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# THE THEORETICAL JUSTIFICATIONS FOR CORPORATE ENVIRONMENTAL DISCLOSURE PRACTICES: FROM MICRO TO MACRO PERSPECTIVE


## ABSTRACT

**PURPOSE**

This study aims at conducting an examination of a myriad of descriptive and theoretical perspectives (the theories related to agency, stakeholders, legitimacy and political economy) that have been employed while trying to interpret Corporate Environmental Disclosure (CED) practice and non-practice. It also aims at identifying the extent to which they have or do not have to offer an appropriate as well as a comprehensive basis that could be utilised for the explanation of CED in any country.

**METHODOLOGY/APPROACH**

This study combined a desk-based research method with extensive and critical analysis. It reviewed and discussed in detail the various descriptive and theoretical perspectives of CED. The available literature was used to support this analysis.

**NASSR SALEH MOHAMAD AHMAD**

Accounting Faculty,
University of Gharyan, Gharyan - Libya.
General Manager of Human Resources Development Institute (HRDI),
Libyan Academy, Tripoli-Libya.
E-mail: nassr_ahmad@hrdi.edu.ly

**ALLAM AHMED***

President WASD, Director MEKEI, Founder SK
World Association for Sustainable Development
Middle Eastern Knowledge Economy Institute
London UK
E-mail: allam@wasd.org.uk
*Corresponding Author


In recent years, Corporate Environmental Disclosure (CED) by corporations has received a great deal of attention; in fact, it has been considered the most significant feature of accounting research agenda (Akinpelu et al., 2013; John et al., 2013; Gray et al., 2014; Khlif et al., 2015; Filippo and Michele, 2017; Islam and Arafin, 2017; Krivačić and Janković, 2017; Bae et al., 2018; Muttakin et al., 2018; Yaya and Jalalusin, 2018; Zaid and Nasiri, 2018). The term 'Corporate Environmental Disclosure', as employed by the United Nations Commission of Transnational Corporations' Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (UN ISAR, 1997), is used in the literature with the


## FINDINGS

This article has identified that the interaction between internal and external factors related to the environment has a sufficient role in determining to what extent theories have (or have not) offered a comprehensive basis for an explanation of CED in a given country. The current theories do not see the world from a point that involves such an interaction between internal and external factors (Micro Perspective). This gives more support to the Environmental Determinism Theory (EDT) as an appropriate and comprehensive (Macro Perspective) basis for the explanation of CED by looking at the perspectives and competence of accountants and managers of organisations, corporate characteristics, and their contextual factors and not just analysing corporate reports.

## ORIGINALITY/VALUE

This article adds on to the already existing scarce body of literature dealing with the CED theories and also at identifying the major theoretical perspectives that can be utilized in the CED research. Such a macro perspective of EDT might result in enhancing our understanding of why firms disclose or do not disclose CED. Moreover, research conducted in future can employ this theoretical framework for the purpose of testing it empirically.

primary aim of reducing the confusion surrounding the terminology; thus, it has been specifically chosen for this article. 'Corporate Environmental Disclosure' thus refers to "information made publicly available by a company, through any of the key channels or mediums, in relation to that company's interaction with its physical environment".

In an attempt to justify the nature of CED practice, researchers have put forward several theories (theories of agency, stakeholders, legitimacy and political economy) (see, Gray et al., 1995, 1996; Omran, 2015; Filippo and Michele, 2017; Bani-Khalid and Kouhy, 2017; Masud et al., 2017). However, all the theories that have been proposed seem "fuzzy" for the simple reason that they are all logical and acceptable and thus none of them could be called the best theory for explaining CED practice (Haniffa, 1998). This is because all these theories overlap, and also due to the strands of emphasis in all these studies (Gray et al., 1996; Haniffa, 1998; Milne and Chan, 1999). Hence, the aim of this paper is not to seek to support or reject any single theoretical perspective. The main purpose, however, is to identify to what extent these theoretical perspectives have (or have not) to offer an appropriate and comprehensive basis for explanation of CED in any country, and then propose a macro perspective for it, if needed. This article is divided into three sections. The first section discusses the theoretical basis, the second section deals with research results and proposal, and the final section consists of the conclusion.

## THE THEORETICAL BASIS

CED practices are basically voluntary and they provide an innovative territory for research into various motivational aspects related to these disclosures (Zaid and Nasiri, 2018;

**KEYWORDS**

Corporate Environmental Disclosure; Theories of Agency; Stakeholders; Legitimacy and Political Economy; Environmental Determinism Theory; Micro Perspective; Macro Perspective

**TYPE OF PAPER**

Theoretical Paper.

**JEL Classification:** G40, M41

Van der Laan, 2009). Numerous authors have used various theories to explicate the underlying reasons for CED practices. Among the most widely used theories that are used to explain the CED practices of companies are the theories of agency, stakeholders, legitimacy and political economy theory; these theories are discussed next.

## Theory of Agency (Economic)

The basis of the theory of agency originates from Jensen and Meckling (1976) and Watts and Zimmerman's (1978)[1] theories of agency. The agency relationship is referred to as "a contract under which one or more parties (the principals) engage another party (the agent) to perform some service on their behalf which involves delegating some decision-making authority to the agent" (Jensen and Meckling, 1976, p.308). The theory of agency states that whenever there is a division of ownership and control in the case of a firm, there is a potential for agency costs due to the conflicts of interest arising between the principals (owners) and the agents (managers) (Hossain et al., 1995). Both parties select their actions as a part of their self-determined goals (Ince, 1998).

Ness and Mirza (1991) used the theory of agency as a means to explicate their desire to reveal social as well as environmental information (see also, Shane and Spicer, 1983; Belkaoui and Karpik, 1989). They took a look at the social disclosure of 131 leading companies in the United Kingdom based on their annual reports in 1984; it was discovered that the result was consistent with the theory of agency. Thus, they posited that "managers will disclose social and environmental information only if it increases their welfare, that is, when the benefits from the disclosure outweigh the associated costs" (p. 212). Belkaoui and Karpik (1989) stated that the desire to reveal environmental information is correlated in the positive sense with profitability or economic performance; they even produced proof to support their view. Thus, one needs to be cautious while evaluating the conclusions drawn from the study conducted by Ness and Mirza. The underlying reasons for these are: "size effect was not taken into account in their study. That is, 33% of the companies operating in the oil industry were some of the largest in the top ten. There are a number of studies indicating that size of an organisation is an important factor in social and environmental reporting" (Ince, 1998, pp. 55–56).

On the whole, the theory of agency could partially explicate some of the reasons for the absence or presence of CED in a given country (Shane and Spicer, 1983; Belkaoui and Karpik, 1989; Ness and Mirza, 1991). Although it would be unrealistic to pretend that self-interest and expectations related to wealth-maximisation behaviour do not exist, especially in the liberal market, depending on such behaviour as the primary or sole motivation for CED is criticised by Tinker and Okcabol (1991), Gray et al. (1995) and Ince (1998). Tinker and Okcabol (1991) debate that if the 'social value' concept is absent in the theory of accounting,

[1] The study conducted by Watts and Zimmerman (1978) dealt with " providing the beginning of a positive theory of accounting by exploring those factors influencing management's attitudes on accounting standards which are likely to affect corporate lobbying on accounting standards" (p. 112). The only reference made to social responsibility (p. 115), according to Milne (2002), is viewed as more likely referring to advocacy advertising rather than corporate social and environmental disclosure (CSED).

then it has nothing interesting to offer (Ince, 1998), especially in case of CSED. Thus, this feature of criticism has immense intuitive appeal, especially in the case of those who desire to maintain a certain amount of faith in human nature (Davies, 2002). The application of the theory of agency with regard to the discussion of CED is referred to as “not only empirically implausible but also highly offensive” (Gray et al., 1995). This theory views the world from an angle that involves only internal factors, such as management attitude or behaviour. Simultaneously, it ignores external and environmental factors (social, political and economic) that play a significant role in explicating CSED practices in any country. The theory of agency displays utilitarian and ethical behaviour (self-interest); however, the acceptance of such a form of behaviour varies from country to country as well as from region to region, and these differences are especially based on the contextual differences between developed and developing countries. In the United Kingdom, “implicit structure” is the primary feature of various organisations. The main objective of organisations is maximising profit, and the means of achieving this aim are via self-interest that is harnessed towards achieving the organisation’s objectives (Buzied, 1998).

The primary objective of organisations in various other countries such as Libya is to attain social welfare, and the means to attain this so are via collective efforts (Buzied, 1998). Hence, profit maximisation is a matter of less concern for Libyan companies. On the contrary, attaining social responsibilities towards society, in spite of acquiring just enough profit to enable companies to survive and grow, turns out to be a priority for innumerable companies (Buzied, 1998). The utilitarian and ethical behaviour (self-interest) is unacceptable from the viewpoint of the followers of Islam. The prophet said, “none of you will have faith till he likes for his (Muslim) brothers what he likes for himself”. Kollaritsch (1984, p.175) posited that “In some countries, especially the socialistic nations, the attitude prevails that the national interest must be given priority over the individual or corporate interest. All of these attitudes give rise to different managerial accounting and reporting requirements”. Hence, social, political and economic contexts should interact with management attitude or behaviour to provide a more appropriate basis for explaining CED practices in a given country. However, the theory of agency does not see the world from a point that involves such an interaction between internal and external factors. Therefore, this brings the discussion to another theory that may be used to explain CED, namely the theory of stakeholders.

