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Earnings Management in Libyan Commercial Banks: Perceptions of Stakeholders

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Introduction

The primary objective of the current paper is to capture the experiences of a range of stakeholders in relation to the quality of financial reporting of Libyan Commercial Banks (LCBs) by seeking their perceptions regarding the issue of earnings management. This paper investigates stakeholders' understanding and awareness of earnings management as a concept and whether they think earnings management does take place among LCBs; their views on the techniques used to manage LCBs' earnings and on possible motivations behind such a practice are also examined. The paper also seeks views about how earnings management can be prevented or deterred, including perceptions about the role and potential role of accounting standards and corporate governance. Earnings management has continued to be problematic in the financial reporting context throughout recent decades (Heinz et al., 2013) and is an important topic that concerns a wide range of stakeholders including regulators, investors and managers (Achilles et al., 2013). Its importance stems from its negative effects on financial statements' credibility (Man and Wong, 2013) as it involves deliberate management intervention in the financial reporting process to misstate reported earnings in order to achieve certain rewards (Foster and Shastri, 2013). It can be argued that earnings management might be used to make information more informative for outsiders given the deep knowledge that managers would have about their activities. Indeed, Aerts et al. (2013, p.94), do distinguish between "manipulative [opportunistic] and communicative [informative]" earnings management. However, they criticise both practices as leading to uncertainty in the minds of users.

In addition, opportunistic earnings management, according to Habbash et al. (2013), reduces the quality of reported income as it produces less reliable reported earnings that do not reveal the true financial performance of the firm. In the words of Ascioglu et al. (2012), earnings management clearly "degrades the quality" of reported income as well as that of financial disclosure in general (p.258). Also, earnings quality, according to Ebaid (2013), plays a major role in financial reporting quality given the importance of the earnings figure as a "premier source of firm-specific information" (p.261). Indeed, according to McKee (2005, p.1), it represents "the single most important item in financial statements".

The existence of earnings management, through its adverse effect on financial reporting quality, also constitutes a serious breach of the accountability process whereby managers should provide useful, unbiased, and reliable information to the firm's stakeholders.

The quality of financial reporting represents a core element of accountability between preparers and report users. According to Ijiri (1983), the fundamental objective of the accounting system within the accountability framework is fairness. Fair accounting information, according to Ijiri (1983), can be seen as that accounting information which is objective and verifiable. Being objective means that accounting information presented to an accountee is free from bias while verifiability means that "there are sufficient trails to enable anyone to reconstruct the information" (p. 75). Based on the above discussion, in order for the accountability process to be fulfilled, financial reporting needs to be perceived as of high quality. Within the accountability framework, accounting information should be fairly presented and characterised as objective and reliable. In this study, the accountability process is deemed to be taking place when high quality financial reporting[1] is perceived as being obtained.

In other words, financial information has to be unbiased and free from management's intervention so that managers are perceived to be accountable. This paper focuses on the extent to which the Libyan Commercial Banking sector is perceived to be accountable.

Regardless of the regulatory efforts that have been made to preclude earnings management, this managerial behaviour, according to Beaudoin et al. (2013), still exists and continues to concern related parties: practitioners, regulators and standard setters. Therefore, it is of great importance to understand this behaviour and highlight some means of minimizing its damaging consequences. According to Krishnan and Visvanathan (2011): "earnings management is believed to be widespread and a matter of concern to regulators and users of financial statements" (p. 133). For Cotter (2012), the existence of such a practice is due to the fact that we live in a world that falls some way short of the perfect world.

This study's importance stems basically from the importance of the issue of financial reporting quality in terms of accountability: accountability in the context of this paper represents the relationship between banks' management and other stakeholders in which managers are obliged to be accountable by producing high quality financial reporting. Also, as earnings management concerns a wide range of stakeholders, LCBs' stakeholders should be interested in the study's results that will be discussed later. In addition, research in other developing countries may be informed by the results of this study. According to the results,

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[1] In accordance with the International Accounting Standards Board's (IASB) conceptual framework, the quality of financial reporting can be assessed by reference to whether useful financial information has been provided. To be useful, financial information must be relevant and faithfully representative. To enhance the relevance and faithful representation of useful financial information, another four qualitative characteristics have to be met so that financial information could be considered of high quality: comparability, verifiability, timeliness and understandability (IASB, 2010).

"earnings management" as a term is not widely understood; indeed the term has been interpreted by a number of interviewees in a quite different way as described below in the findings. However, the concept of what might more usefully be described as "earnings manipulation" was well understood by the interviewees. The fact that earnings management is practiced in LCBs is consistent with the literature, and suggests that this study should be of interest to auditors and regulators, and of course other stakeholders who make decisions based on LCBs' financial statements. Findings also revealed the techniques by which earnings management is understood to be practiced including, in particular, by manipulation of the "loan loss provision" (LLP). However, the results also suggest other ways used by LCBs' managers to change their earnings. These methods should be of interest to auditors who have a responsibility to provide an opinion on financial statements. Moreover, if some of these techniques are clearly incompatible with generally accepted accounting practice[2] (GAAP) and therefore amount to fraud, our findings again should be of high importance and interest to all stakeholders. All in all, the financial reporting of LCBs is perceived as of reduced quality due to earnings management, which therefore may be seen as an explicit breach of accountability. However, interviewees perceived that both IFRS and improved corporate governance could positively influence the quality of financial reporting by reducing earning management practices and therefore increasing user confidence and enhancing the accountability of LCBs' managers.

The findings of this study are interpreted from an accountability perspective which may potentially be seen as a contribution. Many studies on earnings management have been carried out based on other theoretical perspectives. Habbash (2010), for example, examined the effectiveness of corporate governance and external audit on earnings management practices in the UK using agency theory. Also, Alghamdi (2012) carried out a study to

[2] The nature of what constitutes GAAP in the Libyan context is discussed later in the paper.

investigate earnings management practices by Saudi listed companies using both agency theory and institutional theory. However, with reference to the importance and impact of the banking sector, not only to shareholders but to other stakeholders and to the functioning of society as a whole, a wide accountability perspective is commended as having particular salience.

The next two sections explain the theoretical framework of this study, and the study's background and motivations. The subsequent section presents the research method and the research questions. This is followed by the results of the study which are considered under the headings of: the quality of financial reporting; earnings management (EM) awareness; EM existence; EM techniques; EM motivations and EM constraints. The penultimate section presents a discussion, and this is followed by the conclusion.

Theoretical framework

As has already been noted, this study adopts an accountability based framework. This theory can describe two types of relationships: a narrow type that is, for example, between managers and shareholders and a wider type in which an accountability relationship arguably exists between managers and society at large. According to the wide type of accountability, accounting information is used by a wide range of groups i.e. current and potential investors, auditors, regulators…etc. The wide notion also holds that not only financial information would be communicated to these groups. In addition it holds that confidence in the integrity of an accountability process is important to members of a society who may not themselves be direct recipients of information. The accountability perspective can be based on the assumption that a conflict of interest may arise between the accountor and the accountee.

