveal that CSR is important for company performance. The paper reveals that CSR in the annual reports is very important in terms of attaining company objectives to: satisfy the interests of stakeholders; protect employees' interests; clarify the extent of contribution of the company in both CSR activities and CSR; and assisting investors to make appropriate investment decisions. The perceived primary benefits of CSR were enhanced company reputation, and increased financial performance. It also improves ability to attract foreign investors, and results in higher consumer satisfaction leading to commercial benefits. Secondary benefits include demonstration of compliance with the law and improved employee commitment.

JEL: M14, M41, L11, K21

KEYWORDS: Corporate Social Responsibility (CSR); Corporate Social Responsibility Disclosure (CSR); Financial Performance; Corporate Reputation.

INTRODUCTION

The institutional context of the emerging economy of Libya has experienced dynamic change over the last ten years (Mateos 2005). The main influential factor that leads to and regulates the attitude and behaviour of Arab societies, including Libya, is the Islamic religion. According to Ali (1996) the Islamic religion organises the social life in family and other social organisations and maintain their endurance and influence. Changes in regulatory environment may have an impact on companies in terms of their disclosures. The level of CSR disclosure in Libya has increased since 2000 (Pratten & Mashat 2009) due to pressures from stakeholders. This has led to development of the concept of CSR.

The development of the concept of CSR has passed through different stages; the first stage is the period 1970-1980. Empirical studies were focussed on developing methods to measure the incidence of information disclosure by firms which was voluntary. Most frequently disclosed was information about employees and products. At that time, managers, accountants, and the majority of their observers were not interested in environmental concerns, because it was invisible. Some empirical studies were used three environmental categories out of twenty seven (Ernst and Ernst, 1978 as cited in Mathews 1997). The second stage is the period 1980-1990. Many changes have appeared due to the focus of the social and environmental accounting literature, with increasing signs of specialization since 1980. For instance, value-added statements attracted a separate group of adherents and employee reports (Burchell et al., 1985). Environmental disclosure has become of greater concern than social disclosure, as firms consider alternative means of reducing environmental damage. Legally enforceable accounting standards, Means of conceptual frameworks, and legislation are features of this period that contribute to the increase in regulation of accounting disclosures. Empirical studies in this period were more analytical and less descriptive. The final stage is the period 1991-now. This stage has focussed on environmental issues

within accounting on a broad front, including interest from managers as well as accountants. (Gray et al. 1995) argue that this stage has been characterized by the almost complete domination of environmental accounting with research on broader social reporting (including employee and ethical disclosures).

This research presents evidence from interviews with 24 financial managers and 7 information managers on the importance and the benefits of CSR in Libya. The motivations for this research are that some companies consider CSR activities and its disclosure may bring a competitive advantage and external pressures may lead other companies to engage in CSR activities and its disclosure (Branco & Rodrigues 2008). This research contributes to our knowledge about the importance of disclosure of CSR activities information for stakeholders and what the potential benefits of disseminating CSR to Libyan organisations. There are few quantitative studies that focus on these questions; Further, this research is the first study that depends on both quantitative and qualitative study to explain the importance and the benefits of CSR in Libya and provide a richer understanding of the issues through the interviews. Generally, this research expands the evidence that exists about both the importance and the benefits of CSR. The majority of interviewees felt that CSR helps Libyan companies to achieve their objectives, such as enhancing image and reputation; supporting financial performance; improving employee commitment, etc. The remainder of this paper is organised as follows. The next section provides a brief outline of the prior literature related to corporate social responsibility disclosure (CSR). The research method is then clarified. The results are then outlined and discussed. Finally, the paper concludes with limitations and direction for future research.

LITERATURE REVIEW

CSR has found an increasing amount of attention in both academic and business arenas. Such disclosure includes the provision of information on human resource aspects, products and services, involvement in community activities and environmental reporting. Gray et al. (1995) state that "... It is not restricted necessarily by reference to selected information recipients, and the information deemed to be CSR may, ultimately, embrace any subject ...". Many quarters have recognized this view of CSR as a broad concept. The European Commission (2001 as cited in Hartman, LP et al. 2007) considers that a cleaner environment and a better society are good examples regarding CSR as a concept whereby companies decide voluntarily. The World Business Council for Sustainable Development (WBCSD) (1998) defines CSR as "the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as the local community and society at large" (Holme and Watts, 2000). Currently, making profits and elements of CSR and accountability are considered the main objectives of business organizations in order to maintain corporate reputation and appropriate performance whereas in the previous years, the main objective of business organizations is making profits (Ghazali 2007).

