

Voluntary Disclosures in the Annual Report: Benefits and Costs, Preparers' Views

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ABSTRACT

This paper analyses and reports on the interviewees' responses to interview questions relating to benefits and costs of voluntary information disclosure in commercial banks' annual reports. Using qualitative method, applying face-to-face semi-structured interviews. The research results indicate that enhancing the commercial bank's reputation is one of the key benefits to a commercial bank of disclosing information voluntarily as suggested by interviewees. Furthermore, it gives a positive impression of a commercial bank's prospects. It was suggested as another foremost benefit to a commercial bank of having voluntarily information disclosed in the annual reports. Additional benefits of participating in the voluntary disclosure were considered to be gaining the trust of stakeholders in the commercial banking managers, improved investor relations, and lower average cost of capital. While the most important costs of voluntarily disclosing information were preparatory costs, competitive disadvantages, and potential legal responsibility.

Keywords: *Voluntary Information Disclosure, Benefits and Costs, Annual Reports, Preparers*

INTRODUCTION

The capital need theory predicts that increased voluntary disclosure of information by the company's managers will enable them to lower the company's cost of capital through reducing investor uncertainty (Schuster and O'Connell, 2006). In this respect, Botosan (1997) added that additional information disclosure enhances stock market liquidity thereby decreasing costs of equity capital either through reduced transactions cost or increased demand for a company's shares.

Thus, more voluntary information disclosure is preferable to less, in order to decrease the uncertainty surrounding a company's future performance and to assist trading in shares (Hassan et al., 2011).

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

One incentive for voluntary disclosure is the need to raise capital at the lowest possible cost. Companies might increase their voluntary disclosure in order to raise capital more cheaply on the markets. This will increase transparency and reduce information asymmetries between the company management and market

participants. Additional disclosures may help the listed companies to attract new shareholders, thus enabling companies to maintain a healthy demand for shares with a liquid market.

According to Firth (1980), managers of the firms will still be influenced to release more information to their annual reports users, particularly at the period of raising new funds in the stock market. This hypothesis was based on three basic assumptions: (a) managers of firms aspiration to raise the capital as cheaply as possible, (b) greater voluntarily disclosed information may lead to a reduction in agency costs and therefore new capital may be raised by a firm more cheaply, and (c) providing additional disclosure by managers of firms helps to decrease the perceived level of investors' uncertainty about the firms' future earnings and hence investors have an incentive to reduce the rate of return.

There are also suggestions that disclosing more information in annual reports by company managers could lead to increased stock liquidity through decreased transaction costs and raised demand for a firm's securities, and also lessening the uncertainty surrounding the valuation of share returns (Hassan et al., 2009). In this regard, Diamond and Verrecchia (1991) assert

that disclosing more information will improve upcoming liquidity of the company's shares and this can help to reduce the company's cost of equity.

Additionally, disclosing more meaningful financial and non-financial information by the company management on a voluntary basis will considerably improve its credibility among market participants (Schuster and O'Connell, 2006).

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

More specifically, Soltani (2000) claims that a company's voluntary information disclosure can yield three types of capital market effects, which include improved liquidity for their shares in the stock market; decreases in their cost of capital; and increases in financial analysts following the firm.

In particular, companies' information disclosures to capital markets will help stakeholders evaluate the companies more correctly and in turn can benefit managers learning of the capital market value, thereafter improving the company's strategic and operational decisions (Dye, 2001, p. 228).

The rest of the paper is structured as follows. The next section discusses the most common academic theories that have attempted to explain why companies voluntarily disclose information in their annual reports, namely agency theory, signalling theory, capital need theory, and legitimacy theory. This is then followed by the description of the research methodology and method employed in this paper. Results and discussion of the findings are presented in section four, while section five summarises and concludes the paper. The last section outlines the limitations and suggestions for future research.

THE THEORETICAL LITERATURE ON VOLUNTARY DISCLOSURE

The corporate voluntary disclosure literature has proposed that several academic theories may provide an explanation of the motivations behind voluntary disclosures. The most common academic theories that have been used by accounting researchers to explain the incentives of companies' managers to disclose more information voluntarily are: Agency theory, Signalling theory, Capital Need theory and Legitimacy theory.