In terms of the earnings management issue, the accountor may be motivated to engage in earnings management practices to ensure maximisation of his/her benefit and the accountee may therefore adopt a mechanism to monitor the accountor's performance. Therefore, the accountability framework can be well suited for organizations whose services affect many stakeholders who may have both financial and non-financial interests in the organization, in other words, public accountability (Perks, 1993), as is the case with Libyan Commercial Banks[3].

The accountability framework is deemed to be the proper one to cover this study's objectives as it conceptually matches well the relationships between a bank's management and other stakeholders. In addition, research findings may be interpreted from an accountability perspective i.e. recognising the consequences that earnings management practices may have on the accountability system. One of the ways in which accountability is used in the academic context, according to Bovens (2010), is as a normative concept to evaluate the actor's behavior.

Background and motivations for the study

The first motivation for this study stems from the need to focus on the importance of accountability through high quality financial information and the threats to this accountability caused by earnings management. As discussed above, this study aims to investigate the earnings management issues in LCBs from the viewpoint of various stakeholders. The notion behind selecting commercial banks for the study stems partially from the importance of such a sector through its role in the economy. Banks have a central function in the economy, keeping the savings of the public and financing the development of business and trade; this central role of banks justifies particular scrutiny of their performance. Moreover, given the crucial importance of the accountability system of banks, confidence in the financial reporting of banks is in the interests of a wide range of stakeholders, e.g., regulators,

[3] Public accountability, according to Perks (1993), is applicable to any entity that is responsible to the public. Needless to say, many groups (stakeholders) are or would be affected by commercial banks' activities and performance i.e. employees, clients and wider society. The recent financial crisis which has had far reaching effects socially in many countries clearly exemplifies this point.

customers, investors, and society as a whole. The failure of banks "can result in systemic crises with adverse consequences for the economy as a whole" (Fethi and Pasiouras, 2010, p. 189). This of course has been clearly seen in many countries as a result of the recent banking crisis.

Another reason for choosing LCBs for the study is that the majority of listed companies on the Libyan Stock Market are commercial banks; such listing gives additional significance to the need for stakeholders, and in particular shareholders, to have confidence in LCBs accountability.

The literature provides ample evidence of earnings management in developed countries. However, relatively little research has been conducted for developing countries in general (Habbash and Alghamdi, 2015) and for Libya in particular. To the best of the researcher's knowledge, this study, in focusing on listed commercial banks, is the first of its kind in Libya. Therefore, the current study may help in filling a gap by illustrating results from a sector which plays a key economic role in a specific developing country. Moreover, the research findings from developed countries are not necessarily applicable to developing countries due to the different environmental factors which may be present. Companies operating in developing countries are unlike those of developed countries in many respects: according to Baralexis (2004), they typically suffer from poor management and having unsophisticated users of financial information. Therefore, earnings management perceptions in developing countries might be different from those in developed countries.

In addition, prior research has stressed the importance of evaluating perceptions of earnings management to provide an overall assessment of the climate surrounding the activity in each country individually. According to Geiger and Smith (2010), "it is critically important to examine the perceptions of individuals from different countries in an attempt to evaluate the climate for earnings management that may exist…” (p. 21).

This study explores stakeholders’ views regarding the practices of earnings management within Libyan Commercial Banks (LCBs), including specific techniques, and motivations. Their perceptions of the overall quality of financial reporting in Libya were also sought as were their views about how the issue could be addressed. Regarding the latter question, views on two aspects were sought; these were financial accounting standards and corporate governance.

Financial reporting regulations have an important role to play in this area and the IASB as a regulator body is, according to Cotter (2012), making every effort to reduce flexibility that may be offered by International Financial Reporting Standards (IFRS) in order to restrict earnings management practices. Accounting standards, according to Zhang et al. (2013), affect the level of earnings management, e.g., they will determine the degree of managerial discretion with regard to revenue and loss recognition. IFRS have been mainly developed in order to harmonise accounting information globally. However, the introduction of IFRS is attracting scholars to investigate their effect on accounting quality and therefore earnings management (Zhang et al., 2013).

This paper investigates, inter alia, stakeholders' views in regard to the influence and potential influence of IFRS on LCBs' financial reporting quality. Although there is a lack of formal local accounting standards in Libya, there is a degree of *de facto* accounting standards setting, as well as statutory regulation. Accounting practices are influenced to a large extent by the accounting education system which is itself mainly influenced by US and UK GAAP (Mahmud and Russell, 2003). In addition, laws and regulations have also been identified as key determinants that affect accounting practices. For example, the commercial law, the income tax law, the stock market law, and the commercial banks law have all influenced accounting practices in Libya (El-Firjani, 2010). Some areas in tax law which influenced accounting practices can be identified; fixed assets, for example, are recognised at historical cost and depreciated using the straight-line method with specified rates for different types of asset being given. Another example is setting-up costs which are allowed to be depreciated over five years using again the straight-line method. The tax law allows for goodwill depreciation over twenty years using the straight-line method and goodwill must be purchased. Article 38 of the law states that donations of up to 2% of net income are allowed to be deductible, but only if paid to authorized charities that are recognised by the state. Losses can be carried forward for up to five years.

Corporate governance, defined as “the system by which companies are directed and controlled” (Cadbury, 1992), also has a key role to play in establishing the culture within which financial reporting takes place. In response to the well-known accounting scandals, such as Enron and World-com, new regulations on corporate governance have been introduced worldwide (Lai, 2011). Moreover, these scandals stressed the crucial role that corporate governance can play to promote financial reporting quality (Choi et al., 2004).

Corporate governance as a monitoring mechanism may have a positive effect on earnings quality (Ebaid, 2013) and can reduce the adverse effect of earnings management on the quality of financial reporting which helps in improving investors’ confidence (Uadiale, 2012). More clearly, in the U.S., for example, good corporate governance strengthens the ability to reduce earnings management practices (Yang et al., 2012). This study investigates stakeholders' perceptions regarding the effect that good corporate governance can have on earnings management by banks[4].

Research Method

Consistent with previous studies, for example, Cohen et al. (2010), Beasley et al. (2009), and Cohen et al. (2013), a semi-structured interview method was used to address the research questions. Interviews, according to Eriksson and Kovalainen (2008), are commonly used in qualitative research. Gillham (2000) indicates that interviews are normally conducted in research "to obtain information and understanding of issues relevant to the general aims and specific questions of a research project" (p. 2). Gillham (2005) describes interviews as the most important research approach because of their flexibility, their structure, and the quality of the information that can be obtained. Flexibility means that a researcher can change the planned sequence of questions as required, and follow up on any interesting new issues that may be raised.