## Theory of Stakeholders

The theory of stakeholders is based on the hypothesis stating that a corporation’s continual survival needs the support of stakeholders. According to Freeman (1984), a stakeholder is “any group or individual who can affect or is affected by the achievement of the firm’s objectives”. This theory posits that the behaviour of several stakeholder groups (shareholders, creditors, employees, customers, suppliers, public interest groups and governmental bodies) motivates the management to relate corporate needs to their surroundings. Stakeholders’ support should be sought, and the activities of the corporation should be adjusted to gain that support. Patten (1992) stated that if a significant stakeholder is dissatisfied with a firm, then this stakeholder can pressurise the firm to meet certain expectations. According to Shocker and Sethi (1974), any organisation operates under a social contract that aims at: (1) delivering socially desirable ends, and (2) distributing social, economic or political benefits to various groups from where it derives its power as well as resources. Social performance and disclosure are hence viewed as strategic plans for dealing with stakeholders' demands (Ullmann, 1985). Stakeholders may perceive environmental disclosure as a sufficient reflection of the non-market effects of corporate behaviour (Guthrie and Parker, 1990).

Ullmann (1985) and Roberts (1992), who were responsible for providing support to the theory of stakeholders for explaining decisions to undertake CED, introduce another element (i.e., power); this element contributes to the corporate response to several stakeholders' demands. The stronger the stakeholder, the more the company must adjust and change (stakeholder management)[2]. Freeman (1984) presented a more in-depth analysis on how to manage stakeholders and during the process observed that there are at least three levels of analysis that can enable an organisation to manage its relationships with its stakeholders. The levels are as follows: (1) The organisation must understand who its stakeholders are with regard to the organisation and also what are the various perceived stakes; (2) the organisation should understand the entire organisational process that is utilised either implicitly or explicitly to manage the relationships between the organisation and its stakeholders and whether these processes 'fit' well into its stakeholder map; and (3) the organisation should understand the transactions/bargains between the organisation and its stakeholders as well as deduce whether these negotiations 'fit' well into the organisation process and stakeholder map for its stakeholders.

Gray et al. (1996) have identified two variants of the theory of stakeholders. The first variant is organisation centred, and it is thus similar to the argument put forward by Ullmann (1985) and Roberts (1992). It signifies that the company is at the centre of the system; although it is connected to other stakeholders, its primary role is to ensure that these stakeholders serve its needs with minimum conflict (see also Adams and Harte, 1999; Key, 1999). Stakeholders are identified by any company with regard to the extent to which the organisation believes that the interplay between groups needs to be managed; this is primarily done with the aim of furthering the interests of the company. The more powerful or significant the stakeholders, the greater effort will be used by the company to manage or develop the relationship.

CED is interpreted as being indicative of which stakeholders matter the most to the company. In the process, the management's attention will be drawn only towards those stakeholders whom they perceive to be most salient, that is, those whom the company may desire to influence (Gray et al., 1996; Mitchell et al., 1997; Harvey and Schaefer, 2001; Smith et al., 2005; Lu and Abeysekera, 2014). The theory of stakeholders could explicate the non-disclosure of certain environmental information if it were found that there was reduced

[2] Stakeholder management, as a concept, refers to the need for an organisation to manage its relationships with its stakeholder groups in an action-oriented manner. Utilising this perspective, CSED can be viewed as part of the dialogue between a company and its several stakeholders (Gray et al., 1995), with the management utilising CSED as a means for being involved in this management of stakeholders; this is done with the aim of gaining their support and approval (Adler and Milne, 1997). The continuance of the interests of an organisation motivates disclosure; the more significant the stakeholder is to the organisation, the more intense effort will be put into managing their relationship with the organisation (Gray et al., 1996).

demand for such information or that those who demanded the information were not stakeholders who were considered highly salient by the company (Adams and Harte, 1999). In support of this view, Ince (1998, p. 235) arrived at the conclusion that "there seems to be an understanding by UK companies, at least by the companies analysed in this study (Ince's survey), that there is a range of importance of stakeholder groups. As a result, companies seem to be using CED to disclose information about these groups and individuals to manage or to improve the relationship". The second variant deals with accountability. According to this variant, a company is accountable to all its stakeholders, and this is determined by the relationship(s) between those stakeholders and the company. This is, however, generally considered to be normative (Gray et al., 1995).

A few reasons behind the absence or presence of CED in any country could be partially explicated by the theory of stakeholders (Ullmann, 1985; Roberts, 1992; Ince, 1998). However, the theory of stakeholders seems to be failing in its efforts to provide an adequate basis for the explication of CED in any country. This is actually because the theory of stakeholders views the world only from the management's perspective (Gray et al., 1995) rather than in the environmental contexts of the country, the reason being that it is derived from the theory of bourgeois political economy (Deegan, 2000), an economy where the private sector exerts more power. There has been questionable use of theories that originated in various political, economic and cultural settings with the primary aim of explaining disclosure practices in several such settings (Hofstede, 1981, 1983; Perera, 1989; Ali, 1996). For instance, Libya is characterised by unique political and economic systems in which the private sector is relatively small and that possesses little power in comparison with the large public-owned sector that forms the basis for Libyan companies. The society (through central authorities) often provides support as well as loans for public-owned companies (Lind, 1990; Ahmad, 2011). Central authorities, for instance, the Ministry of Economy (ME), the Ministry of Planning (MP), Accounting Bureau (AB) and General Environmental Authority (GEA), are the main users in Libya that deal with of accounting reports (Bakar, 1997; Buzied, 1998; Saleh, 2001, Ahmad, 2011). No other interest groups with conflicting objectives such as those in the liberal market exist.

In Libya, the central authorities share one objective, namely the welfare of society. Thus, the management of companies in Libya seems not to be using environmental disclosure to manage or to enhance the relationship with them; instead, they are concerned with achieving the interests of society. Thus, in Libya, the central authorities and companies are entwined in a reciprocal, complementary relationship with the aim of achieving the welfare of society. This relationship could also be viewed as a father-son relationship (Saleh, 2001). According to Saleh (2001), "embedded in this metaphor is the accountability relationship where the son (a company) is accountable to the father (the central authorities) for spending, protecting and managing his (the company's) resources. The father on the other hand is accountable to the son for providing him with all necessary meanings financial or non-financial (which include foreign exchange needed in the case of companies) to achieve pre-agreed goals (the comprehensive plan and budget). The use of this metaphor also reflected the father's power (and help) through which instructions, (guidelines and advices) are given to the son. Therefore, reciprocal but unbalanced accountability relationships exist between the son and the father" (p. 161). Although the theory of stakeholders could partially explicate some of the reasons for the absence or presence of CED in any country, it is not a comprehensive theory. This supports the findings of Gray et al. (1997), who debated that the theory of stakeholders is flawed as it focuses on the manner in which the corporation manages its stakeholders. Next, we move on to another theory, namely the theory of legitimacy.

## Theory of Legitimacy

The theory of legitimacy focuses on the assumption that businesses should retain their social role as well as social power by responding to the needs of the society and giving the society what it wants. This theory is not novel, and it became important after it was referred to by social and environmental disclosure researchers since the 1970s. Davis (1973) posited that the viability of any business is determined by the basic assumption that the business exists only because it provides valuable services for society. Davis (1973) went on to state that "if business wishes to retain its present social role and social power, it must respond to society's needs and give society what it wants. This has been stated as the Iron law of responsibility (legitimacy theory), which is that in the long run those who do not use power in a manner which society considers responsible will tend to lose it. The social power which businessmen have today would hardly be continued unless they assume more social responsibility for their action. This means that the classical economic doctrine of no responsibility except to obey the law loses some of its glamour, because if this policy is continued it will surely cause a substantial loss of business power" (p. 314).

Sethi (1974) stated that the role of any corporation in an ever-changing society should be constantly evolving so that the corporation adapts itself to the ever-changing needs and expectations of society. Sethi (1974, p. 1) went on to state that "it is a fallacy that business can prosper or, indeed, even exist without regard to broader social concerns. Nor will the dominant social concerns always be economic ones. The separation of economic enterprise from the larger social and political purposes of natural life is impossible when there is no space for separation". Shocker and Sethi (1974) stated that any business operates in society through a social contract, expressed or implied, and its survival and growth are based on this contract. In an ever-changing society, both the sources of corporate power and the needs for these services are temporary. Thus, a corporation should always meet the twin tests of legitimacy and relevance; this is achieved by depicting that society needs its services and also that the groups acquiring advantages from its rewards have the approval of society. According to Preston and Post (1975), since today's corporations constitute massive and significant organisational elements within society, they would be expected to initiate and participate in, apart from responding to, the social decision-making process. The objectives of the public are continuously being discovered, examined, defined and also revised. Businesses as well as their management must adapt and be transformed in a changing world.