These four prominent theories in the voluntary disclosure literature have been postulated as the most dominant explanatory theories attempting to explain companies' incentives to disclose additional information voluntarily, and these will be reviewed in this paper.

Agency Theory

Agency theory, as an economic theory, was developed by Jensen and Meckling in 1976. In particular, this theory has been widely used by accounting researchers to explain and understand voluntary disclosure phenomena in many countries with a different social, political and economic background (e.g. Chow and Wong-Boren, 1987; Cooke, 1989a, 1991 and 1993; Hossain et al., 1994; Hossain et al., 1995; Meek et al., 1995; Raffournier, 1995; Inchausti, 1997; Depoers, 2000; Haniffa and Cooke, 2002; Ferguson et al., 2002; Hossain and Taylor, 2007; Chen et al., 2008; Akhtaruddin and Hossain, 2008).

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

In this regard, Akhtaruddin and Hossain (2008) affirm that information disclosure is motivated by the wish of the managers to efficiently treat the potential conflicts between companies' managers and stakeholders. Consistent with this view, Gray et al. (1995, pp. 46-47) claim that "accounting information is a mechanism for conflict resolution between various stakeholders for both explicit and implied contracts". From the agency theory point of view, both parties to a contract (the principal and the agent) often do not have the same information and this situation is called "asymmetric information" (Noreen,

1988). Typically, information asymmetry between the principal and the agent occurs when the agent has more information than the principal.

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

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

Consequently, firms' managers have superior information compared to external owners and other investors about the firms' current performance and future prospects.

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

It can be argued that the degree of information asymmetry between corporate managers and

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

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

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

Signalling Theory

Signalling theory was originally developed and used to explain information asymmetry in labour markets (see Spence, 1973). This theory has also been widely used by accounting researchers as a further theory to explain why companies voluntarily disclose additional information in their annual reports (e.g. Raffournier, 1995; Haniffa and Cooke, 2002; Walston et al., 2002; Akhtaruddin and Hossain, 2008). According to Morris (1987) signalling is a common phenomenon relevant in the market with information asymmetry; hence the signalling theory shows how this asymmetry can be reduced by the party with additional information signalling it to others.

Moreover, "signalling theory provides a unique, practical, and empirically testable perspective on problems of social selection under conditions of imperfect information" (Connelly et al., 2011, p. 63). In the corporate disclosure scenario, signalling theory hypothesises that the managers

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

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

From theoretical predictions in signalling theory, the management of high performance companies will choose accounting policies which allow their higher performance to be disclosed, whereas management of lower performance companies will choose accounting policies which attempt to hide their poor performance (Morris, 1987). For example, Cai et al. (2007) state that the management of higher quality companies may voluntarily adopt segment reporting to disclose the superior risk-return profile of its activities, whereas management of low quality companies would not (see Morris, 1987). Furthermore, management of higher quality companies are capable of closing the asymmetric information gap via using costly signals of quality, but management of poor quality companies are not capable of mimicking.

Besides, signalling theory's prediction is that managers of companies released additional financial as well as non-financial information to signal that their performance is for the best interest of stakeholders (Akhtaruddin and Hossian, 2008). Therefore, companies' managers will have an incentive to disclose all positive distinguishing qualities in order to

maximise their own self-interest (Campbell et al., 2001). For instance, Easterbrook and Fischel (1984) point out that a company with a good project, seeking to discriminate itself from a company with an average project, will disclose greater information.

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

Moreover, managers would voluntarily reveal additional information to stakeholders and other investors than required by law or any specific regulations if they perceive welfare from doing so (Gray et al., 1995).

For example, managers of firms may attempt to signal that they are superior to others by revealing certain environmental or social disclosure in their firms' annual reports. However, if companies' management expect that an obligation to disclose more information at present might be used to hold them further responsible for any following poor performance and therefore they possibly will not desire to increase the level of disclosure in a period of poor performance (Healy and Palepu, 2001).

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

For example, Cormier and Magnan (1999) illustrate that there may be a cost from information disclosure when the information is utilised by external users against the company's benefit. A firm's management will choose not to provide certain voluntary disclosures when it believes that the hazard of competitive hurt outweighs the predictable advantage from revealing the voluntary disclosure of information (FASB, 2001). In this respect, Craswell and Taylor (1992) point out that regardless of

whether information disclosure has a positive or negative influence on the company value, costs will be enforced on the company if competitors, dissident stockholders or employees can utilise the information in a way that damages the company's prospects.