In addition to being flexible, Creswell (2003) suggested that an interview is a useful method when participants cannot be observed. It is also beneficial when participants are able to provide historical information. Creswell (2003) has also noticed some limitations of interviews:

> "(i) provides indirect information filtered through the views of interviewees, (ii) provides information in a designated place rather than the natural field setting, (iii) researcher's presence may bias responses, and (iv) people are not equally articulate and perceptive" (p. 186).

The paper tries to answer the following research questions:

[4] A corporate governance code for the commercial banks has been issued by the Central Bank of Libya and all commercial banks operating in Libya have to adhere to this Code. This Code was issued in 2006 based on OECD principles of corporate governance as well as the Basel Report on Banking Supervision for enhancing corporate governance for banking organisations with the aim to protect both shareholders and stakeholders (Zagoub, 2011).

1. To what extent is earnings management perceived to influence the quality of financial reporting in LCBs?

- ❖ *What do LCBs' stakeholders mean by the term 'earnings management'?*
- ❖ *How are LCBs' perceived as being able to manage their earnings?*
- ❖ *What are the perceived motivations behind the earnings management practices in LCBs?*
- ❖ *How do LCBs' stakeholders perceive earnings management in terms of business ethics?*
- ❖ *What factors were perceived as enabling LCBs to manage earnings?*

2. To what extent, from an accountability perspective, could such perceptions be addressed?

- ❖ *What do LCBs' stakeholders perceive to be the implications of adopting IFRS in relation to earnings management?*
- ❖ *How do LCBs' stakeholders perceive the implications of good corporate governance in relation to earnings management?*

In order to answer the research questions, interviewees were asked several questions as listed in Appendices 1 and 2. The interview questions were originally constructed in English and then translated into Arabic. While not translated by a formal agency the translation in Arabic was tested by seeking views of a number of speakers of both Arabic and English who also had academic and/or practical knowledge of financial reporting

Twenty-eight interviews were conducted with various stakeholders in order to elicit their perceptions about the quality of financial reporting, the phenomenon of earnings management, and other related issues including any motivations and constraints affecting the practice of earnings management in the Libyan banking sector. A statistical summary of the interviewees' responses to the questions is given in Appendix 3.

The interviews were conducted in the two main cities of Libya: Benghazi and Tripoli, the capital. The first 20 interviews took place in the period of Jun-Aug 2011 in the city of

Benghazi at a time when the capital had not been liberated[5]. The remaining eight interviews were conducted in Tripoli in June 2012. In this study the interviews were conducted face to face with all respondents. The interviewees were selected on the basis that they possessed knowledge and experience relevant to contributing to the research objectives. At the beginning, interview appointments were arranged through telephone calls made to existing contacts[6]. In a number of cases interviewees were also able to recommend other key persons who could be interviewed to gain more insightful information. Interviewees were sought from four groups (see Table 1) namely: Preparers (PR), Auditors (AD), Regulators (RG), and Users (US). Some interviewees hold more than one position. For example, PR5 is a bank chairman, external auditor and academic.

Table 1: Interviewee Groups

Group		Position	Qualification	Country	Location
Preparers	**PR1**	Chairman	MSc	USA	Commercial bank
	PR2	Head of Correspondent Banking Office	MSc	Libya	Commercial bank
	PR3	Member of BoD	PhD	USA	Commercial bank
	PR4	Head of Accounting Dept.	BSc	Libya	Commercial bank
	PR5	Chairman	PhD	UK	Commercial bank
	PR6	Head of Accounts Preparing Dept.	BSc	Libya	Commercial bank
	PR7	Head of Accounts Preparing Dept.	BSc	Libyan	Commercial bank
	PR8	Head of Correspondent Banking	BSc	Libya	Commercial bank
	PR9	Vice Manager of Eastern Branches Management	Primary School	Libya	Commercial bank
	PR10	Head of Finance and Control	MSc	Libya	Commercial bank
	PR11	Head of Financial Management	BSc	Libya	Commercial bank
	PR12	Assistant Manager of Accounting Dept.	Diploma	Libya	Commercial bank
Auditors	**AD1**	Auditor	BSc	Libya	Audit firm
	AD2	Auditor	Msc	USA	Audit firm
	AD3	Senior Partner	PhD	UK	Audit firm
	AD4	Managing Partner	BSc	Libya	Audit firm
Regulators	**RG1**	Chief of Benghazi Branch	MSc	USA	LAAA
	RG2	Inspector of commercial banks	BSc	Libya	CBL
	RG3	Inspector of commercial banks	MSc	Libya	CBL
	RG4	Banking Exchange Control Dept.	BSc	Libya	CBL
	RG5	Governor Deputy of CBL	MSc	Libya	CBL

[5] On 15th Feb, 2011, uprising events started in Benghazi and spread out to all the other cities in Libya; this revolution concluded with a declaration ending the dictatorship era on 23rd October 2011 (BBC, 2012a and b).
[6] The researcher benefited from being an external auditor in Libya.

		(Benghazi branch)			
	RG6	Vice General Manager, Tax Dept.	BSc	Libya	Tax Authority
	RG7	Head of Listing and Follow-up Dept.	BSc	Libya	LSM
	RG8	Head of Internal Audit at the Libyan Stock Market	BSc	Libya	LSM
	RG9	Manager of Surveillance & Follow-up Risks Dept.	MSc	Libya	LSM
	RG10	Legal Consultant at a commercial bank.	BSc	Libya	Commercial bank
Users	**US1**	Lecturer	PhD	UK	Benghazi Uni.
	US2	Lecturer	PhD	UK	Benghazi Uni.

Key: PR= Preparer, RG= Regulator, AD= Auditor, US= Users. BoD= Board of Directors. MSc = Master's Degree, BSc= Bachelor's Degree, Diploma= Diploma Level Qualification. LAAA= the Libyan Accountants and Auditors Association, CBL= Central Bank of Libya, and LSM= Libyan Stock Market.

All the interviews were recorded with the pre-permission of the interviewees. The interview recordings were later transcribed and translated into English.

Results

The Quality of Financial Reporting

Participants were asked how they perceive the quality of financial reporting in Libya generally and in listed companies specifically. Interviewees expressed a variety of views about the quality of financial reporting that ranged from concerns about quality, to an inability to assess quality, to a perception that there was a high degree of quality. Interviewee PR3, who is a member of the Board of Directors of a commercial bank and who holds a PhD degree in financial management, replied to this question as follows:

> "The term quality is flexible; you don't have standards to measure the quality. The question is not clear, there are no standards in Libya so how to assess the quality? Due to the absence of accounting standards one cannot assess the quality".

IASB pronouncements are implicitly required by the Central Bank of Libya[7] (CBL) for all Libyan Commercial Banks and explicitly by the Libyan Stock Market (LSM) for all listed companies. That suggests, from an accountability perspective, that in order for Libyan

[7] Although reference to IFRS was not explicitly made in the CBL regulations, the term "international standards" has been interpreted by many as IFRS. In the experience of the researcher this is the general view taken by the commercial banking community and auditors.