A growth in nonfinancial reporting (disclosure) has relied on the evolution of the concept of CSR. This means, the company is responsible for its actions. Indeed, stakeholders are asking companies to disclose both social and environmental activities and their ability to improve the corporate process through nonfinancial reporting. In this regard, identifying, monitoring, and reporting all social, environmental, and economic effects of its operation on society at large are concrete evidence that companies are committed to continual, long-term improvement, if they want to gain their stakeholders' trust and build a good reputation in the market (Brammer & Pavelin 2004).

Responsibilities of companies differ between their stakeholders regarding economic, legal, and social issues in order to improve organisational performance in terms of financial performance, employee commitment, and corporate reputation. In addition, the strategy of Corporate social responsibility is important (policy, programme or process) when it yields substantial business- related benefits to the firm, in particular by supporting core business activities and thus contributing to the firm's effectiveness in

accomplishing its mission (Burke & Logsdon 1996). The blending of these responsibilities into complete corporate policy without losing sight of any of its commitment is the main challenge for the company. Additionally, in the long-term, the commitment of the company toward its stakeholders often leads to improved organisational performance. In other words, while the economic responsibility of the company might conflict with its social responsibility in the short-term, at the same time, they can work together to improve the company's image. Thus, this does not mean that a socially responsible company cannot be as profitable as others. Currently, the common concept of CSR involves companies voluntarily disclosing social and environmental concerns in their operations to stakeholders. It includes some complex issues such as environmental protection, human resources management, health and safety at work, relations with local communities, and relations with suppliers and consumers. In addition, Friedman (2002) presented the most famous definition of CSR as the economic concept of market value maximization that has support from shareholders. He asserts that the profit demands of the owners or shareholders and the basic regulations of society are consistent with the responsibility of a company.

As evidence of adherence by companies to CSR and sustainable development concepts, there is a growth in numbers of multinational corporations, as well as small- and medium-sized companies, adopting social and environmental reporting practices. In a similar vein, the right way towards an overall comprehension of what practitioners consider efficient and appropriate socially responsible behaviour is represented by reporting-based analyses (David 2005).

A company should disclose both the positive and negative impacts of its business operations on labour standards, the environment, economic development, and human rights by CSR reporting. Furthermore, as a result of a general growth of the overall number of companies producing CSR reporting, currently there is an expansion of CSR reporting to include a broad focus on social, economic, and governance issues although reporting was focused almost entirely on occupational health and safety and environmental issues (O'Rourke 2004). This means that most companies focuses on some categories such as environmental, employees and consumers issues and disregards community involvement issues. CSRD has several roles that include: Assessing the impacts of CSR activities; measuring the effectiveness of CSR programs; Reporting on CSR; and External and internal information systems allowing the comprehensive assessment of all corporate resources and sustainability impacts (Jenkins & Yakovleva 2006 Gray 2001; Gray et al. 1997; Mathews 1997).

Two different types of motivation can lead companies to engage in CSR activities and disclosure. The first motivation is that some companies consider CSR activities and disclosure may bring a competitive advantage. For example, they think that having good relations with their stakeholders will result in good financial performance, employee commitment, and corporate reputation by assisting in developing valuable intangible assets. External pressures (government, shareholders, consumers, etc.) are considered the second motivation which causes other companies to engage in CSR activities and disclosure (Branco & Rodrigues 2008). These companies think that not doing CSR activities and disclosure will result in loss of profitability, reputation and must be addressed to mitigate the effects. Social responsibility activities and disclosure constitute mainly a legitimacy instrument used by a company to demonstrate its adherence toward stakeholders in order to increase or maintain their financial performance, their image and their relationship with their stakeholders.