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

Capital Need Theory

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

The capital need theory predicts that increased voluntary disclosure of information by the company's managers will enable them to lower the company's cost of capital through reducing investor uncertainty (Schuster and O'Connell, 2006). In this respect, Botosan (1997) added that additional information disclosure enhances stock market liquidity thereby decreasing costs of equity capital either through reduced transactions cost or increased demand for a company's shares.

Thus, more voluntary information disclosure is preferable to less, in order to decrease the uncertainty surrounding a company's future performance and to assist trading in shares (Hassan et al., 2011). According to this theory, revealing greater information in annual reports helps to attract new investors thereby helping to maintain a healthy demand for the company's shares and a share price in the market will more accurately reflect its intrinsic value (Cooke, 1989b). At the same time, companies with a

higher level of disclosure should reasonably tend to gain higher stock prices over the long run (Stanga, 1976). The argument is that enhanced corporate disclosure is expected to lead to improvements in investors' capital-allocation decisions as well as investors' assessment of the return from a firm's share (Schuster and O'Connell, 2006).

It has also been argued that greater information disclosure in corporate annual reports tends to reduce the fluctuation of a company share price. For example, Singhvi and Desai (1971) demonstrate empirically that poor disclosure in corporate annual reports probably extends fluctuations in share prices in the market, which leads to inefficient allocation of capital resources in the economy.

As explained in Einhorn (2007, p. 246): "Corporate voluntary disclosure is commonly viewed in the literature as being motivated by the wish of the firm's management to inflate the investors' expectations about the value of the firm and thereby maximize the price at which the firm's stocks are traded in the capital market".

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

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

In addition, it assumes that disclosure of information concerning enhanced prospects that are ambiguous and unverifiable at the time of disclosure releases a company to possible legal action, should the final consequence be inauspicious (Kothari, 2000). Furthermore,

shareholders and other interested parties might suspect or misinterpret the managers' intentions when they release additional information to the market with no legal obligation to do so (Hassan, et al., 2009).

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

Legitimacy Theory

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

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

According to legitimacy theory, companies are expected to carry out their operations within the boundaries of what is deemed satisfactory by the community (Wilmshurst and Frost, 2000). Specifically, the insights provided by legitimacy theory would suggest that economic entities exist in society under social contract which can be either explicit or implicit. Therefore, an economic entity is expected to comply with the terms of this 'contract', and these expressed or implied terms are not static (Brown and Deegan, 1998). The legitimacy theory assumes that the growth of public awareness and concern will result in managers of the companies taking procedures to make sure their actions and

performance are acceptable to their communities (Wilmshurst and Frost, 2000). So management of companies would voluntarily reveal information on actions when they perceived that the specific actions were expected by the societies in which their companies function (Guthrie et al., 2004).

In addition, the legitimacy theory would suggest that a company's disclosure practices are a tool to establishing or protecting the company's legitimacy in that they may affect both stakeholders' decisions and policy (Tilt and Symes, 1999).

It seems, therefore, that corporate disclosures can be used to show that the corporate firm is conforming with public expectations, or otherwise, they could be utilised to modify societal expectations (Deegan et al., 2002). As Singh and Point (2009) state, the objective of corporate disclosures in annual reports such as voluntarily disclosed information would be to communicate the business's values and activities that not only comply with relevant law and regulation but also with societal expectations.

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

As Tsang (1998) asserts, a sufficient amount of information needs to be disclosed for society to measure how far a company is a good corporate citizen. According to Brown and Deegan (1998) legitimacy theory posits that managers of companies continually attempt to ensure that their activities and performance are within the boundaries and norms of their respective society. In this respect, changes in social norms and values are considered one motivation for corporate change and also one source of pressure for corporate legitimation (O'Donovan, 2002).