Commercial Banks to be accountable to their shareholders, financial statements have to be prepared accordingly; otherwise accountability would be impaired. Although IFRS are required by the LSM in preparing accounts, they are typically still not yet applied in practice. The reason behind that, according to PR3, is related to lack of knowledge on how to apply IFRS. This interviewee challenged the interviewer to find a person in Libya who understands IFRS.[8]

Financial reporting quality, according to RG8, could be measured by whether the financial statements are suitable for decision making. He answered this question by saying:

> "How to measure the quality? I would do that in respect of its usefulness for decision makers".

The lack of accounting standards, according to some interviewees, might be the reason why financial reporting quality in Libya is low with no difference being observed between listed and unlisted companies. AD3, for example, stated:

> "It is a big question. It is not a stock market issue, rather a general issue that applies to all companies operating in Libya which is the lack of accounting standards".

It could be said, according to this quotation, that either the issuance of local standards or adopting the international ones would improve the quality of financial reporting and thus accountability. One of the key qualitative characteristics that accounting information should have is stability which in the absence of accounting standards, would be unreachable. The lack of accounting standards would also affect the objectivity and verifiability of accounting information.

Another interviewee RG9 agreed with this notion and commented on the quality of financial reporting by stating:

> "The financial reporting quality is very weak. Moreover, there is no difference in quality between listed and unlisted companies because of no accounting

[8] He was holding the huge book of IFRS while stating, “You will never find anyone who understands this well even though they say according to IFRS, but the fact is it is not according to IFRS”.

> standards. All we have is the broken record that is "according to GAAP" which we don't have any definition of so that we can be clear on what it meant when someone uses this expression. No one exactly knows what the term GAAP means. When you and I disagree we don't have any reference that we go to, so we should have a written GAAP, even if written on a cement bag. Thereby, the quality is zero due to no accounting standards".

However, it was expected, by the researchers, that the LSM would have an influence over the quality of financial reporting and thus accountability. Therefore, this unexpected assertion is worth noting as it is made by RG9 whose work location is the LSM which implies a reasonably wide knowledge about the financial reporting quality of listed companies. One could infer that the LSM has not improved the accountability of listed companies.

From the interviews, it appears that financial reporting in Libya is unduly dependent on management judgment and therefore subject to bias. Interviewee RG4 said of financial reporting quality:

> "They [financial statements] are biased to management; managers do use these reports to make themselves appear as successful. They are not good on average".

This may suggest a conflict of interest between agents and principals given that managers may have, according to RG4, managed the financial statements to protect their jobs.

The interview results suggest the reasons behind the perceived low quality of financial reporting of the Libyan Commercial Banks. Based on these interviews' findings, several perceptions were revealed: a lack of standards; the absence of local GAAP; the lack of knowledge on how to implement IFRS; and management bias. The majority view of those interviewed was that financial reporting quality was not good. However, some other interviewees, mainly preparers, did perceive the quality of financial reporting to be good. PR1, for example, answered this question briefly by saying "I think it is good". PR6 attributed the good quality of banks' financial reporting to the fact that their reporting is audited. He indicated:

> "… the financial statements are approved by the external auditor and therefore they are of good quality".

For PR12, the quality of banks' financial reporting is good and the reason behind that is that the financial statements of banks have satisfied their required needs. He said:

> "I can say that the financial reporting quality is, to some extent, good. As for the institution I work for, the financial statements have led to the purpose for which they have been prepared ...".

Earnings Management Awareness

There is widespread agreement amongst western accounting practitioners and academics that earnings management is pervasive and therefore widely known within both the academic and practitioner communities (Levitt, 1998; Loomis, 1999). The following set of questions examines the participants' experiences and understanding of the earnings management issue. First of all, interviewees were asked whether they were familiar with the term and what they understood by this term. In cases where an interviewee had not heard of earnings management, the definition by Healy and Wahlen (1999) was used to explain the meaning of the term in order to have comparable answers for the remaining questions. Earnings management, according to Healy and Wahlen (1999), occurs when:

> "… managers use judgment in financial reporting and in structuring transactions to alter financial reports to either mislead some stakeholders about the underlying economic performance of the company, or to influence contractual outcomes that depend on reported accounting numbers" (p. 368).

The interview findings show that 79% (22) of the interviewees had not heard about the term "earnings management".

Then, and prior to the explanation of the above definition, interviewees were asked what they understood by the term "earnings management". Typically interviewees were drawn to a literal translation as most of the responses revolved around how to create and invest earned profits through a specific department, (in other words they thought that it referred to allocating and investing earnings that had been achieved). It is worth mentioning that some of the respondents, for instance, PR3 and RG2 who asserted that they had heard of the term, actually referred to the same meaning, that is, a department for creating and investing earned profits. Only five of the 28 executives interviewed identified earnings management as a manipulative behaviour to manage the earnings figure.

Interviewee PR1 who is a commercial bank chairman, holding a master's degree in accounting, commented:

> "I think it means how to create profit and how to manage the work so as to achieve more profits".

Interviewee PR10 saw earnings management as meaning distributing the earnings to shareholders. Another interviewee, PR11, went further in describing the meaning of earnings management by saying:

> "The term refers to a dedicated department that is mainly responsible for following up and improving the company's profits".

Interviewee RG4 supported these ideas by saying:

> "The term means establishing a department to invest the realised profits".

It appears that the problem in misunderstanding comes from the word "management" since most of the interviewees are employees for whom the word has only one meaning. For example, RG8 indicated:

> "Management means a management that plans and controls activities. Earnings management then is a management that is concerned with planning and controlling the earnings in terms of retaining control of revenues and focusing on profitable activities".

Interview findings suggest that the literal Arabic translation of the term "earnings management" is the reason for the term not being understood in its conventional sense. The Arabic translation[9] of "earnings management" could easily be taken to refer to a department which has responsibility for monitoring and controlling of earnings. It should be noted that

[9] The literal Arabic translation of earnings management (Edaret Al-arbah) has been interpreted as the unit or department in which earnings were planned, controlled and managed.

this Arabic translation, which was initially presented to the interviewees, has been used in several Arabic studies on earnings management, e.g. Issa (2008), Abo-Ijela and Hamdan (2012), and Al-Sartawi et al. (2013). It therefore appears that Arabic terminology should be used with care and that a term that translates literally as earnings manipulation, rather than as earnings management, would reduce the risk of misunderstanding.

When the definition in Healy and Whalen (1999) was offered to interviewees they readily identified the meaning of earnings manipulation. RG1 stated:

> "This term is not in circulation… by this, the term refers to the disposal or use of the profit. I think it is a matter of translation. The term earnings manipulation should instead be used".

Similarly, RG6 suggests:

> "At first glance, I understand it as the proper use of income. I think the name is a little strange. It might be the translation".

Earnings management, as a term, is widely unknown amongst the interviewees, across all stakeholders groups. However, it is believed that the practice does, or is likely to, exist in Libya. In this vein, PR5 suggests:

> "I have not seen any research asserting that earnings management does exist in Libya, but based on accounting policies for depreciation, inventory and tax purposes which give some margin to managers, I would expect it to occur".