Boulding (1978) posited that business survival would depend much more on non-market conditions in the future, especially on the ability of business enterprises to retain legitimacy, than on the dynamics of the marketplace. Several sectors constitute the non-market context of businesses. This is called the 'cultural context', and it consists of values as well as attitudes of the general population (Elkington, 1994). The political context continuously creates new laws as well as new sanctions. The legal context encompasses the law, regulations as well as probable sanctions under which it functions. Thus, there is an interaction between the cultural, political and legal contexts. The loss of legitimacy is viewed as being destructive to business enterprises; in social systems, legitimacy is the primary factor in the survival function. According to Sethi (1979), there is probably a legitimacy gap seen between societal expectations and business performance; this is the result of changing expectations or particular business actions. Businesses will lose their legitimacy due to a widening gap, and this will affect their survival. Thus, businesses should strive to make narrow this legitimacy gap.

According to Lindblom (1994, p. 2), legitimacy is defined as: " ... a condition or status, which exists when an entity's value system is congruent with the value system of larger social system of which the entity is a part. When a disparity, actual or potential, exists between the two value systems, there is a threat to the entity's legitimacy". Lindblom asserts that businesses can make narrow this legitimacy gap in any one of the following ways: First, the business can educate and inform its "relevant public" about the actual transformations in its performance and activities. Second, the business can change the public's perception, but it need not change its behaviour. Third, the business can manipulate perception by diverting attention from matters of concern to various other related topics; this could be achieved through an appeal to emotive symbols. Fourth, the business can change external expectations of its performance. According to Gray et al. (1995), who agree with Lindblom's views (see Figure 1), the first strategy can be utilised " ... in response to a recognition that 'legitimacy gap' arose from an actual failure of performance of the organisation". The second strategy is selected "when the organisation sees that the legitimacy gap has arisen through misperceptions on the part of the relevant public". The third strategy is employed "when a company with a legitimacy gap regarding its pollution performance chooses". The final strategy is used "when the organisation considers that the relevant public have unrealistic or 'incorrect' expectations of its responsibilities" (p. 54).

O'Donovan (1999; 2002) seeks to limit these strategies in the following ways. Figure 2 depicts the two ways in which organisations will change or be transformed to make narrow the legitimacy gap. The area indicated by (X) refers to the congruence between an organisation's activity and society's expectations of that particular organisation; this is based on several social norms and values with regard to an organisation's activities. Areas (Y) and (Z) indicate the incongruence between an organisation's activity and society's views of what these actions should actually be. These areas indicate the "illegitimacy" or the "legitimacy" gap (Sethi, 1979). The objectives of any organisation should be legitimate, in other words, to broaden area (X) in Figure 2; this ultimately narrows the legitimacy gap. The management should attempt to make narrow the legitimacy gap in the following manner. This could be achieved first by the organisation changing its activities, moving circle (Z) towards circle (Y), such that both of them are more congruent with social norms and values. Second, the organisation could attempt to revise or change the values, perceptions or expectations of

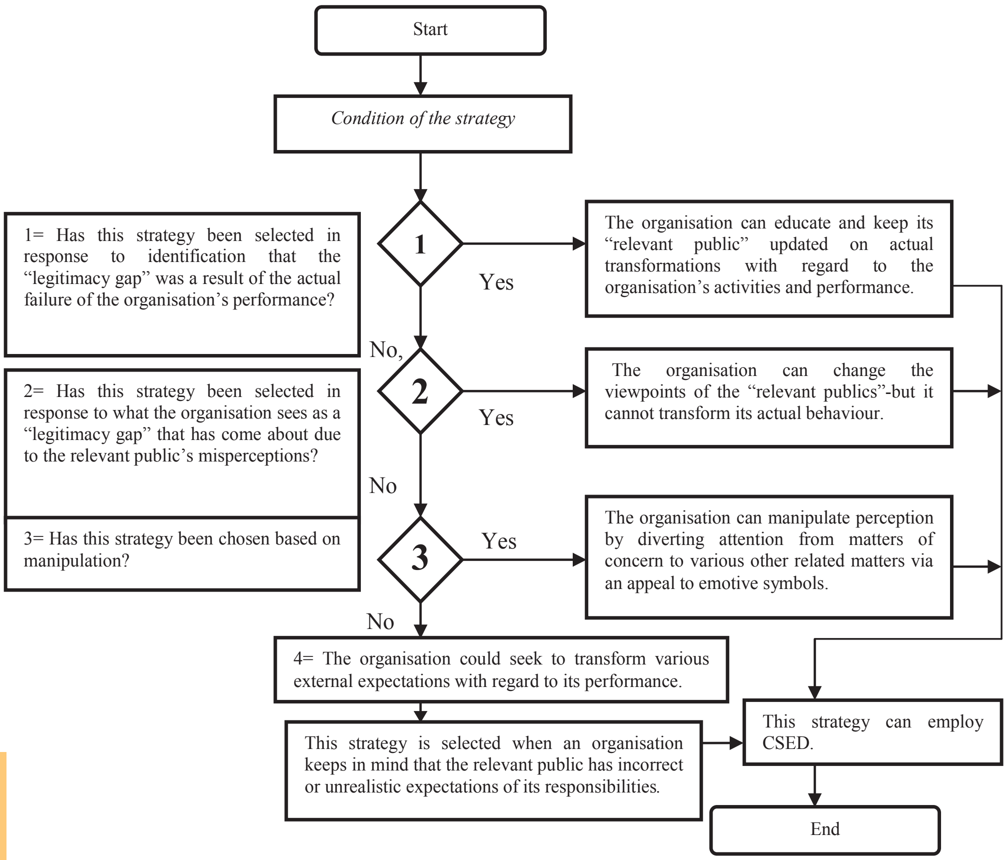


FIGURE 1

**Lindblom's Four Broad Legitimating Strategies**

The four legitimation strategies are: 1. Changing actual performance, 2. Changing perceptions, 3. Diverting attention, and 4. Changing expectations

*Source:* The figure is designed by the author.

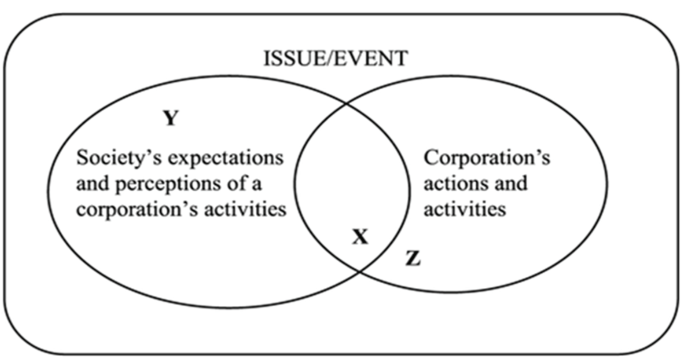


FIGURE 2

**Organisational Legitimacy**

*Source:* O'Donovan (2002, p. 347).

society, thus moving circle (Y) towards circle (Z). This legitimacy approach dwells on convincing society about the organisation being socially responsible, that is, a legitimate organisation (O'Donovan, 1999; 2002).

With the primary aim of maintaining or increasing perceptions of legitimacy, a firm could respond to changes in public policy through various environmental and social disclosures in its annual report (Patten, 1991, 1992). In the view of Zeghal and Ahmed (1990), there are other approaches besides annual reports that firms could utilise to impact the public policy process; some of them are advertising, press releases, as well as information available in publications or brochures related to companies. Both Zeghal and Ahmed (1990) as well as Patten (1991) referred to Parker (1986) as providing a summary of how a business uses environmental and social disclosures that could impact public policy. According to Parker (1986, p. 76), " … It has been argued that social disclosure (include CED) can act as an early response to impending legislative pressure for increased disclosure and as a counter to possible government intervention or pressure from other outside interest groups. Thus, from this viewpoint, social disclosure might be used to anticipate or avoid social pressure. At the same time it may be used to boost the corporation's public standing". As a result, environmental disclosure that is contained within corporate reports could be utilised to either anticipate or prevent social pressure. Environmental disclosure could also be utilised for enhancing the corporate image (Gray et al., 1988) or the reputation status of an organisation. Fombrum and Shanley (1990) posited that firms compete for reputation status in institutional fields and attempt to influence stakeholders' assessments by pointing out the salient advantages of firms.

Recently, a plethora of studies have been conducted to test the theory of legitimacy as it has been applied to environmental and social disclosure. These studies have provided support for the explicatory power of the theory of legitimacy in relation to environmental and social disclosure practices (Hogner, 1982; Patten, 1992; Kokubu et al., 1994; Gray et al., 1995; Deegan and Gordon, 1996; Deegan and Rankin, 1996; Adams et al., 1998; Brown and Deegan, 1998; Buhr, 1998; Neu et al., 1998; Simmons and Neu, 1996; Deegan et al., 1999; Villiers and Barnard, 2000; Wilmshurst and Frost, 2000; Milne and Patten, 2002; O'Donovan, 1999, 2002; Campbell, 2004; Reynolds and Yuthas, 2008; Reverte, 2009; Du et al., 2010; Claasen and Roloff, 2012; Bhattacharyya, 2015; Filippo and Michele, 2017). In a longitudinal study of BHP's (an Australian mining/manufacturing company) environmental and social disclosure, Guthrie and Parker (1989) failed to confirm the theory of legitimacy as an explanation. Deegan and Rankin (1997) have posited that reporting could result in perception only if the public actually uses this information. They conducted a study that lends support to the hypothesis depicted in the theory of legitimacy (as used in environmental disclosure practices), which stresses that several groups utilise the environmental information contained in the corporate reports.