As has been affirmed by Deegan et al. (2002) expectations of the public will change over time and therefore the management of a company need to provide disclosure to illustrate that it is also changing, since change actions without telling the relevant publics of such changes might be considered to be inadequate. Furthermore, legitimacy theory posits that

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

To sum up, in light of the theoretical arguments discussed above, the legitimacy theory is founded on the notion that there is a social contract between an economic entity and the society in which it activates. This theory suggests that voluntary information disclosures are part of a process of legitimation and used as a device for economic entities to demonstrate that their activities are in consensus with the bounds and norms of their respective society. Besides, according to the legitimacy based arguments, voluntarily disclosing additional information in corporate annual reports is an effort to alleviate public pressure or legitimate a company's actions.

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

RESEARCH METHODOLOGY AND METHOD

Interviews are one of the most commonly used research methods employed for collecting primary data; they can be conducted with individuals or groups, using face-to-face, telephone, email or video (Collis and Hussey, 2009). The interviews allow the researcher to gain an insight into an individual's beliefs and attitudes towards a specific subject (Wilson, 2010). Interviews can be structured, unstructured or semi-structured.

A semi-structured interview is a mixture of the structured and unstructured approach; it is based

on a set of structured questions, but at the same time provides room for the interviewees to elaborate on certain points and raise specific questions or subjects (Wilson, 2010). An additional advantage of conducting semi-structured interviews is that the views and opinions expressed during the interview stem from a single source (the interviewee) (Denscombe, 2007).

For the purpose of this study, a semi-structured, face-to-face interview was adopted as the most effective technique to be used in the current study to obtain accurate and more detailed information from those preparing commercial banks' annual reports. The main advantage of a semi-structured interview method is to conduct discussions to not only reveal and understand the 'what' and the 'how' questions but also to place more emphasis on exploring the 'why' questions (Saunders et al., 2003).

Selecting Sample Interviewees

The researcher planned to interview all the Libyan listed and unlisted commercial banks' directors of the accounting departments or representatives who are involved directly in the preparation of annual reports. Directors of the accounting departments in Libyan commercial banks were chosen for two reasons.

Firstly, based on the researcher's knowledge of Libyan commercial banks' regulations, directors of the accounting departments are more reliable sources and are more exposed to issues relating to the banking financial reporting and disclosure practices than other directors or employees in Libyan commercial bank. Secondly, directors of the accounting departments are directly responsible for the preparation of financial annual reports and accounts of Libyan commercial banks.

Nevertheless, the researcher was not able to realise the plan due to bureaucratic rules that governed the Libyan banking system, and so it was difficult for the researcher to conduct interviews with all directors of accounting departments. It should also be noted that confidentiality and anonymity were crucial factors, as the subjects were commercial banks. As a result, six commercial banks (two listed and four unlisted commercial banks) allowed the researcher to carry out interviews with the people responsible for preparing their annual reports. The final size of the sample interviewees was seven. Two representatives of one listed commercial bank were present in one

of the interviews. The number of participants in the interviews formed a good representation and provided rich information concerning the current financial reporting and disclosure practices by Libyan listed and unlisted commercial banks.

Semi Structured Interview Process

To interview the people preparing the commercial banks' annual reports, a copy of the 'Participant Information Sheet' attached with the 'Management Letter', explaining the purpose of the interviews was hand-delivered to all directors of accounting departments in Libyan commercial banks to obtain their permission and to arrange an appropriate date and interview time. It ultimately depended on the personal relationships and contacts already formed which resulted in six commercial banks (4 listed and 2 unlisted) allowing the researcher to conduct the interviews.

The interviewees were given the choice to select a convenient time for their interviews. Each interview lasted approximately forty-five to ninety minutes. All interviews were conducted face-to-face on a one-to-one basis excepting one interview which was held with two participants representing one commercial bank.

Semi-structured questions were used by the researcher as guidelines during the interviews and also to allow interviewees to answer questions in their own words, encouraging them to elaborate on their responses and give more accurate and complete information.

The original interview questions were first written in the Arabic language, since all interviews were conducted in Arabic and later translated into the English language by the researcher.

Before conducting the interviews, All interviews began with the researcher introducing himself to the interviewees, after having thanked them for participating; this was then followed by a brief introduction to the research aims and objectives as well as explaining the purpose of the interview. Each interviewee was assured that all information given during the interview would be used for academic purposes only and would be treated confidentially, and that they have the right to change their mind at any time; they were also asked whether the interview could be recorded by the researcher.