Earnings Management Existence

Interviewees were asked to indicate to what extent they think earnings management is practiced in Libya generally and it was found that perceptions varied. Some believe that earnings management does really exist while others believe otherwise.

The results reveal that 53.5% of the interviewees believe that earnings management is practiced in Libya, while 35.7% of the interviewees hold the opposite view that earnings management is not practiced by Libyan corporations. Given that the prevalence of earnings management may be related to the existence of low quality financial reporting, it can imply a relatively weak accountability process. Given that over half of the interviewees think that

Libyan corporations are engaged in earnings management practices, one may argue that accountability is widely seen to be impaired for this reason.

More specifically, interviewees' perceptions about the practice and possible techniques of earnings management by the Libyan Commercial Banks were investigated. Eight out of 12 preparers believe that earnings management is not practiced by the Libyan Commercial Banks, while 11 other stakeholders think that it is strongly practiced.

Notably, unlike most of the preparers, regulators believe that earnings management is practiced by LCBs. For example, RG1 suggested that LCBs, to a large extent, are manipulating their income. He stated: "banks do manipulate earnings to a large extent".

In the same vein, RG4 believes that the practice is very common, stating: "Yes, almost all banks practice it [earnings management]".

PR12, who does not believe that earnings management is practiced by LCBs, offered the statement below[10]:

> "Last year (2011[11]) we incurred a loss while another commercial bank has booked a net profit of 200m Libyan dinar which in fact is not real. 2011 was the year of revolution and there was an economic recession in which the loan provision should be calculated for those loans that have not moved during the year and of course there was no movement on those loans which makes them, according to central bank regulations, regarded as bad loans and thereby proper provision should be calculated which has not happened with that bank. And instead they have calculated the interest and have not made any provisions".

According to AD4, the continual process of reporting positive results (income) by the LCBs represents a strong piece of evidence that these banks are managing their income. He commented:

> "Yes, I think they [banks] try to have their results positive [profits]. The evidence from reporting is that there is no bank which incurred a loss".

[10] While his quotation clearly suggests that earnings management does exist within local banks, his answer was extremely opposite by saying that the practice does not exist. It would seem that he was defending his bank's reputation given that he is the chief accountant there, as noted by the researcher.

[11] The year 2011 was exceptional as it witnessed the revolution of 17th Feb and there was little commercial activity. It may reasonably be expected to see banks reporting losses in such circumstances.

The findings of the interviews suggest that distrust exists between preparers and non-preparer stakeholders, as 67% of preparers assert that Libyan commercial banks are not engaged in earnings management practices, while 69% of non-preparer stakeholders believe that earnings management is widely practiced by the Libyan Commercial Banks.

As discussed earlier, there is a strongly held belief amongst non-preparer stakeholders, that earnings management is widely exercised in LCBs. The findings of this question are in line with what may be expected according to their positions. Preparers, who can be regarded as agents, may be expected to defend the quality of financial reporting and to declare that these reports are free from bias. In other words, the financial reporting, according to them, may be subjective but not biased by management. Therefore, management can be accountable to the principal while providing them with subjective accounting information. On the other hand, other groups' perceptions are different. The majority of Regulators believe that earnings management is practiced by the LCBs, while only half of interviewed Auditors have expressed the view that this practice exists, (although it was only a small sample of 4 auditors) and one of them (AD1) had not actually engaged in the auditing of any commercial banks at the time of the interview. In the Users group, only one (of two) agreed on the view that earnings management is practiced. The overall findings reveal, in addition to the distrust issue, perceptions of a lack of legislation to ensure that accountability can be effectively discharged. It was apparent, based on the interview findings, that the absence of (formalised) local accounting standards, in particular, may give the opportunity for bank managers to indulge in earnings management practices[12] which may lead to a breach in the accountability relationship.

[12] However, of course, earnings management could be practiced even with the existence of accounting standards.

Earnings Management Techniques

The accounting literature suggests that the loan loss provision (LLP) is a vehicle that can readily be used for earnings management. LLPs are designed to reflect the sum of funds that are likely to be lost in the future (Bhat, 1996). According to Wahlen (1994), LLPs reveal the expected future loan losses to be disclosed in the current period as accrued expenses on the income statement. Interviewees were asked to specify any techniques they are aware of that could be used by LCBs to manage earnings and most of the interviewees' answers revolved around LLPs. AD3, for example, said, when asked how earnings could be managed:

> "Through the provisions, especially in banks, as provisions can have a very significant effect on the earnings figure. There is a criterion on how to calculate the LLP regulated by the CBL, but it is a bit long and difficult to apply and there are always subjective points which we, as auditors, are facing. Managers are always trying to justify the way they did the calculation".

One of the Preparers, PR7, who is the chief accountant of a commercial bank with 11 years of experience, and who is one of the few preparers who thought earnings management occurs in the LCBs, answered this question, about how earnings management could be implemented, as follows:

> "… by using the provisions, management have only provisions to use. For example, the evaluation of foreign currency rate of exchange provision as well as the LLP. … when I was a member of the LLP committee; I happened to receive a telephone call from our chairman asking for a certain figure to be stated as the LLP that year".

Also another way to manipulate the reported earnings could be by ignoring the booking of some expenses due or accruals. PR10 argued that this is a legal way to alter the reported income. He said:

> "An example for a legal way to lessen the expenses might be dealing with those expenses that are neither booked nor which the bank is yet asked to pay. A bank may wish not to show such expenses in accounts as long as it is not yet required to pay it".

PR11 supported the idea of not booking some accruals or unpaid invoices as long as the provider has not asked for money. His response was:

> "Accrual expenses may also be used to manage earnings. For instance, if you did not receive the invoice you may not book it. LLP represents the big item in the bank's accounts and despite the restricted procedures imposed by the CBL, there is still a space for discretion".

Although they clearly stated that it was a legal way to manage earnings, it is obviously a contravention of any GAAP to ignore the booking of incurred current period expenses. Based on such quotations one may argue that not only is earnings management practiced in the LCBs, but also that, on occasions, fraud is committed by intentionally omitting financial transactions and thereby overstating earnings.

According to the CBL regulations, a provision is calculated as the difference between a debt that has gone bad and 80% of the warranty that was given as a guarantee. PR11 suggests that this warranty might be re-evaluated so as to lessen or cancel the provision calculation.

In addition to the re-evaluation of the warranties, managers may contact some deteriorating clients asking them to pay in some money so that the manager would be able to change the client's classification and thereby avoid any need for a provision calculation. RG4 referred to this method. He said:

> "They mainly use the LLP. They can change the classification of some debtors so that the allowance would be decreased. They also may contact some debtors asking them to make some deposits in their accounts in order to mobilize the accounts and thus the debtor classification would easily be changed from bad to good debt".