A review of the primary hypothesis of the theory of legitimacy states that this theory could partially explicate a few reasons for the absence or presence of CED in any (see related studies). In spite of this, there seems to be a failure in providing a comprehensive basis for an explication of CED in any given country; this is due to the fact that it is derived from the theory dealing with the bourgeois political economy (Deegan, 2000; Gray et al., 1995). Therefore, this theory may not be able to explicate CED practices in various social, political and economic settings, for instance, Libya. Several managers in Libya, who are portrayed in a father-son relationship, do not seem to use environmental disclosure with the aim of justifying their companies' continued existence. This could enhance the image of the corporate or the reputation of the company, and it could also either anticipate or prevent social pressure instead of achieving the objectives of society. Ahmad (2010) provided evidence that "avoiding any intervention by central agencies" and "avoiding any claim from society or employees" were less significant reasons with regard to the non-disclosure of CED. This idea was also supported by Ahmad and Mousa (2011), in whose study the content analysis emphasised that greater attention was devoted to bad news by the companies surveyed. This idea was related to destroying the environment, work accidents and security statue. Hence, organisations do not compete for status in various institutional fields; instead, they try to impact stakeholders' assessments by pointing out the firms' salient advantages. This situation is in stark contrast to the situation in the liberal market, from where this theory has originated. Thus, companies in such markets disclose only information that is favourable for the image of their organisation. Hence, the theory of legitimacy seems to be an inappropriate basis for the explication of CED practice in Libya. This brings our discussion to yet another theory, namely the theory of political economy.

## Theory of Political Economy

The theory of political economy focuses on exchanges that take place in any framework (e.g., the market); it also deals with the relationships among social institutions participating in such exchanges (Gray et al., 1995). Studies adopting the theory of political economy in the context of CED suggest that this theory may be utilised for an explication of CED practices. The main theme of the theory of political economy is that political, economic and social contexts cannot be separated and all of them should be considered in CED research (Guthrie and Parker, 1990). In its broadest sense, political economy has an immensely long historical tradition and it can be defined in a unique way (Gray et al., 1995, p. 52). According to Jackson (1982), the theory of political economy could be defined as "the study of the interplay of power, the goals of power wielders and the productive exchange system (Zald, 1970, p. 233). The theory of political economy does not exclusively focus on market exchanges. Instead, it first analyses exchanges regardless of the institutional framework in which they occur; second, it evaluates the relationships between various social institutions, for instance, government, law and property rights, each of which is fortified by power and the economy, that is, "the system of producing and exchanging goods and services" (Gray et al., 1995, p. 52). Gray et al. (1995) reviewed Jackson's definition and posited that "the essential point, it seems, is that the economic domain can not be studied in isolation from the political, social and institutional framework within which the economic takes place. As such, it seems unquestionably (but see Benston, 1982) an opposite way of thinking about social (and environmental) disclosure by corporations" (p. 52).

Tsang (1998) and Belal (2001) are immensely sceptical about introducing western corporate environmental and social disclosure techniques into various sociocultural contexts of developing countries; this is because the socioeconomic, political and cultural contexts of a country largely impact accounting, in general, and the corporate environmental and social disclosure, in particular. According to Gray et al. (1996) and Wallace (1990), the need for CED studies is in great demand in developing countries.

While specifically dealing with CED in Islamic countries, Hayashi (1987), Baydoun and Willett (2000), Haniffa (2001) and Ibrahim (www.Islamic-Accounting.com) are sceptical of incorporating western corporate environmental and social disclosure techniques into the various sociocultural contexts of Islamic countries. Hayashi (1987, p. 71) posited that "Islamic accounting thinks of the society before the business enterprise whereas conventional accounting thinks of individual profit before the social profit". In the view of Baydoun and Willett (2000, p. 81), "private accountability and limited disclosure (western accounting criteria) are insufficient criteria to reflect the ethical precepts of Islam law. Consistency of disclosure practices with Islamic law requires application of the more all-embracing criteria of social accountability and full disclosure". Ibrahim (pp. 24–25) emphasized the requirement for an Islamic accounting disclosure: "Accounting is a social construct. Conventional accounting has developed according to the needs of the capitalistic western society and it can only by justified in a pristine liberal economic democracy. Its underlying assumptions are wealth maximisation and utility maximisation and self-interest. Muslim society is (or ought to be) different from western society, because it is based on Divine Guidance and Sharia with a different outlook on life and different motivation i.e. to please Allah by doing what He commands and from refraining from what He forbids. Allah is not pleased with selfish profit-maximisers" (www.Islamic-Accounting.com).

Recently, a myriad of research studies (mainly in western countries) have attempted to interpret CED practice (and non-practice) from a political economy standpoint. Guthrie and Parker (1989) reviewed the annual reports of BHP, a single company, for 100 years; they aimed at ascertaining whether the pursuit of legitimacy in the case of an organisation was a significant rationale for various disclosures. The theory of political economy provided an in-depth explanation of the various patterns of disclosure by the company compared with the theory of legitimacy; this was because the "management had a predisposition towards selective disclosure policies, suppressing information on some major social impact events" (Gray et al., 1996, p. 158). Guthrie and Parker (1990) employed the annual reports of the top 50 companies in the United Kingdom, the United States and Australia with the aim of providing a comparative analysis of the primary features of disclosure types as well as practices in these nations. The analysis of these survey results was based on the following theoretical perspectives of disclosure: user utility and political economy. It was discovered that CED practices lend support for an interpretation of political economy, because a kind of recognition was observed in the tendency of communicators to set the agenda and to portray the social, political and economic settings in their own terms.

Adler and Milne (1997) employed the annual reports of 122 companies listed on the New Zealand Stock Exchange; they did this with the aim of investigating the relationships between company size, industry sector, media exposure and corporate social disclosure. They utilised media exposure as a valid proxy for public pressure. They also found support for the theory of political economy through which public pressure encourages several companies (especially large ones) to become involved in corporate social disclosure. Adams and Harte (1998) employed the theory of political economy to explicate corporate social disclosure related to the employment of women in two sectors in the United Kingdom from 1935 to 1993. They assessed these disclosures in the context of broader social, political and economic development in the United Kingdom throughout the given period. While considering the wider social, political and economic context, it was discovered that an explication of political economy encompassing patriarchy provided a better foundation for understanding disclosure practice than the theories related to legitimacy or stakeholders. Buhr (1998) employed the annual reports of Falconbridge for the period 1964–1991. She asked two significant questions that were related to the environmental performance and disclosure of Falconbridge. First, how did the corporation respond to the changing environmental regulations for sulphur dioxide abatement? Second, how did it decide to present these abatement activities in its annual report? Buhr explicated her results by employing the theories of political economy and legitimacy. In stark contrast to Guthrie and Parker (1989), as per her results, the theory of legitimacy lent a stronger explanation than the theory of political economy; she concluded that the corporation focused on changing its corporate performance as a result of changing its environmental regulations rather than "using disclosure to influence social norms or influence the distribution of wealth and power" (Buhr, 1998, p. 186).

One disadvantage of this survey is that it limits itself to a context of regulations instead of various Canadian environmental factors (political, economic and social factors), which are equally important. Gamble et al. (1996) and Fekrat et al. (1996) stated that when such a country has a high level of social consciousness, for instance, as in Sweden or Canada, the company provides more information by way of voluntary disclosure.

Williams (1999) utilised the theory of political economy to explicate voluntary CSED provided by organisations (356 listed companies) in the various annual reports operating in seven Asia-Pacific nations (Australia, Singapore, Hong Kong, the Philippines, Thailand, Indonesia and Malaysia). He arrived at the conclusion that the economic and sociopolitical systems of nations interact with the idea of shaping the perceptions of organisations due to the need to release voluntary CSED that met social expectations as well as with the aim of avoiding government regulation to preserve their own self-interests. This is consistent with the theory of bourgeois political economy. Williams (1999) posited that "Bourgeois political economy concentrates on the interaction of actors within a pluralistic world (Clark, 1991, p. 90). Based on this definition, various individuals, institutions and organisations, in an attempt to preserve their self-interests, operate within the system via their relationships with others (Dahl, 1982, 1986). This theory stresses that actors, regardless of whether they are individuals or organisations, possess the right of attaining their goals and self-interests (Clark, 1991). These rights are moderated by the social contexts in which they are found (Gray et al., 1996, p. 211). These strands of research, which tested the theory of political economy, arrived at the conclusion that corporate reports are rhetorical devices that are utilised to promulgate corporate ideology in social, economic and political settings.

The theory of political economy offers quite a bit that serves as a basis for the explication of CED in any country, especially when it is compared with the theories of agency, stakeholders and legitimacy (Guthrie and Parker, 1990; Gray et al., 1996). This is because this theory views the world from a standpoint that involves social, economic and political factors (two-dimensional analysis); hence, this theory deals with altruistic behaviour (Ince, 1998). The drawback of this theory is that it fails to explicitly consider the inter-organisational factors (internal factors include: the corporate characteristics as well as the management attitude and cognition) that play a significant role in CED practices in any country (Ingram and Frazier, 1980; Cowen et al., 1987; Belkaoui and Karpick, 1989; Patten, 1991; Alder and Milne, 1997; Tilt, 1997; O'Dwyer, 1999; Stanwick and Stanwick, 2000; O'Donovan, 2002; Belal and Owen, 2007; Rudžionienė, et al., 2016; Zaid and Nasiri, 2018).