METHODOLOGY

This research method used both quantitative and qualitative methods. The quantitative approach was employed to examine and collate data from the annual reports of the period of 2007 and 2009. The qualitative approach was to gather information from face to face semi-structured interviews (see Table 1). Participants in the study were financial managers and information managers of the firms in Libya Details about the interviewees are included in Table 1.

Table 1: Profiles of Interviewees

Sector Type		Manufacturing	Services	Banks And Insurance	Mining	Total And Percent
Number of financial managers		8	11	4	1	24 (77%)
Number of information managers		4	1	2	0	7 (23%)
Total managers		12	12	6	1	12 (100%)
Gender of the managers	Male	10	8	5	1	24 (77%)
	Female	2	4	1	0	7 (23%)
Age of the managers	Less than 35 years	1	3	0	0	4 (13%)
	Less than 50 years	9	8	5	0	22 (71%)
	Less than 65 years	2	1	1	1	5 (16%)
Age of the company	Less than 30 years	8	6	2	1	17 (55%)
	Less than 50 years	2	3	3	0	8 (26%)
	Less than 80 years	2	3	1	0	6 (19%)

Table 2 showed the profiles of interviewees related to financial managers and information managers in the four industries. In addition, this table presented the background information about the interviewees in terms of their industry, gender of the managers, age of the managers and age of their firms. Seventy seven percent was from financial managers, while twenty three percent was information managers in the four industries. Eight of financial managers and four of information managers were interviewed to express their perceptions about CSRD in the Libyan manufacturing industry. Eleven of financial managers and one of information managers supplied the researchers about CSRD in the services industry. Five of the financial managers as well as two of the information managers explained the importance and the benefits of CSRD in the banks, insurance and mining industry.

Data gathered from interviews was recorded by tape recorders and notes made by the researchers. The interviews took place between October 2010 and February 2011. Interviews lasted between twenty minutes to one and a half hours. The meetings were held in the manager’s office. The interviews were designed to explain issues in depth (Denzin & Lincoln 2000). In addition, knowledge gathered from consulting with other researchers in CSRD and literature reviews enabled the researchers to design an interview guide with common questions to ask the interviewees.

THE FINDINGS AND DISCUSSION

The Importance Of CsrD: In order to obtain a deeper understanding of this phenomenon, the following question was initially asked of interviewees ‘what is the extent of the importance of CSR disclosure activities in their annual reports for stakeholders?’. Interviewees were also asked their personal opinions about CSRD. All interviewees confirmed that CSR activities and information play an important role in enabling their companies to achieve both social and economic benefits in society. The majority of interviewees emphasised that their companies attempt to achieve economic objectives through increasing profit, revenues and sales, as well as social objectives. Two PhD theses provide the same findings about the responsibilities of businesses toward society, and the roles of their business in society to be both socially and economically responsible (Momin, 2006; Aribi, 2009). Aribi (2009) also mentioned that corporate policies for disclosing CSR information are determined very much by the profit objective. In this regard, Abdulhamid et al.(2005) demonstrate that disclosure about social and environmental activities in the Libyan annual reports leads to some social and economic benefits which are reflected at the macro level. The interviewees in this research believe that their companies should achieve both objectives, when their companies invest their money in any project. One of the information managers states that:

One of the most important goals in the Development Bank is to reject investment in projects that do not take into consideration the adverse impact of the project on the environment and hence this bank obligates the customer to get the agreement of the environmental management in order to obtain the requested loan.

One of the financial managers states that:

Management of the Company, when investing in any project, looks at economic goals but it does not disregard the benefits which will be obtained by this project to the community such as participation in addressing the problem of unemployment, employee training, etc., as the

company is part of the community and should contribute in social activities for the development of society as a whole.

All interviewees confirmed that the importance of CSR information in the annual reports is not less important than CSR activities; both of them can play a significant role in gaining the company objectives. Abdulhamid et al. (2005) illustrate that information about CSR activities should reflect the interaction between the society and the management and should recognise the rights of different stakeholders. The management should also inform all stakeholders about CSR information. They revealed that CSR information in the Libyan context is directed and limited to interest from stakeholders such as the General Assembly, the management (the company's Administration Board) and, the central Authorities (such as the security of Economy, the security of finance, the security of Industry, the Central Bank of Libya and the watchdogs bodies which include the Public Control Office and the Tax Office). However, all interviewees believe that CSR information clarifies the extent of commitment by their companies to CSR activities and stakeholders. The interviews revealed stakeholders use CSR information differently e.g. few employees use annual reports to help their companies to protect their interests; shareholders use annual reports to know how to use their funds; investors use annual reports to help them to make investment decisions; Management uses annual reports to evaluate the company and to address the problems and correct negative deviations in the company, as shown in the following quotations by some financial managers:

The management in this company supports full disclosure for the transparency cause and we review all activities in the annual report, you can apply this to everything when it is related to social activities.