Banks may also use “set-aside interests” for earnings management. When a client faces any difficulties in paying the interest, a loan will be classified as a bad debt; interest is calculated and booked as a set-aside interest provision. PR12 indicated:

> "They can use the set-aside profits [interest] to increase the current year income or they may save some revenue for next year. Set-aside profits are those revenues on deteriorating debts that have been calculated but not booked as revenues ".

Beside set-aside interest provision, managers may tend to calculate interest for the off-interest periods. Some loans may have the first year interest-free and the borrower is then only asked to pay interest starting from the second year. RG2 mentioned that banks may ignore this procedure and include the interest in the first year accounts. He stated:

> "They might use the previous allowances to boost earnings. Also, sometimes they calculate interest during the off-interest period. They might also expand or reduce expenses. For example, last year a bank realised 10m Libyan dinar profits and is planning to realise 12m next year. They will be monitoring the expenses in order to achieve this goal. They misuse the CBL circular regarding the LLP. This circular is not correctly applied. It depends on who's in charge of ethics".

Simply, current year revenues are those revenues earned in the year. RG3 mentioned that some banks use the next period's interest to boost earnings in the current year. This procedure was described as having been implemented by a foreign partner at one of the banks that has strategic participation with foreign investors. He indicated:

> "Most banks try to raise income through reducing the expenses and including deferred revenues [interest]. One of the commercial banks has applied this practice through the strategy partner [foreign management]; they include the interest of the coming two years into the current year and justify it [on the grounds] that the client is credible and that they have changed the accounting base from cash to accrual".

Another problem with bank loans had been raised during an interview as some banks have very old loans that were made 40 years ago. During the last regime all commercial activities were nationalised. RG9 consider this problem as a loophole for earnings management. He said:

> "The provisions, we have had old loans for 40 years and they still appear in accounts and a lot of these loans are those which were made to companies that were taken into state ownership (nationalized) during the last regime. In many cases those state owned companies then did not accept the responsibility to pay back the loans. They remain on the names of the original clients[13]".

The majority of interviewees were of the view that the LLP is a primary method that can be used by LCBs for earnings management. Other ways have also been indicated as tools for managing the reported income, e.g. reducing expenses through not booking them. Although

[13] The interviewee is referring to the fact that the nationalized companies were often renamed. While this should not of course affect companies' liabilities, the researcher is aware of situations where banks have failed in legal attempts to trace and enforce repayment of such loans from companies that were taken over by the government.

this could be motivated in order to manage earnings (and may be regarded as such), it clearly strays beyond the flexibility allowed by accounting standards and constitutes fraudulent misrepresentation of earnings. The fact that LCBs' financial reporting is regarded as being managed, however it is done, reveals that LCBs' accounting information included in their financial statements may be regarded as biased. Based on the views of, and the evidence presented by, the interviewees, earnings management is not only assumed to be done, but is actually carried out. Therefore, both regulators and users should look for ways to deter such behaviour but in ways which would still permit the appropriate flexibility needed for the exercise of professional judgement in order to protect the quality of financial reporting. The next section addresses constraints that might be effective in mitigating the practice of earnings management by LCBs.

Motivations for Earnings Management

Half of the Preparers, when asked what may motivate banks' managers to engage in earnings management practices, speculated that job security is the main reason. Eight of the 10 Regulators agreed with this perception. This is in line with the earnings management literature (e.g. Norohna et al., 2008) which suggests job security as one of the key earnings management motivations. The Auditors generally perceived that earnings were managed in order to satisfy shareholders and show the firm in a favourable light, although that is not inconsistent with a job security motivation being also present. AD4 offered the following statement:

> "A number of reasons. The principal one is to satisfy the shareholders. Management always try to have a fixed rate of distributions".

PR5 expressed the following view:

> "Firstly, it is a personal matter for managers to protect their job. Secondly, there is managers' desire to increase the bank's share price. Thirdly, sometimes a manager would receive a bonus that is tied to the net income".

PR12 made the following statement:

> "The reason is to improve the image of the management as seen by concerned parties such as the Central Bank of Libya and to extend the length of their employment tenure".

RG1 differentiated between public, private and foreign companies and made the following observation:

> "Earnings manipulation is basically practiced for the reason of increasing the profits in public sector companies including banks in order to burnish the Board of Directors' picture so as to secure the renewal of the assignment. In the private sector, banks' profits are increased to strengthen the appearance of the balance sheet by which eventually the Board of Directors will be renewed for another period. And for family and foreign companies the incentive is to understate the profit to pay less tax".

Earnings management, according to some views, is practiced to improve management's image in the eyes of the owners. This can be achieved, according to the majority of responses, by distributing sufficient dividends in both private and public banks and such distributions require sufficient earnings to be reported. RG3, who is an inspector at the CBL, stated:

> "To distribute dividends, the public banks became more concerned about earnings management when they started to give a portion to employees recently since about four years ago. After this they tended to increase the profit so that they can pay dividends to employees and themselves as well".

Another regulator, RG4, also commented:

> "They tend to increase the profits rather than decreasing them and they do that mainly to get shareholders satisfied and to have dividends".

Managers may also be engaged in earnings management in order to cover a fraud. This notion emerged in the statement of US1, who is also an external auditor:

> "According to my experience, earnings management is practiced to cover corruption and to get some personal benefits in the form of a bonus. It is also practiced to satisfy shareholders so managers retain their positions".

It is clear that there is a belief amongst the interviewees that earnings management is motivated by issues relating to job security and satisfying shareholders. These views imply that accountability is impaired due to doubts about the credibility of financial statements. The next section considers how, notwithstanding the awareness of such motivations, earnings management may be deterred.

Earnings Management Constraints

This section considers the responses of interviewees to the question of what could affect earnings management practice. The interviews revealed a number of factors that might reduce earnings management. For example, AD4 suggested that CBL supervision and an internal control system would help in mitigating the practice.

PR11 also stressed the role of regulators and tax authorities in addressing these issues. He stated:

> "The regulatory bodies, for example the central bank and external auditors as well as internal auditors [are important]…
>
> "When you minimise the expenses it sounds good with them but if you maximise expenses they will try to stop it".

RG8 stated that regulators and auditors have to be taught about such issues so that they can affect the practice of earnings management. He said:

> "The knowledge and awareness of regulators and external auditors play a crucial role in mitigating it".

As discussed above, the lack of accounting standards has been blamed for low quality in financial reporting which might be associated with earnings management. According to AD3, applying accounting standards would play a significant role in affecting earnings management behaviour. He stated that what was needed was:

> "…accounting standards that clearly show how to account for revenues and how to apply recognition. Also, making the provisions calculation process clear and simple in a way that is easy to apply since making loans is the core business of banks".

RG9 also supported the notion that accounting standards have a principal role in mitigating the practice of earnings management. He stated:

> "First of all, there should be accounting standards that are clear and able to remedy the issue along with the supervision over the companies by the CBL and the LSM".