## RESEARCH RESULTS AND PROPOSAL

From the earlier discussion, we could see that several theories are developed in the CED literature to explicate the reasons for the decision to reveal more CED information. By articulating the perspectives of the various theories discussed earlier, this paper arrived at the conclusion that the empirical proof does not support CED theories in a consistent manner and the results are contradictory. The micro prospective depicted in these theories could be the main reason impacting these divergences. According to Neuman (2003), "by observing something from different angles or more viewpoints, one can get a fix on its true location" (p. 137). It is immensely tough to explicate CSED practices by using a single theoretical framework. Gray et al. (1996, p. 49) have remarked on these theories: "they are not as yet fully fledged theories (in the CSR) but provide useful frameworks within which to study the developing practice of CSR, but we should note that we are a very long way from any complete understanding of why organisations do (and do not) undertake social and environmental accounting and disclosure". Mathews (1997) explains the requirement for further research to assess whether other theoretical justification can be utilised for the disclosure of CED (reported in Parsa and Kouhy, 2001). Thus, the author of this paper mingles all these theories together into the Environmental Determinism Theory (EDT), which is basically a macro perspective. Such a macro perspective of the EDT could be seen as contributing towards enhancing our understanding of why firms disclose (or not) CED in any country.

### Environmental Determinism Theory

The term "environmental determinism theory" was introduced by Cook and Wallace (1990) with the aim of describing the relationship between accounting disclosure and environmental factors. They utilised the same argument as the theory of political economy. The term was limited to external factors rather than internal factors. However, for the sake of this paper, "environmental determinism theory" indicates that the CED practices in any given country are moulded not only by any single factor but also by internal and external factors. The influence of external factors indicates the indirect influence on the CED (Roberts, 1991; Gray et al., 1996; Hackston and Milne, 1996; Adams et al., 1998; Belal, 2001; Kolk et al., 2001; Bani-Khalid and Kouhy, 2017). However, the internal factors indicate the direct influence of all those involved in the disclosure process, for instance the managers, because they are the people who have the final say with regard to what information to disclose, especially in cases of voluntary disclosure (Jaggi and Zhao, 1996; O'Dwyer, 1999; O'Donovan, 2002; Lodhia, 2003; Belal and Owen, 2007; Rudžionienė, et al., 2016; Zaid and Nasiri, 2018).

The major difference between the environmental determinism theory and the theory of political economy lies in their scope (see Figure 3). The theory of political economy limits itself to only external (intra-country) factors, whereas the environmental determinism theory overpowers such shortages; it achieves this by utilising a combination of internal (inter-organisational) and external (intra-country) factors to explicate CED practices in any country (macro prospective). In this manner, the scope of the theory of political economy is widened. The remainder of this section assesses the internal and external environmental factors impacting disclosure practices, in general, and CED practices, in particular.

## *Internal Factors*

The internal factors impacting environmental disclosure practices by an individual company rely on two elements: corporate characteristics, as well as the attitude and cognition of individuals involved in the CED process.

### *Corporate Characteristics*

Haniffa and Cooke (2002) posited that the characteristics of a firm refer to size, industry type, listing age, foreign listing status, foreign activities, complexity of the business, level of diversification, gearing, profitability, type of auditor, assets in place, ownership structure and governance. Several studies examined the association between such characteristics and the level as well as extent of CED all over the world (Ingram and Frazier, 1980; Cowen et al., 1987; Patten, 1991; Alder and Milne, 1997; Tilt, 1997; Gray and O'Dwyer, 1998; Gray et al.,

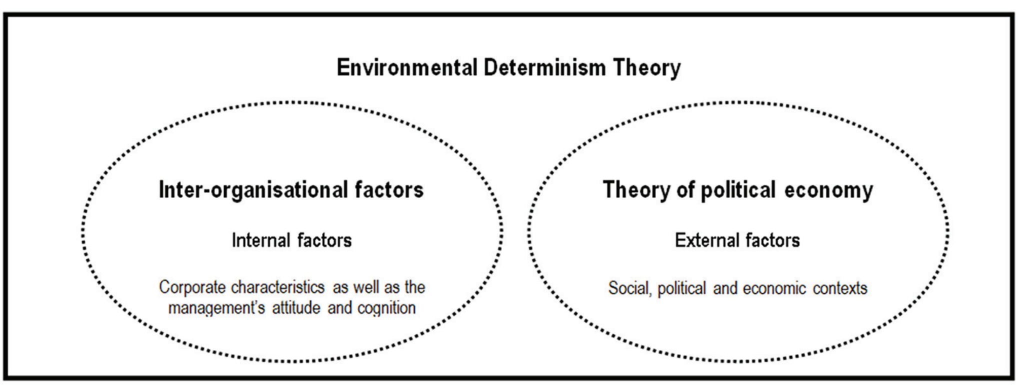


FIGURE 3 **Differences between Environmental Determinism Theory and Political Economy Theory**
*Source:* The figure is designed by the author.

2001; Gao et al., 2005; Belal and Owen, 2007;Campbell, 2007; Arora and Dharwadkar, 2011; Elsakit and Worthington, 2014; Lu and Abeysekera, 2014; Badrul et al., 2015; Rudžionienė, et al., 2016; Bani-Khalid and Hassan, 2017; Muttakin et al., 2018; Zaid and Nasiri, 2018). These studies employed statistical tests to interpret the association between determinants of firms and the level of CED. Most of these studies revealed a positive relationship between such factors and CED. Elsakit and Worthington (2014) reviewed the available literature on the influence of corporate characteristics as well as corporate governance on the level and extent of CED. They confirmed the significance of these factors in determining the level as well as extent of such disclosure.

*Management Attitude and Cognition*

One of the most significant impacts on environmental disclosure practices is the person involved in the procedure. This is significant and pertinent for voluntary disclosure as the final decision for the disclosure of such information lies in the hands of the person involved in the disclosure process, particularly the boards of directors (O'Dwyer, 1999; Haniffa and Cooke, 2002; O'Donovan, 2002; Elsakit and Worthington, 2012). These people can make decisions as to what and how much to disclose; this is because only they are held accountable and responsible for their actions. In this regard, cognitive factors such as knowledge and skills will have a significant impact. Further, as directors can decide with regard to environmental disclosure, they may decide not to disclose information that could reflect their weaknesses. This, however, depends on their beliefs and attitudes. Kollaritsch (1984, p. 175) posited that "In some countries, especially the socialistic nations, the attitude prevails that the national interest must be given priority over the individual or corporate interest. All of these attitudes give rise to different managerial accounting and reporting requirements". Said et al. (2013) confirmed that a CEO with a law background could serve as a driver for the company to reveal environmental information of a high quality.

Many empirical studies have focused on the views of accountants and managers in terms of their role in environmental and social disclosure (Bebbington et al., 1994; Deegan et al, 1999; Frost and Wilmhurst, 1996; Jaggi and Zhao, 1996; Wang et al., 1997; Wycherley, 1997; Perry and Sheng, 1999; Lodhia, 2000; 2003; Ahmad, 2011; Bhattacharyya, 2011; Hieu, 2011; Salehi et al., 2011; Fatoki and Chiliya, 2012; Boahen et al.,2014; Krivačić and Janković, 2017).

The results of these studies indicated that accountants are not basically involved in the environmental and social disclosure practices of businesses. These findings are consistent with the conclusions drawn by Gray et al., (1995), who posit that accountants are presently uninvolved in bringing about organisational transformation through the introduction of environmental management strategies into the management accounting practices of businesses. Accountants are assumed to be largely unaware of how their skills could be used for creating a heightened sense of awareness of environmental sensitivity in businesses. Lodhia (2000, 2003) referred to the following factors: (1) the lack of their competence in environmental matters and (2) the voluntary nature of the current environmental disclosure practices. The study by Jaggi and Zhao (1996) was one of the initial studies that dealt with the people involved in the process (managers of companies). Jaggi and Zhao arrived at the conclusion that there is a heightened sense of awareness among managers with regard to the need for environmental performance by firms and also the disclosure of environmental information. However, there is a gap between managers' perceptions and actual company environmental performance and reporting in Hong Kong.

Perry and Sheng (1999) requested various non-disclosing companies in Singapore to explicate their lack of CED. The three main reasons that they cited were: (1) lack of government pressure; (2) lack of perceived benefit, either in terms of status with regard to consumers or within the business community; and (3) the perception that their organisation does not have any environmental influence. O'Dwyer (2002), who investigated the views of managers regarding the motivation for CED within annual reports, declares that Irish companies are the subjects of major forms of social pressure, especially those arising from local communities, environmental pressure groups and the print media. There was a general acceptance that social pressure generated a necessity for the companies to be responsive, especially with managers in environmentally sensitive sectors stating that their annual report disclosures tended to be reactive and were tied to a need to mend legitimacy.