This was done to make interviewees feel more comfortable and to encourage them to provide

realistic and free answers to all interview questions. All interviewees were also invited to give their comments on the issues that they thought might not be covered in the interview questions. Four interviews were tape-recorded and handwritten notes were taken during the all interviews.

After asking the interviewee to confirm the recordings and written notes, they were then translated from Arabic to English and transformed into a written document at the end of each interview by the researcher. Content analysis was used for analysis of the interview transcripts. Content analysis has been defined as "an approach to the analysis of documents and texts that seeks to quantify content in terms of predetermined categories and in a systematic and replicable manner" (Bryman, 2004, p. 181).

According to Denscombe (2007) content analysis is a technique which helps the researcher to analyse the content of documents and can be used with any 'text', whether it be in the form of writing, sounds or images, as a manner of quantifying the contents of that text.

Content analysis involves creating categories which classify the meaning expressed in the data, and then coding, tabulating and illustrating the data itself (Jankowicz, 1995, p. 195). More precisely, Kumar, 2005 (p. 240-241) clarified that content analysis means analysis of the contents of an interview in order to identify the main themes that arise from the answers given by interviewees.

According to Kumar (2005), the process of analysis of the contents of an interview involves the following steps:

- Step 1- Identify the main themes;
- Step 2- Assign codes to the main themes;
- Step 3- Classify responses under the main themes; and
- Step 4- Integrate themes and responses into the text of the report.

RESULTS AND DISCUSSION OF THE FINDINGS

Benefits and Costs of Voluntary Information Disclosure

This section analyses and reports on the interviewees' responses to interview questions relating to benefits and costs of voluntary information disclosure in commercial banks' annual reports. The following subsections will discuss and presents the benefits and costs of

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voluntary disclosure for a commercial bank from an interviewees' perspective.

Perceived Benefits of Voluntary Disclosure in Annual Reports

The general belief amongst commercial banks' annual reports preparers who participated in the interviews that the analysis of the benefits and costs associated with voluntary disclosure decisions have to be made with more consideration.

Reasonably, a commercial bank's management would choose to provide additional detailed information to the general public when they feel that the advantages/benefits from disclosure outweigh the costs. The following quote is representative of the responses from commercial banks' annual reports preparers. When discussing the benefits and costs associated with voluntary disclosures decision, CB3 offered:

"In the banking industry in particular, a decision to voluntarily disclose additional information to external users is not simple and is more complicated than other industries we aware that there are some benefits we can gain from disclosing additional information in our commercial bank annual reports, but as always there is a risk and therefore we take enough time before the decision is made in order to weigh the advantages and costs associated with such a decision".

The following table 1, below, summarises the main advantages/benefits of voluntary disclosure in annual reports as perceived by preparers of Libyan commercial banks' annual reports.

Table1. Perceptions On benefits of Voluntary Disclosure In Annual Reports

Benefits of voluntary disclosure	CB1	CB2	CB3	CB4	CB5	CB6	(6)
Enhanced the commercial bank's reputation	✓	✓	✓	✓	✓	✓	6
Give positive impressions of a commercial bank's prospects	✓	✓	✓	✓	✓	✓	6
Gaining the trust of stakeholders	✓	✓	✓		✓	✓	5
Improved investor relations/ increase investor confidence	✓	✓	✓		✓		4
Lower average cost of capital				✓			1

Table 1 shows that all of the interview participants perceived that enhancing the bank's reputation is one of the key benefits to a commercial bank of disclosing information voluntarily in the annual reports.

It gives a positive impression of a commercial bank's prospects it is also perceived by all interviewees as another foremost benefit to a commercial bank of having voluntarily information disclosed in the annual reports. As expressed by one of the interviewees, BC1:

"Providing general public and shareholders with more useful information in annual reports can help the commercial bank management improve the bank's reputation and also will give optimistic impression about the future of the bank".

The interviewees mostly suggested that gaining the trust of stakeholders was another benefit that can be expected from disclosing additional information voluntarily in the annual reports of commercial banks. One of them, CB5, stated:

"I think that lack level of financial and non-financial information provided in the commercial banks annual reports is more likely to be interpreted by many external stakeholders

as a less transparent,... thus I believe that more detailed information disclosed in annual reports strengthens the trust of stakeholders in commercial bank management".