Also, AD1 considered the importance of accounting standards in constraining earnings management practice, as well as the CBL, and the internal and external auditors. He mentioned that the lack of professional management would have an influence on earnings management activities. He summed up what was needed as follows:

> "The presence of accounting standards that are applicable, internal and external control including by the CBL and auditors, and finally suitably qualified management within banks".

Based on the interview findings there is clearly a view in some groups that the accountability process is seriously affected by the absence of accounting standards and the weakness of monitoring bodies. These issues will now be considered.

The Role of Accounting Standards

In this part of the interview, interviewees were asked whether they thought that IFRS, if applied, would have any effect on the practice of earnings management.

A majority of the interviewees (21, or 75%) agreed that IFRS would have a positive impact on earnings management and that it would improve financial reporting quality. This result reflects the interviewees' belief that adopting IFRS would restrict earnings management and the accountability mechanism would, therefore, be effectively enhanced.

However, it was also thought that adopting IFRS in Libya would not be a smooth process as applying IFRS in their entirety might not be the right solution even if it was to be enforced by the State. RG9 and AD4 suggested that IFRS should be applied step by step. The interviewee RG9 recommended:

> "The wisdom is to apply IFRS gradually, not all in one go. Also, it is not a button to press; to apply the IFRS you need to train staff about it which would take time".

Another interviewee agreed with this notion. AD4 similarly said:

> "Our standards should be IFRS. My view is to apply IFRS gradually since not all IFRS are applicable".

In contrast, some interviewees seem to have a different perception about IFRS. US1, for example, considers that local standards are more suitable, and therefore more applicable, than their international counterparts. He said:

> "No, the international standards are not good for the Libyan environment. The good standards are those applicable (local) standards."

Similarity, RG6 believes that accounting standards should be a product of the surrounding environment. His comment was as follows:

> "I don't believe in international standards. Standards should be derived from the environment".

Whichever accounting standards were to be applied (i.e. local standards or IFRS), the importance of such a framework was stressed by most of the interviewees since the accountability process would be less effective without them. Therefore, based on the interview findings that 75% of interviewees perceive that IFRS would produce high quality financial reporting, it could be suggested that adopting IFRS would play a positive role in an accountability system. However, there is a view that great care should be taken over the way in which they are adopted (i.e. gradually).

The Role of Corporate Governance

Another important factor in mitigating the practice of earnings management that was discussed during the interviews was the role of good corporate governance. This section seeks to explore the interviewees' perceptions regarding how good corporate governance could influence the exercise of earnings management. Twenty five interviewees (89%) believed that good corporate governance would effectively mitigate the practice of earnings management. According to PR10, for example:

> "It will constrain the management and prevent it from overriding the normal procedures. Good corporate governance will separate functions so it would be difficult for managers to manage earnings".

One may argue, based on such a finding, that in order for an effective accountability mechanism to be applied, corporate governance codes, among other things, should be practiced. The potential of such a development could be affected by the position of the interviewee (i.e. as agent or principal), as some seem to be against corporate governance and consider it as having no influence on earnings management. PR1, the chairman of a commercial bank, completely disagreed on the value of corporate governance in general and thinks that it is not applicable in Libya due to the general lack of qualifications and in particular the lack of suitably qualified senior managers. He said:

> "I am against corporate governance, the application of Basel Regulations 2 and 3[14], and formal segregation of duties between a chairman and chief executive in Libya as there is no corporate governance and insufficient qualified staff. For me it is impractical nonsense which works only in theory".

One of the interviewees, RG6, suggested that earnings management might be exercised even with an improved regulatory framework; when asked about the prospect of improved corporate governance deterring earnings management, he answered:

> "I don't think so. Earnings management could be practiced within laws and with good intent".

On the other hand, according to RG4, good corporate governance, even if it does not resolve the issue, would at least control it. It is arguably needless to stress the importance of the role of corporate governance in the accountability process. However, the above discussion reveals the awareness by some interviewees regarding the important role that good corporate governance could play in improving financial reporting quality and thus the accountability process. Better corporate governance can increase public confidence in the integrity of the financial reporting process and in the credibility of the accounting information generated by the entity. Some corporate governance rules may restrict the actions of LCBs' managers and make them work in the interests of shareholders and other stakeholders.

As noted above, a large majority of interviewees believe in the potential benefits of applying good corporate governance in relation to reducing earnings management by LCBs. In other

[14]Basel can broadly be defined as a set of banking regulations that determine the minimum level of capital requirements in order to minimize credit risk.

words, accountability in LCBs is perceived to be potentially enhanced, at least partially, by applying good corporate governance.

Other factors may of course play a vital role in promoting financial reporting quality, for instance there is the role of external auditing, however, this topic is beyond the scope of this paper. On one hand the paper has already reached its word limitation. On the other hand, researchers do believe that the topic of the role of auditing is thought to justify another paper.

Discussion

The interview findings indicate that a significant portion of interviewees (57%) view the quality of financial reporting as being not good. The interview findings also revealed that there is a lack of understanding of the terminology and the concept of earnings management. Twenty two interviewees (79%) had not heard of the term and when they were asked about the term's connotation, apparently some of these who indicated that they were familiar with the term actually did not understand the conventional meaning of it as 82% of the interviewees interpreted the term as meaning how to invest and re-use the earned profits. The findings suggest that the translation of the term may have led to this misinterpretation and that "earnings manipulation" might be a more informative expression.

Interview findings suggest that earnings management is relatively widely practiced within LCBs as 53.5% of interviewees believe that LCBs are engaged in earnings management practices. Given the impact earnings management would have on the quality of financial reporting it can be said, based on the interviewees' perceptions, that LCBs financial reporting is affected by the practice of earnings management and therefore is, or at the least may be perceived to be, of reduced quality which may reveal a serious threat to the accountability system for LCBs stakeholders.

Interview findings also suggest that the loan loss provision (LLP) is a key mechanism (though not the only one) by which bank managers alter reported income; this was referred to by 64% of interviewees who believe the LLP is being used by LCBs to manage earnings. One of the main factors that make such behaviour easy for LCBs' managers, as per interviewees' perceptions, is the absence of local accounting standards. Based on all the above discussion, one can say that the accountability of LCBs is under threat.

In regards to what motivates bank managers to indulge in the earnings management practices, overview results indicate that about 50% of interviewees view job security as a principal factor to induce bank managers to engage in earnings management practices.

However, interviewees' responses did indicate broad support for steps that could be taken to deter earnings management and strengthen accountability through improved financial reporting quality. These were the implementation, in practice rather than in theory, of International Financial Reporting Standards, and improved corporate governance.

Conclusion

The limitations of this study should be borne in mind when assessing the evidence presented. The interviews were limited in number, and this was particularly the case when considering the representation of each group of interviewees. The interview method typically trades off an ability to explore issues in reasonable depth with a limited sample size. Interviewees were selected based on their likely knowledge of, and familiarity with, financial reporting and regulation.