Ahmad (2011) assessed the extent to which managers were engaged in corporate environmental management as well as disclosure in Libya; the views of Libyan managers were analysed based on their motives to disclose or not disclose environmental information. This study was influenced by the results of earlier research into Libyan CED practice, which indicated that there was little proof of CED in terms of either its quantity or quality, especially if the health and safety category were excluded (Ahmad and Handley-Schachler, 2008; Ahmad and Mousa, 2011). The entire results suggest that a vast majority of managers accept the fact that Libyan companies and their managers should identify their environmental responsibility and give environmental disclosure to the central authorities. However, most of the surveyed managers posited that a scarcity of legal and professional standards and guidelines, as well as their lack of expertise, qualification and training in the field of CED have prevented them from being involved in CED.

Bhattacharyya (2011) assessed the attitudes of corporate managers right across India towards 16 key modern environmental management issues. The results indicated that Indian respondents were stronger in terms of their support, and they categorised various issues to be more important than other environmental factors. Hieu (2011) evaluated how executives and managers from various Vietnamese enterprises indicate their awareness as well as their perceptions of corporate social responsibility (CSR). Based on the quantitative analysis, the paper was proof that a large proportion of managers possess a highly positive attitude towards CSR and its reporting.

Salehi et al. (2011) assessed the attitudes of managers with regard to the environmental disclosure of Iranian companies. Overall, 72 questionnaires were distributed across the active firms of the Tehran Stock Exchange. This study revealed that the managers were positive in their attitude; however, they expressed their desire to reveal the environmental information of their expenses. They also believed that a number of obstacles were preventing the achievement of that, including the absence of legislation, lack of practical experience and scientific qualification in this area, as well as deficiency of awareness among managers about the entire matter, including the standards, regulations and the ways in which pollution could be reduced.

Fatoki and Chiliya (2012) conducted an investigation; they compared the attitudes of local and immigrant SME owners in East London and in the Eastern Cape province of South Africa towards business ethics and corporate (business) social responsibility. Their study utilised the Attitude towards Business Ethics Questionnaire (ATBEQ) and Attitudes towards Corporate Social Responsibility Questionnaire (ATCSRQ) for data collection in the form of a survey. The results indicated that local as well as immigrant SME owners possess a positive attitude towards corporate social responsibility and business ethics. The results also revealed that there are no significant distinctions in the attitudes of local as well as immigrant SME owners towards corporate social responsibility and business ethics.

Ahmad (2014) assessed the available literature on the attitudes of various accountants towards CED in Libya (Pratten and Mashat, 2009; Elmogla et al., 2011; Ishwerf, 2011; Othman, 2011; Al-Drugi and Abdo, 2012; Bayoud et al., 2012). The results of these earlier studies were almost identical; this endows their findings with greater objectivity. An overall positive but latent attitude towards environmental responsibility and CED was depicted. The findings of content analysis display a gap between the Libyan accountants' attitude and companies' practical reality, thus resulting in a very diminished level of CED. Scarcity with regard to legal and professional standards and guidelines by central authorities, companies' stress on economic performance, confidential information and administrative difficulties, as well as a lack of expertise, qualifications and training in the field of CED have prevented Libyan companies from being involved in CED.

Boahen et al. (2014) investigated the attitudes of managers with regard to the significance of CED in Ghana. The results of this survey depicted that several managers as well as executive directors possess a clear understanding with regard to the reputation and benefit that corporate social responsibility endows on their respective companies. Their company ethics overpowers their personal ethics as well as their intended behavior towards CSR. These findings support the viewpoint presented in other research studies that the most significant factor that impacts a manager's attitude towards CSR is the company's ethical values. Krivačić and Janković, (2017) assessed managerial attitudes with regard to the importance of CED for companies located in Croatia. The assessment of the distribution of various managers' responses indicated that most respondents firmly believe that environmental information is part and parcel of corporate social responsibility. From the company's point of view, it is ethical to collect as well as report environmental information.

Although the studies referred to earlier indicate a positive attitude towards CED, there is a discrepancy between the attitudes of managers and the level of disclosure; this is because many of the surveyed companies provided minimal disclosures. This obvious gap between various managers' perceptions and actual environmental reporting might require further research to be conducted to consider other environmental factors. Gray et al. (1995) posited that the reasons for the management's decision to disclose CED depend on the culture and competence of companies' managers in environmental matters, as well as the political and economic contexts surrounding the organisations. Moreover, other factors, including educational background, could be considered important determinants of disclosure practice, as better educated managers are more likely to adopt innovative activities and disclose more voluntary information, including CED (Hambrick and Mason, 1984; Derwent, 1989; Gray, 1990; Bebbington et al, 1994; Haniffa and Cooke, 2002; Lodhia, 2003; Ahmad, 2011, 2013; Salehi et al., 2011).

Understanding CED in a given country can emerge from within individuals by looking at their perspectives and competence rather than from just studying corporate reports (O'Dwyer, 2002; O'Donovan, 2002). A complete picture, however, needs more consideration to be paid to economic, political and social contexts surrounding an organisation (three-dimensional approach, including content analysis, internal factors and external factors). This leads us to a discussion of these external factors.

## *External Factors*

*Economic System*

The economic system is acknowledged as having an impact on disclosure practices. Mueller (1967); Frank (1979); Arpan and Radebaugh (1985); Puxty et al. (1986); Choi and Levich (1990); Cooke and Wallace (1990); Adhikari and Tondker (1992) and Ahmed and Nicholls (1995) have all identified this factor to be significant while discussing accounting disclosure practices. While looking at the influence of the economic system on disclosure, several researchers have broken it down into two main components: (1) the type of economy and (2) the level of economic development. The structure or the type of the economic system is believed to be an important factor impacting the extent of CED in a country (Puxty, 1986, 1991; Tinker et al., 1991; Gray et al., 1996). Generally, the type of economy is indicated as either bourgeois (mostly associated with John Stuart Mill and subsequent economists) or classical (mostly associated with Marx) (Gray et al., 1996).

As per the bourgeois economic system, the survival of various private enterprises, which play a significant role in most of the activities of such an economy, relies not only on the production of goods and services but also on adequate information to various interest groups, right from investors and creditors to the capital market in general (Belkaoui, 1985). The core area of concern of such investors, shareholders and creditors is related to the current as well as future financial impacts of environmental issues. They are basically interested in acquiring a better understanding of the real assets and liabilities of any organisation that they are lending money to or considering buying. The demand for financial disclosure in a bourgeois economy is of greater significance than environmental performance information (Deegan and Rankin, 1997).

Besides the type or structure of the economic system, the level of economic development has recently received extensive attention as a really significant factor influencing CED practices (Williams, 1999; Gao et al., 2005). There should be a hypothetical positive influence on the level of CED practices in any country as the level of economic development increases

(Gao et al., 2005). Empirical research assessing the impact of the level of development on CED practices produced inconclusive results. Williams (1999) conducted a study on whether there is a relationship between the extent of CED information and the level of economic development presented in the annual reports of the listed companies in the Asia-Pacific region. He found no relationship between the two variables. Gao et al. (2005) posited that the level of economic development was an important explanatory variable of noted variation with regard to CED practices between the United Kingdom and Hong Kong. This obvious disagreement between Williams and Gao et al. could be attributed to the fact that Williams conducted his survey in the Asia-Pacific region, where these countries might have an actual similar economic development level; whereas Gao et al. (2005) drew their comparison between a developed country (UK) and a new industrialised country (Hong Kong), which have quite different socioeconomic development levels.

*Political System*

The political system is one factor that could definitely influence disclosure; this factor was considered in studies conducted by Nair and Frank (1980), Belkaoui (1983, 1985), Goodrich (1986), Cooke and Wallace (1990), Gastil (1990), Cooke and Kikuya (1992), Ahmed and Nicholls (1995) and Williams (1999). A positive relationship could probably exist between accounting freedom (to report as well as disclose) and political freedom. The degree of political freedom in any country is supposed to depend on the degree of political rights, civil liberties and the type of the political system (Belkaoui, 1983; Gastil, 1990). If this is the case, then it can be stated that the more political freedom a country has, the more freedom there is in accounting disclosure.

Williams (1999) assessed the association between political and civil systems and voluntary CED in the Asia-Pacific Region. He stressed that "organisations in less-repressed societies have a greater incentive to disclose voluntary social and environmental information in response to greater expectations for organisations to conform to a broader set of societal interests. Conversely, firms in a more repressed social structure may be inclined to limit voluntary social and environmental information or make none at all for greater government scrutiny and regulation" (p. 213). The findings of this survey, which were in line with those of earlier theoretical and empirical studies related to disclosure practices in the political and civil systems (e.g. Belkaoui, 1985; Goodrich, 1986), emphasised that political and civil systems explain only a part of the variation of CED between companies operating in different nations in the Asia-Pacific region.

*Legal System*

The legal system has been referred to in the literature as a factor that impacts accounting and disclosure practices (e.g. Puxty et al., 1987; Doupnik and Salter, 1995; Iqbal et al., 1997). Doupnik and Salter (1995, p. 195) posited that "the legal system is a part of the institutional framework with which the accounting system is likely to interact. The legal system influences the way in which accounting rules are promulgated, which in turn could influence the nature of the rules themselves".