Some of the interviewees indicated that disclosing more information in annual reports can help the management of the commercial bank to improve investors' relations as well as increase investors' confidence. As stated by BC2 *"...providing relevant and accurate information in annual reports can help the managers of a commercial bank to keep and to build strong relationships with its investors and shareholders".*

One of the participants, BC4, said that: *"a commercial bank can reduce its cost of capital by increasing the annually financial disclosure level".* However, some of the interviewees would argue that most commercial banks do not rely on external capital and they are considered as the main money sources for funding different companies' schemes. That would imply that disclosing additional information voluntarily in the annual reports is not motivated by a commercial bank's need to reduce its cost of equity capital.

Perceived Costs of Voluntary Disclosure in Annual Reports

From the face-to-face semi-structured interviews, it is apparent that there is also strong

evidence that making voluntary disclosure decisions may involve costs for a commercial bank. Table 2 displays the costs of voluntary disclosure in annual reports as perceived by the participants in the interviews.

Table2. Perceptions on costs of voluntary disclosure

Costs of voluntary disclosure	CB1	CB2	CB3	CB4	CB5	CB6	(6)
Preparatory costs: the cost of gathering, processing, disseminating the information	✓	✓	✓	✓	✓	✓	6
Competitive disadvantages	✓	✓	✓	✓		✓	5
Potential legal responsibility	✓	✓		✓	✓		4

As apparent in Table 2, the most frequent costs mentioned by all of the participants in the interviews is preparatory costs which includes cost of gathering, processing, and disseminating the information in the annual reports of commercial banks. A second potential cost for making voluntary disclosure decisions as perceived by almost of the interviewees is competitive disadvantage. Almost of the interviewees indicated that disclosure of too much detailed information in annual reports can be used by competitors of a commercial bank, as a result, it negatively influences a commercial bank position.

“In fact, our commercial bank has its own strict disclosure rules and therefore we have to follow it when disclosing banking financial and non-financial information to external users in order to avoid any potential legal action against us due to publishing such details information”.

As expressed by BC1 *“...the disadvantage of disclosure of too much information about all a commercial bank activities can be used by competitors of a commercial bank”*. Most of the participants in the interviews believed that disclosing detailed information about commercial bank projects or strategies, research and development plans as well as information about the mergers and acquisitions, and the sale of assets can be harmful to the commercial bank position. Some of the interviewees perceived that providing detailed financial and non-financial information to the general public can expose the management of a commercial bank to potential legal responsibility. For example, one of the interviewees, BC4, stated:

In summary, the participants in the interviews believed that the analysis of benefits and costs associated with voluntary disclosure decisions have to be made with more consideration. Enhancing the commercial bank’s reputation is one of the key benefits to a commercial bank of disclosing information voluntarily as suggested by interviewees. Furthermore, it gives a positive impression of a commercial bank’s prospects. It was suggested as another foremost benefit to a commercial bank of having voluntarily information disclosed in the annual reports. Additional benefits of participating in the voluntary disclosure were considered to be gaining the trust of stakeholders in the commercial banking managers, improved investor relations, and lower average cost of capital. While the most important costs of voluntarily disclosing information were preparatory costs, competitive disadvantages, and potential legal responsibility.

“I believe that the costs or disadvantages of offering too much detailed information by the commercial bank may encourage the customers or stakeholders of the commercial bank to take a legal action against the bank when they feel that information is not true or misleading, and such information may be utilised by them as evidence against the bank”.

Views on the Usefulness of Voluntary Disclosure in Making Economic Decisions

Another participant in the interviews, BC2, shared the same view,

This section presents and discusses interviewees’ perceptions’ concerning to what extent that information voluntarily disclosed in the Libyan commercial banks’ annual reports is useful or essential for economic decision-making. Table 3 below displays the preparers’ perceptions on the usefulness of voluntary disclosure in making economic decisions.