We are preparing the annual report in order to show the real situation of the company either financially or socially, as we know that there are many parties that benefit from using this information to assess the situation of the company and know what the company achieved and its evidences during the year.

On the other hand, Ahmad, N.S.M. (2004) found that the Libyan companies did not inform employees about CSR information due to a lack of importance placed on this information by their employees. Some interviewees illustrated that while CSR information is important to management, investors and shareholders, there is a lack of ability to comprehend CSR information by employees that in turn, may lead to their disregarding information included in annual reports. This view is obviously stated in the next quotations by some financial managers:

I believe that the information about the activities of social responsibility affects the decisions of management and shareholders and investors... But unfortunately, many employees were not aware of the importance of social activities, only a few employees know the importance of social activities and disclosure of them and their effects on the company.

Some interviewees believe that some Libyan companies are still under privatized. These government companies have limited stakeholders e.g. government, management, customers, employee and creditors. These stakeholders, except for the government, cannot affect the policy of the company as the Libyan government possess all shares in these companies, while non-government companies which are listed in the Libyan stock market have all stakeholders such as investors, shareholders, customers, creditors who can influence the policy of disclosure. For example:

Ownership base of the bank has a negative impact on the importance of this information for stakeholders and the financial benefits expected by providing this information.

Abdulhamid et al.(2005) also revealed that stakeholders of the Private companies in the Libyan context see the main benefit of disclosure of CSR information on the environment, in manufacturing companies, whilst service companies may perceive little influence of CSR information on the environment.

The importance of CSR information differs from one category to another. Most interviewees in the banks and insurance sector and the services sector considered employee information and customer information in annual reports to be more important than other information. In this regard all interviewees in manufacturing and mining sectors confirmed that there is greater importance for employee information, environmental information and customers' information than community involvement information to all stakeholders excepting society. Some financial manager stated in the following quotation:

Service companies such as ours are interested in social activities and information about the employees, and information relating to customers, considering that this information helps the company's decision-making that in turn, is reflected in the improved financial performance for the company and hence these companies disclose this information more.

Another interviewee supported this view in the following quotation:

I believe that the industrial companies such as this company take into account the environmental impacts that may affect their workers and the community, particularly the places that surround it as, it cares about workers and the quality of the product because these activities and these information affect the performance of the organization.

This is general information about the importance of CSR and CSRD for the Libyan companies and the extent of the importance of CSR activities and information to achieve the company objectives.

In summary, the main reasons for CSR activities and information is the interests of stakeholders. CSR activities and information in annual reports explain the contribution of the company's CSR activities towards society to stakeholders; assist the company to protect the employees' interests; supports investment decisions, and helps determine how management uses their funds.

Benefits of CSRD

A number of theories in the accounting literature have presented some justifications for disclosing CSR information in annual reports and hence stakeholder theory was used in this study to answer the question regarding what motivates companies to disclose social information. Some benefits were mentioned in the accounting literature for companies disclosing CSR information in developed countries; however, the benefits of CSRD in developing countries are still ignored and ambiguous due to few studies in the accounting literature. Interviewees clarified different causes and benefits as shown in Table 2.

The benefits and causes in table 2 motivate the company to disclose CSR information in its annual reports. This is also evident in the following comment:

This company does not prepare annual reports for nothing; it has some reasons and benefits for emerging social activities.