There should be a positive influence on the level of CSED practices in any country as the level of regulatory development, including those practices that are used for accounting within legislation, has a greater incentive to reveal information. The literature indicates that the level of CED in the countries where such disclosure is necessitated by law has improved with time. For instance, in 2000, the business advisory firm Deloitte and Touche conducted an investigation of environmental information in terms of the annual reports of the 55 largest companies in Norway (one of the leading countries in mandatory disclosure). The results depicted that information had improved in 65% of the annual reports. The changes are evident in both the amount of information and the contents (reported in Nyquist, 2003). It is also worth mentioning that there was a significant rise in the number of French companies reporting CED according to KPMG (2002), which was an increase from 4% in 1999 to 21% in 2002. This was an end-result of the mandatory reporting requirements that were introduced in the financial year 2002 (Owen, 2003). This is also consistent with Buhr (1998), who discovered that the corporation concentrated on changing its corporate performance with regard to changing environmental regulations. Deegan and Rankin (1999) stated that the management of the surveyed companies in Australia considered legal obligations to be more significant than other factors impacting the decision to reveal environmental information.

This might partially explicate the distinctions between the developing and developed countries in terms of CED practices, where the level of environmental legislation in the developing countries is still low when compared with that seen in the developed countries. This legislation also has little or no direct implications with regard to accounting and reporting practices (Belal, 2001; Jamil et al., 2002; Rajapakse, 2002; Surmen and Kaya, 2003).

CED could probably improve in the absence of legal requirements. The KPMG survey of 2002 discovered that the United Kingdom, where there is no legal requirement for CED, is leading in Europe, with 49% of the top 100 companies producing their own and separate environmental reports. Buhr and Freedman (1996) drew a comparison between voluntary and mandated environmental disclosure in the United States and Canada. They stated that U.S. companies provided more mandated disclosure whereas Canadian companies provided more voluntary disclosure. They also noted that Canadian companies, where there were no legal requirements, were likely to provide CED compared with their U.S. counterparts[3]. Other studies that were conducted by Jones (2002), KPMG (2002) and Holland and Foo (2003) discovered that British companies provided more environmental information than U.S. companies. Jorgensen and Soderstrom (2006) stated that CED has been affected by the legal system. Suttipun and Stanton (2012) posited that the most important reasons for management to disclose environmental information are due to legal obligations. On the contrary, they stated that the most significant reasons for not making disclosures of environmental information were that there were no environmental influences, as well as no environmental regulations and standards in Thailand. Islam and Arafin (2017) declared that the reason behind the

[3] This result supports what has been stated in the literature as a disadvantage of mandatory disclosure by saying "it would result in companies only complying with the letter of the law and not going any further" (Dierkes and Coppock, 1978; Huizing and Dekker, 1992).

poor CED in Bangladesh was a lack of environmental legislations, thus compelling the companies to disclose the same in their annual reports.

On comparing CED practices in Indonesia the year before and the year after the mandatory policy being issued, Yaya and Jalalusin (2018) stated that there were significant increases in terms of CED being reported. In the year 2011, only 13.95% companies disclosed this information; this increased to 25.25% in 2012 and 30.90% in 2013. This might support the stance that understanding CED in any country is derived not only from its legal system but also from its combination with several other environmental factors, including sociocultural contexts (Gamble et al., 1996; Fekrat et al., 1996).

*Culture and Religion*

Culture is defined as the "ideas, beliefs, and customs that are shared and accepted by people in a society" (Longman Dictionary, 2000 p. 330). Hofstede (1980, p. 25) states that culture is "the collective programming of the mind which distinguishes the members of one human group from another". Rohner (1984, p. 119) referred to culture as "the totality of equivalent and complementary learned meaning maintained by a human population, or by identifiable segments of a population, and transmitted from one generation to the next". Baydoun and Willett (2000, p. 74) posited that "culture is a set of beliefs (which have a probable effect on behaviour and are thus correlated with it in a statistical sense) communicated in a language to members of the defined language community. Religious beliefs are a subset of these total beliefs and therefore a part of culture". The concept of culture is defined in different ways, whereas the shared aspects between these definitions are summarised by Buzied (1998, p. 90) as follows: (1) Culture is the distinct feature of a certain society or group of people that makes their behaviour or attitudes, to some extent, predictable; (2) every society has its own culture, and this is shared by most of its members as well as differs from other societies; (3) we can find subcultures within any culture, such as organisational culture or occupational culture; (4) cultural values are not easy to change and they remain stable over a long period; and (5) culture plays a vital role in determining an individual's behaviour.

The significance of culture in impacting accounting practices has received a great deal of attention (Jaggi, 1975; Arpan and Radebaugh, 1985; Gray, 1988; Perera, 1989, 1994; Cook and Wallace, 1990; Perera and Mathews, 1990; Kirsch, 1994; Baydoun and Willett, 1995; Mathews and Perera, 1996; Baydoun and Willett, 2000; Haniffa, 2001; Haniffa and Cooke, 2002). Mathews and Perera (1996, p. 349) declared that "Culture is often considered to be one of the powerful environmental factors impacting upon the accounting system of a country. Accounting is a socio-technical activity it involves dealing with human and non-human resources or technical as well as with the interaction between the two. Therefore, it can be argued that, although the technical aspect of accounting is less culturally dependent than the human aspect, since the two interact, accounting cannot be culture free". Innumerable cultural factors (societal values) are probably directly associated with accounting. Conservation, secrecy, attitudes towards business and attitudes towards accounting were cited by Arpan and Radebaugh (1985) as being the most important cultural factors.

Arpan and Radebaugh (1985, pp. 17–18) posited that the degree of conservatism impacts several accounting principles and practices, particularly valuation and profit determination. The secrecy of any society most directly impacts the amount of disclosure that an enterprise is willing to declare in its external reporting (i.e. the greater the level of secrecy or distrust of outsiders, the lower the level of disclosure). Societal attitudes towards business, for instance distrust, generate demands for more information and a closer scrutiny of business operations, and probably even regulation or nationalisation. This information that is requested will probably encompass much more than mere financial data and will include the enterprise's treatment of its employees, sociopolitical activities and contributions, environmental impacts, and so on. The attitude towards accounting as a profession impacts the status of the profession, the type of person who enters the information, the credibility of the information, and the work that accountants perform.

Hofstede (1980) identified four distinct dimensions of values (individualism versus collectivism[4]; large versus small power distance[5]; strong versus weak uncertainty avoidance[6]; and masculinity versus femininity[7]); he considered these as reflecting the cultural orientation of any country[8]. Many of the current accounting studies dealing with culture have utilised Hofstede's dimensional model for the purpose of identifying cultural factors that are probably associated with accounting practices (Gray, 1988; Perera, 1989). Based on Hofstede's work (1980), Gray (1988) developed a model that depicts "the mechanism by which values at the societal level are linked to values at the accounting subculture level as it is these values which are likely to influence the development of accounting systems in practice" (Gray, 1988, p.5). He innovated with regard to his own unique classification and identified four accounting values at the subculture level: They were professionalism versus statutory control, uniformity versus flexibility, conservatism versus optimism, and secrecy versus transparency. Perera (1989) utilised Gray's model and examined the relationship between societal values and accounting in the case of developing countries. This study determined that collectivism, which is a relatively low level of professionalism, strong uncertainty avoidance and large

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[4] On the individualist side, individuals should take care of themselves and of their immediate families only. On the collectivist side, individuals remain emotionally integrated into in-groups that protect them, which is in exchange for unquestioning loyalty. It opposes "I alone" societies to "We together" societies. The term 'collectivism' does not refer to any political system; instead, it operates at the group level, similar to the extended family.

[5] From large to small, 'power distance' is referred to as the extent to which members of a society accept the fact that power is distributed unequally in institutions and organisations. It describes a society's way of dealing with inequality: from institutionalising and accepting it, to minimising it. It recognises certain societies as more unequal and others as less unequal.

[6] From strong to weak, 'uncertainty avoidance' is referred to as the level of anxiety within members of a society in the event of substructure or ambiguous situations displayed in terms of aggression and emotion, in institutions promoting conformity, and in beliefs promoting certainty. It refers to a society's intolerance for ambiguity: from trying to control it at all costs, to accepting to live with it. It recognizes some societies as rigid and others as flexible.

[7] On the masculine side, we identify strongly differentiated social sex roles: The masculine role indicates achievement, assertiveness and sympathy for the strong as well as material success. The feminine side implies overlapping social sex roles. Both imply warm relationships, modesty, care for the weak and quality of life. They contrast tough, competitive societies with tender, solidarism societies.

[8] Some people argued that the definitions of culture dimensions may be biased because they are a product of western culture and thinking, whereas some studies that were conducted later found support for the validity and reliability of these dimensions (Hofstede and Bond, 1984, 1988; Ronen and Shenkar, 1985).

power distance, are features of developing countries. He posited that favourable conditions exist in developing countries for the purpose of exerting legal and governmental control in accounting as well as a strong preference for uniformity.