Table3. Perceptions on the usefulness of voluntary disclosure in making economic decisions

	CB1	CB2	CB3	CB4	CB5	CB6	(6)
Very useful	✓	✓	✓		✓		4
Partial useful				✓		✓	2

The participants in the interviews held mixed views regarding the usefulness of voluntary disclosure in the commercial banks' annual reports in making economic decisions. As seen in Table 3, the majority of the interviewees (4 out of 6) believed that voluntary disclosure in the commercial banks' annual reports is very useful and can be used for decision-making purposes. For example, as commented by CB2, "we annually publish additional information in annual reports and I believe most of information is relevant and useful for making economic decisions".

While, two of the interviewees suggested that the information disclosed voluntarily in the commercial bank's annual reports may not be very useful, due to the fact that the vast majority of external stakeholders are not reliant or not relying on the information voluntarily revealed by commercial banks in making their vital economic decisions. In addition, such voluntary disclosures may not satisfy all the external users' needs in practically making economic decisions.

As stated by CB6, *more voluntary information provided in commercial bank annual reports may help some sophisticated users in their investment decisions, but for other external users it is not very helpful*". The second of the interviewees CB4 stated:

"I believe that voluntary disclosures provided in the commercial banks' annual reports... from viewpoint of many external stakeholders are not very useful for their decision-making purpose, because the most of these users are not relying

on these disclosures when they take their vital investment decisions, since voluntarily information is not approved or audited by the external auditors of commercial banks".

Overall, the majority of the interviewees believed that voluntarily information disclosed in the commercial banks' annual reports is useful and helpful in making economic decisions. However, some would argue that voluntary disclosures are not very useful, since the vast majority of external stakeholders do not rely on these disclosures and are not using them in making their economic decisions, because, the majority of user groups would rely on audited financial information and consider it more trustworthy for their decision making purpose. This would suggest that the balance sheet and profit and loss account statement disclosed annually by Libyan commercial banks are more important for making economic decisions rather than other sections of the annual report.

Views on the Usefulness of Voluntary Disclosure to a Wide Range of Users

This section reports and discusses the interviewees' responses to what extent that they perceived that voluntary information disclosure in the commercial banks annual reports is useful to a wide range of users (i.e. bank's share holders, government agencies, individual investors, institutional investors, stock market brokers, researchers and other scholars, bank's employees, and general public).

Table4. Perceptions on the usefulness voluntary disclosure to wide range of users

Useful to:	CB1	CB2	CB3	CB4	CB5	CB6	(6)
Bank's shareholders	✓	✓	✓	✓	✓	✓	6
Government agencies							0
Individual investors		✓	✓		✓	✓	4
Institutional investors		✓	✓		✓	✓	4
Stock market brokers	✓	✓	✓		✓		4
Bank's employees	✓	✓	✓	✓	✓		5
Researchers and other scholars	✓	✓	✓		✓	✓	5
General Public	✓			✓			2

The interviewees hold mixed feelings about the usefulness of voluntary information disclosure in the annual reports of commercial banks to a

wide range of users, in the sense of requiring making decisions about commercial banks. As seen in Table 3, all of the interviewees believed

that additional information provided in the annual reports is useful to commercial banks' shareholders. This would suggest that a commercial bank annual report to be the only means of communicating with shareholders. In contrast, all interviewees argue that the financial and non-financial information disclosed voluntarily in their commercial banks' annual reports may not be useful to government agencies since they already have the legal power to access to vital information before it is published in the annual reports, such as tax authorities, Central Banks' officers, and other supervising governmental bodies. They usually do not rely on voluntarily disclosed information for government purpose uses. For example, CB1 states:

"In fact, the majority of government agencies do not legally recognise or rely on voluntary information published by the commercial bank, they frequently ask the management of the bank to provide them with accurate and up-to-date information directly, and use for official purposes".

Five of the interviewees believed that voluntary information disclosed in annual reports is useful to the commercial banks' employees, because the commercial bank's annual reports contains comprehensive information on the bank's various business which including employees welfare, new services offered, change in the salaries, pensions, changes in information technology, application of a new technology changes in existing legislation, and administration changes. This viewpoint was apparent in the following response by CB3:

"...our employees mainly relied on information published annually in our bank's annual reports for their own use, they are particularly interested in profitability information, and other information such as employee welfare, training, wages, pensions, health care, and the future plans".

Furthermore, the majority of the respondents (4 out of 6) asserted that voluntary disclosures provided in the commercial banks' annual reports can be useful to stock market brokers if they use and interpret these disclosures in a proper way depending on whether or not they have a fair degree of financial sophistication.