Most interviewees mentioned that there are two types of benefits for disclosing CSR information in annual reports. The main benefits include an increase in the company profitability, an enhancement of the company's image, information to make better decisions, more informed stakeholders about the company's contribution to community service, and greater transparency. Thirteen of interviewees (42%) believe that providing positive CSR information in annual reports helps a company to support its financial

performance. Further, financial support flows by encouraging and attracting stakeholders such as investors and consumers. In addition, twelve (39%) see that the growth of social and environmental awareness of Libyan management has provided more impetus for disclosing CSR information in annual reports, because such practices helps Libyan companies to make appropriate decisions.

Table 2: Perception of Interviewees on Causes and benefits for Disclosing CSR information

Number of Interviewees	The Percents of Interviewee	Causes and Benefits of Discloser
13 out of 31	42%	Improving Financial Performance:
12 out of 31	39%	Encourage and attract investors and customers
12 out of 31	39%	Supporting the organisation profit
6 out of 31	19%	Making-decision
1 out of 31	3%	Competition
		Improving productivity
		Regulation and Management:
3 out of 31	10%	Requirements of stock market
3 out of 31	10%	International Accounting Standards
5 out of 31	16%	Environmental law
3 out of 31	10%	Management
19 out of 31	61%	Enhancement / creation of the company's image/reputation
16 out of 31	52%	Informing their stakeholders about the company's contribution to community service
14 out of 31	45%	Transparency
2 out of 31	6%	Improving employee commitment

Table 2 shows the perception of interviewees about the six primary causes and benefits for disclosing CSR information in Libya. The first benefit was improving financial performance which included five items (encourage and attract investors and customers, supporting the organisation profit, making-decision, competition and improving productivity). The second benefit and cause was regulation and management. This benefit encompassed four items which are requirements of stock market, International Accounting Standards, environmental law and management. Other primary benefits and causes were Enhancement, creation of the company's image or reputation, informing their stakeholders about the company's contribution to community service, transparency and improving employee commitment.

Six of interviewees (19%) see that the competition is a factor in improving a company performance. Furthermore, sixteen (52%) mentioned that Libyan companies use CSR information to inform their stakeholders about the company's contribution to community service. Moreover, fourteen of the interviewees (45%) believe that transparency is considered as one of the most important motivations for disclosure of social and environmental information. More specifically, Armitage and Marston (2008) revealed that transparency in emerging CSR information may lead to: promoting integrity within the company and in its dealings with stakeholders; promoting confidence on the part of shareholders and other stakeholders; being part of what is expected of a good corporate citizen; helping non-executive directors to understand the business. Aribi, Z. A. (2009, p. 180) indicated that ‘disclosing social responsibility information for the reason of transparency might be considered as a form of motivation for the top management to reveal such information’. Momin (2006) also revealed that companies in Bangladesh have a social obligation, and ‘CSR practices are driven by the altruistic motivation of discharging such obligation by providing information to society, accepting that stakeholders have the right to know about the corporation in more detail’. In addition, he indicates that the increase of CSR of awareness has given encouragement to managers to use CSR information. Nineteen of interviewees (61%) that CSR practices could enhance/create the company reputation and the company image, and thus the company works to make strong communication with stakeholders, in particular its external stakeholders whom are important for the continued operation of the company. They think that creating or enhancing reputation and profitability regardless of whether in the long or short term is a good public relation exercise, in terms of paying attention to investors and consumers. Thus, the effect of CSRD on society has been referred to as tactics that possibly enable the companies to affect this perception (Deegan 2002). Momin (2006) and Aribi, Z.A. (2009) suggest that emerging CSR activities in annual reports allow the company to enhance its reputation and its image through focus on its stakeholders or a marketing attention-grabber that is aimed at attracting consumers and investors and this has given benefits in the long and short term. Graham et al. (2005) suggest that the main motivation for disclosure is reputation

enhancement for transparency. In the same way, Eccles and Mavrinac (1995) stated that the main benefit of disclosure improvement is increased management credibility in enhancing disclosure of quality. Lundholm & Van Winkle (2006) emphasize the importance of obtaining shareholder confidence to achieve the purpose of disclosure that lead to increasing the share price through reducing scepticism about the company's future. The following comments by financial managers support the perceptions in table 2 and the views contained in the literature:

We believe that the company focuses on achieving some goals more than others, when it discloses information about social activities conducted in their annual reports. For example, the company focuses on enhancing the company's image, improving its financial performance and transparency, ...making the right decision... publicizing the company and its activities to all stakeholders....through conveying what has been done during the year to stakeholders such as owners, shareholders, investors and other... and the benefits are greater if the management of the company is convinced of the importance of disclosure of this information.