Notwithstanding such limitations, the researchers submit that the results of the study should be useful to LCBs' stakeholders as well as other researchers. For instance, auditors should be interested in the fact that not only LLP is used to manage earnings. Regulators should also be interested in the evidence that earnings management exists and that financial reporting is often perceived to be of low quality. Researchers and academics may find the literal Arabic translation of the term 'earnings management' to be an issue that should be taken into consideration in future research.

The current findings may assist to fill a gap in the literature in respect of earnings management practices in Libya in general and in Libyan Commercial Banks (LCBs) in particular. There is a wide literature on earnings management in developed countries; however, less is dedicated to developing countries. Due to differing environmental factors between developed and developing countries this study also has relevance in this regard.

This study provides evidence on current earnings management techniques that LCBs are thought to be using. This contribution to knowledge is potentially of interest to all stakeholders given the importance of financial reporting quality and accountability. In particular, both auditors and regulators of LCBs may benefit through better understanding of how such a topic could affect their roles. According to Beaudoin et al. (2013), the practice of earnings management has led to regulatory changes as a response to the downfall of some high profile corporations that have been engaged in the practice. In particular, regulators of commercial banks may be concerned, according to Cohen et al. (2014, p. 174), with the LLP. The treatment of the LLP has a direct impact on reported earnings and regulators may view LLP as a “type of capital that can be used to absorb losses”.

Avenues for future research in developing country environments include the role of the external auditor in relation to such practices, as well as stakeholders’ views on the ethics of earnings management in principle, and the ethics of particular practices.

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Appendix 1

Interview Questions List (English)

1- What is your opinion about the overall quality of financial reporting in Libya, particularly for listed companies?
2- Are you familiar with the term earnings management?
3- What do you mean by the term earnings management?
4- Do you think that earnings management is practiced in Libya and if so, to what extent?
5- In particular, do you think that earnings management is practiced in the banking sector and if so, to what extent?
6- Are you aware of any techniques that may be used to manage earnings both generally and particularly in the banking sector?
7- What in your view are the possible motives for earnings management both in general and in the banking sector?
8- Which factors do you think may influence the extent of earnings management?
9- Do you think that adopting IFRS could affect earnings management? How?
10- Could you comment on the impact of good corporate governance in relation to earnings management?

Appendix 2

Interview Questions List (Arabic)

1- ما هو تقييمكم لمستوى جودة التقارير المالية فى ليبيا وخصوصا للشركات المقيدة بسوق الاوراق المالية؟
2- هل سمعت عن مصطلح إدارة الأرباح؟
3- ماذا يقصد من عبارة "إدارة الارباح"؟
4- هل تعتقد بتطبيق او ممارسة إدارة الأرباح فى ليبيا؟ والى أى مدى؟
5- على وجه الخصوص، هل تعتقد أن المصارف الليبية تقوم بإدارة الأرباح؟ والى أى مدى؟
6- هل لديك أى فكرة عن كيفية إدارة الأرباح فى الشركات بصفة عامة والمصارف بصفة خاصة؟
7- ما هى برأيك الدوافع المحتملة لإدارة الأرباح عموما وفى القطاع المصرفي بصفة خاصة؟
8- ما هى العوامل برأيك التى قد تحد من إدارة الأرباح؟
9- هل تعتقد بأن تطبيق المعايير الدولية يمكن أن يؤثر فى إمكانية تطبيق إدارة الارباح؟ كيف؟
10- ما هو تعليقك على تأثير تطبيق الحوكمة الجيدة على إدارة الأرباح؟

Appendix 3

Summary of the findings for each of the interviewee groups

Questions	Preparers	Auditors	Regulators	Users
Interviewees' Reponses to Financial Reporting Quality Assessment	75 % of preparers (9) view financial reporting quality is good, 8% unable to assess the quality and 17% see it not good.	100% of Auditors (4) regard the financial reporting quality as not good	80% of Regulators (8) perceive the quality of financial reporting as being not good	100% of Users (2) see the financial reporting quality as not good
Interviewees' Responses about Familiarity with the term "Earnings Management"	9 of preparers (75%) have not heard of the term.	4 of auditors (100%) have not heard of the term.	8 of Regulators (80%) said that they have not heard about the term.	Only one User (50%) has not heard of the term
The meanings attributed to the term "Earnings Management"	9 of Preparers (75%) interpret earnings management as a department for monitoring profits or as how to invest the earned profits.	50% of Auditors viewed earnings management as being earnings manipulation	8 out of 10 Regulators consider earnings management as to invest the earned profits	Only one User (50%) recognised earnings management
The Scope of Earning Management Practices by Libyan Corporations	58% (7) of preparers think that earnings management is not practiced by Libyan corporations	75% of auditors believe earnings management does exist within Libyan corporations	60% of regulators confirm that earnings management is exercised by Libyan corporations	50% of users think earnings management is practiced by Libyan corporations
The Scope of Earnings Management Practices in the Libyan Commercial Banks	Only 4 Preparers out of 12 (33%) believe earnings management is practiced in the Libyan Commercial Banks	2 Auditors out of 4 (50%) think that earnings management is practiced by Libyan Commercial Banks	8 Regulators out 10 (89%) believe that Libyan Commercial Banks are engaged in earnings management practices	1 (50%) of Users believes that earnings management is practiced within LCBs
The Used Earnings Management Tools by LCBs	9 Preparers (75%) believed that LLP could be used to manage LCBs' income	2 Auditors (50%) think that LLP is the way how LCBs manage their earnings	6 Regulators (60%) view LLP as used by LCBs for earnings management	1 Users (50%) believes that LLP to be used by LCBs for earnings management
Earnings Management	5 of Preparers (42%) consider job security as an	3 Auditors (75%) view dividends to shareholders as	8 Regulators (80%) regard job security as an earnings	2 Users (100%) perceive job security as being a

Motivation in the Libyan Commercial Banks	earnings management motivation for LCBs	being earnings management motivation for LCBs	management motivation for LCBs	motivation to manage the reported earnings by LCBs
IFRS Influence on Financial Reporting Quality by Interviewees	11 preparers (91%) believed IFRS would positively affect the earnings management practices and therefore improve reporting quality	All 4 (100%) of auditors believe that adopting IFRS leads to mitigating earnings management practices	6 (60%) out of 10 regulators think applying IFRS would reduce the earnings management practices and therefore, financial reporting quality could be improved	The Users' responses come somehow differently, where only 1 user (50%) think of no positive impact for adopting the IFRS on earnings management, others looks like not sure about the consequence of such a procedure
Good Corporate Governance Influence on Financial Reporting Quality	11 Preparers (91%) agree that good corporate governance would negatively impact earnings management practices	All Auditors (100%) believe applying good corporate governance could deter managers of being engaged in earnings management practices	8 Regulators (80%) think that good corporate governance can mitigate earnings management	All Users (100%) showed their agreement as good corporate governance can affect the practice of earnings management