Four of the interviewees believed that information provided on the voluntary basis is useful to individual and institutional investors for their investment decisions.

Nonetheless, others (2 out of 6) indicated that the majority of individual and institutional investors seek private disclosure from commercial banks' managers via telephone communications or face-to-face meetings, because they have no confidence in the information voluntarily disclosed in a commercial bank's annual reports.

Additionally, they mentioned that individual and institutional investors rely heavily on the financial information disclosed in the audited consolidated financial statements (balance sheet statement and profit and loss account statement), rather than other information published in other forms of financial reporting, since the audited consolidated financial statements including accurate and reliable information about the financial performance and financial position of commercial banks.

Almost all of the participants in the interviews (5 out of 6) suggested that information provided in their commercial banks' annual reports is valuable and useful to researchers and other scholars, since the information published annually in annual reports including financial statistical data and other financial information is expected to be very useful in conducting different kinds of academic research or other types of research.

Only two interviewees asserted that additional information disclosed in the commercial banks' annual reports is useful and can be used by general public such as students, teachers, farmer, traders, and local media. For example, CB4 said,

"From my view, I strongly believe that voluntary financial and non-financial information published in the commercial bank's annual reports is useful to the wider community which includes for example students, teachers, farmers, traders, and local media,... who are usually trying to get more detailed information on all the banking facilities such as credit facilities, social loans, bank's home loans, and car loans".

In summary, almost all of participants in the interviews believed that the provision of voluntary information in the annual report of commercial banks is useful for a wide range of users, in the sense of requiring to make decisions about commercial banks.

However, the interviewees would argue that voluntary disclosures provided in their commercial banks' annual reports may not be

useful to government agencies since they have legal power to access vital information about the financial performance and financial position of commercial banks before it is published in the annual reports.

SUMMARY AND CONCLUSIONS

The paper has reported and reviewed the results of the face-to-face semi-structured interviews conducted with six Libyan commercial banks annual reports' preparers related to their perceptions about the benefits and costs of commercial banking voluntary disclosure, the usefulness of voluntary disclosure in economic decision making and the usefulness of voluntary disclosure to a wide range of users.

Commercial banks annual reports' preparers emphasised that the analysis of benefits and costs associated with voluntary disclosure decisions have to be made with more consideration. Enhancing the commercial bank's reputation is one of the key benefits to a commercial bank of disclosing information voluntarily as suggested by interviewees.

Furthermore, giving a positive impression of a commercial bank's prospects was also suggested as another foremost benefit to a commercial bank of having voluntarily information disclosed in the annual reports.

Additional benefits of participating in voluntary disclosure are; gaining the trust of stakeholders, improved investor relations, and lower average cost of capital.

While the most significant costs restricting the amount of information voluntarily disclosing in commercial banks' annual reports were preparatory costs, competitive disadvantages, and potential legal responsibility. Once again, the respondents in the interviews believed that voluntarily information disclosed in the commercial banks' annual reports is useful and helpful in making economic decisions.

They also indicated that the provision of voluntary information in the annual report of commercial banks is useful for a wide range of users, in the sense of helping them to make decisions about commercial banks.

LIMITATIONS AND SUGGESTIONS FOR FUTURE RESEARCH

There are some limitations of the current study, which can be summarised as follows:

- The small sample size of the participants in the interviews (six interviewees), was due to

the difficulty in obtaining official permission in time and the limited time given to the researcher to conduct the interviews; this reduced the opportunity to explore further interesting issues about the benefits and costs of annual voluntary disclosures. Future research can be expanded by increasing the sample size of the participants in the interviews.

- The present study was limited to the views of commercial banks annual reports 'preparer. Further research based on the results of this study could be extended to include other annual reports preparers' views from other financial companies.
- This study was carried out in a single country. Future study could be conducted to survey the views of commercial banks annual reports' preparer indifferent countries.

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Citation: Abdallah Al-Mahdy Hawashe, "Voluntary Disclosures in the Annual Report: Benefits and Costs, Preparers' Views" *International Journal of Research in Business Studies and Management*, vol 6, no. 1, 2019, pp. 1-16.

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