The secondary benefits that help the management to achieve some objectives are regulation and improving employee commitment. In this regard, Momin (2006) indicates that companies that are not responsive will not be able to survive and therefore companies will comply with regulations and standards. Three of the interviewees (10%) stated that Libyan companies which are listed in the Libyan stock market are obligated to disclose CSR information through the requirements of the stock market, while another three said that a company uses international Accounting standards which are considered as one of the main reasons for disclosing CSR information in its annual reports. Five (16%) confirmed that for a manufacturing company disclosing CSR information about compliance with the environmental laws is beneficial. Regarding employee commitment, two (6%) see that disclosing CSR information might be considered beneficial for management. The following comments by financial managers support these perceptions:

In fact, we believe that the dissemination of this information in the annual report will have a role in supporting the commitment of the employee and, also takes into account the application of law, but the commitment of employees is not non-core with most companies.

On the other hand, interviewees who are working in the manufacturing companies which are listed on the stock market believe that the company is committed to preparing annual reports according to regulations, in particular environmental laws and the requirements of the stock market because if the company did not apply these laws, this will be costly. Therefore, applying these laws can be effective as the most important factor for disclosing CSR information. Some financial managers stated in the following quotation:

Industrial companies such as steel and cement industry specifically committed to the application of laws that are interested in social activities in general and in particular environmental activities , hence it tries to show in the annual reports to avoid negative effects on the share price and reduce the profitability of the investor in the company.

SUMMARY AND CONCLUSION

The purpose of this paper is to explain the importance and the benefits of CSRD in the annual reports of the Libyan context, as perceived by financial managers and information managers of the four sectors (manufacturing sector, banks and insurance sector, the services sector and mining sector), using a theoretical framework which combines stakeholder theory. This framework shows that the importance of CSR disclosure related to four categories (environmental activities, consumer activities, community activities and employee activities) to stakeholders. The focus on this topic is motivated by the emphasis in the prior accounting literature review on the reasons for disclosing CSR information as a primary motivation by which disclosure policy can influence company performance. Managers and employees increasingly require considering SRD as a signal of improved CSR conduct in those fields because

disclosure affects the business performance such as a company's reputation. CSR disclosure also leads to important results in the creation or deletion of other fundamentally intangible resources, and may help build a positive image with employees and managers. By demonstrating that a company does disclose CSR activities enhances organisational performance, whereas non-disclosure of CSR can destroy organisational performance for a company. Hence stakeholders require their companies to disclose CSR activities in their annual reports.

Furthermore, this paper presents some details about the effects of some factors on CSR in the Libyan environment context. Social, cultural, political, economic and legal factors are considered the main factors affecting business performance and accounting through CSR.

This paper provides evidence from financial and information managers about the importance and the benefits of CSR information for the company. The most important results are consistent with prior accounting research conducted in both developed and developing countries. Our experience with CSR in Libya suggests that CSR are often unimportant at being unable to prove the worth of CSR information. The results of this paper should help address concerns often expressed by stakeholders about the importance of dissemination CSR information in the annual reports. In particular, the results of this paper should be of value to managers concerned with the company performance as a whole. The companies can reap major benefits from disclosing CSR information such as improving its financial performance through attracting investors and consumers, improving its competition in the Libyan market, supporting company profit and decision making and improving productivity. They are also able to obtain tangible benefits such as enhancing the company image/reputation, improving employee commitment. The results explain some reasons for disclosing CSR information in the annual reports such as requirements of the stock market, applying international accounting standards, environmental laws, the growth of social and environmental awareness of the Libyan management and transparency.

However, this paper has a number of limitations. First, this paper focuses on only CSR in annual reports, although these companies use other mass communication mechanisms. Further research should use other communication channels such as internet. Second, this paper indicates the primary benefits and causes of CSR. The authors suggest that further research should explain the effect of CSR on a company's reputation and financial performance. Third, internal stakeholders are considered as the only source of data in this paper. Further research should utilize external stakeholders to express their perceptions about CSR.

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