Perera and Mathews (1990) examined the relationship between culture and accounting and they devoted special attention to the impact of culture on social accounting. They arrived at the conclusion that research on social accounting was most of the time focused on market studies, philosophical considerations and radical theory. They declared that little attention has been focused on the possible influences of national as well as regional culture and sub-culture on the development of social accounting. They posited that culture (which reflects a country's economic and political conditions, the strengths or weaknesses of the impact of marginal economic values, the effect of the capitalist system and its social reproduction, lethargy, inertia, and the resistance to change often exhibited by the accounting profession) may be connected to the acceptance or rejection of the notion of social accounting in any given country. They employ "employee reporting", "industrial democracy" or "worker representation", and "environmental disclosure" as instances of differences in reporting practices among both Anglo-American and Continental European countries. They debate that advancement in industrial democracy, which has resulted in employees becoming a powerful force in Continental European countries, makes these countries more apprehensive about "employee reporting" than in the United Kingdom and the United States, whereas the predominance of environmentalism and consumerism in Anglo-American culture results in "environmental disclosure" becoming more advanced in both the United Kingdom and the United States. Williams (1999) examined the association between two of Hofstede's dimensions (uncertainty avoidance and masculinity versus femininity) and voluntary social and environmental disclosure (VSED) in the Asia-Pacific region. He discovered that masculinity and uncertainty avoidance explicate a part of the variation exhibited in VESD between companies operating in different nations in the Asia-Pacific region.

While referring to Islamic in particular, Baydoun and Willett (2000) looked at the association between Islamic and accounting disclosure. They found a myriad of basic elements in the Islamic attitude towards business matters that vary from the Western point of view. For instance, accounting, based on the principle of the *Sharia* that claims the Unity of God[9], the community and environment need a form of social accountability[10] rather than the personal accountability exhibited in Western societies and accounting practices. To this end, under Islamic law, a principle of complete disclosure of accounting information is based on what should be revealed to satisfy the objective of social accountability, not on the outcome of a political process[11].

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9 The unity of God is defined by the Tawhid, which requires a total commitment to the will of God involving both submission and a mission to follow the Sharia in all aspects of life (Baydoun & Willett, 2000, p. 80).

10 Ibrahim (www.Islamic-Accounting.com, p. 25) posited that "accountability would be the most logical framework on which Islamic accounting theory can be constructed. Hopefully accountability of organisations (which is a subset of the Muslim's accountability to Allah or God) can be re-established in Muslim societies more easily than western societies, unless the Muslim countries follow the western countries into the lizard's hole of social disruption and environmental degradation".

11 Baydoun and Willett (1997) debated that accounting implication of the Sharia includes four titles: the need to properly compute Zakat, the prohibition of interest, the social accountability concept and the full disclosure concept.

Haniffa (2001) recommended the utilisation of the *Sharia Islami'iah* framework in developing Islamic social responsibility disclosure to satisfy both accountability and transparency objectives as it examines the relationships between man and Allah, man and man as well as man and nature. This approach considers the material, moral and spiritual aspects. Haniffa also suggested two broad objectives of Islamic social responsibility disclosure and recognised six themes (finance & investment, product, employees, debtors, society and environment). Haniffa's recommendation indicates the significance of taking care of the environment in *Sharia Islami'iah*. The concepts of *mizan* (balance), *i'tidal* (moderation) and *khilafah* (responsibility) emphasise the concepts of balance, moderation and responsibility for maintenance of the environment; any act of utilisation committed against the environment is strongly condemned by Islam. Information associated with the use of resources and programmes undertaken to conserve the environment should be revealed. To reveal social and environmental responsibility information, Haniffa (2001, p. 18) posited that "a qualitative report with some quantitative data addressing the important items in the six themes (i.e. in the form of narrative disclosure, statistical summaries, social indicators and compliance with standards and principles of *Sharia Islami'iah)* should be the first step in developing Islamic social responsibility reports as not all users of corporate reports are able to comprehend information presented in the format of accounting financial statements". This probably explicated the reason behind the findings of Sulaniman (2001), who arrived at the conclusion that value added statements, as put forward by Baydoun and Willet (2000), are not being viewed by Muslim accounting users in Malaysia as enhancing usefulness (Haniffa, 2001).

Anuar et al. (2004) compare the CED practices exhibited in Shariah-approved companies (which conduct their activities in strict accordance with Islamic principles) with the CED practices of non-Shariah-approved companies that conduct their operations in Malaysia. Their results are proof that Shariah-approved companies have a higher level of CED compared with non-Shariah-approved companies. The findings in this study suggest that the higher extent of CED among Shariah-approved companies may reflect an attempt by such companies to practise corporate reporting, which embodies the Islamic principles of entire disclosure and social accountability.

Van Der Laan Smith et al. (2005) conducted an analysis of environmental and social disclosure that is more extensive than Williams's (1999) study because they examined both the extent and the quality of disclosure. They performed content analysis on 32 Norwegian-Danish companies and 26 U.S. companies in the electric power generation industry. Based on Hofstede's concept of masculinity-femininity, it was contended that a masculine society is more bothered about power and economic status; whereas a feminine society places more emphasis on social goals such as relationships, helping others and the physical environment. Hence, it is hypothesised that there should be greater CED in Norwegian-Danish companies than in U.S. companies; these findings provide vital support for this hypothesis.

Rene Orij (2010) examined whether corporate environmental and social disclosure levels are related to national culture. National culture was indicated by Hofstede's national culture dimensions either separately or combined in constructed culture measures. Rather than a comparison between two nations, as is conducted by Van Der Laan Smith et al. (2005), his sample consisted of 600 large companies from 22 countries: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, Netherlands, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom and the United States. The results of Van Der Laan Smith et al. (2005) were largely supported by these findings. He arrived at the conclusion that corporate environmental and social disclosure levels are probably influenced by national culture. Adnan et al. (2011) undertook content analysis on 403 annual reports, corporate websites and corporate environmental and social disclosure stand-alone reports of 203 companies operating in socially and environmental sensitive industries in the following four countries: China, India, Malaysia and the United Kingdom. They looked at whether culture interacts with the governance structure and government ownership in impacting the quantity and quality of corporate environmental and social disclosure. One of their hypotheses was as follows: National culture impacts both the quantity and quality of CED information across China, India, Malaysia and the United Kingdom. Overall, their results depicted the impact of culture on the CED reporting model; thus, they found support for their hypothesis.

Ahmad (2014) discovered that Libyan organisations have a high level of secrecy. Hence, he arrived at the conclusion that this high level of secrecy results in a low level of CED, which is informed by previous studies conducted in Libya, including those undertaken by Pratten and Mashat, 2009; Ahmad, 2011; Elmogla et al., 2011; Ishwerf, 2011; Othman, 2011; Bayoud et al., 2012.

Bani-Khalid and Kouhy (2017) determined that the overall findings for such analysis indicated that the political conditions, legal system, cultural values and economic development are all significant factors in explicating the level of CED in Jordan. Their findings also stressed that cultural factors seem to have the greatest influence on corporate disclosure practices.

To gain a better understanding for CED in any country, cultural values, including religious beliefs, are significant and should be taken into account. Cultural values, including religious beliefs of managers in the nation, may make them adopt a specific viewpoint of what is an acceptable, tolerable and sensible level of disclosure (Puxty et al., 1987).

### *Accounting Profession and Education*

Studies such as those conducted by Radebaugh (1975); Hove, 1986; Wallace (1987); Foo (1988) and Ahmed and Nicholls (1995) posited that the professional experience of accountants is also an important determinant of disclosure practice. Radebaugh (1975, p. 45) identified that “the accounting profession can be an important influence on the development of accounting objectives, standards and practices. Three phases of the profession are important: the nature and extent of the profession, the existence of professional associations, and the auditing function. The mere existence of the profession is not as important as the level of sophistication of the profession”. The existence of a well-organised accounting profession is seen as important in enhancing the disclosure practices adopted particularly in developing countries. Hove (1986) suggested that accountants in developing countries should be aware of the fact that accounting that has been practised in developed countries may not be relevant; hence, they should try to develop and adapt the practice to the national environment. He also suggested that attempts should be made to train accountants to be "thinking people" rather than "number crunchers", which would enable them to perform in different environments.

This situation is different in many developed countries where the accounting profession is well established and the accountants have more professional experience. The accounting bodies in such countries are in a better position to make suggestions on accounting, in general, and on social and environmental disclosure, in particular, compared with their counterparts in developing countries. For instance, the professional bodies (in the United Kingdom) have been committed towards making a contribution in several areas; the ACCA has commissioned and published research related to CED. It has also introduced the Environmental Reporting Award Scheme (it is also introduced in other developed countries[12], such as Australia, Canada, Denmark, the Netherlands and New Zealand), which encourages companies to experiment with various ways of bringing details of their environmental performance to the attention of the city financial institutions and other interested parties. The ICAEW environmental steering group has published a discussion paper that is aimed at examining whether existing accounting principles are sufficient for environmental issues and recommending additional guidance on the subject of impaired assets. The Institute supports the development of more uniform disclosures (Elliott and Elliott, 1999, p. 744). In Australia, the accounting profession has put a number of initiatives in place. For instance, the ICAA established its Environmental Accounting Task Force in 1995. Among other roles, this taskforce aims at increasing the awareness of the ICAA members in relation to reporting various issues associated with the environment (Deegan and Rankin, 1999). The Auditing Standards Board (ASB) of the Canadian Institute of Chartered Accountants (CICA) issued the guideline "Audit of financial statements affected by environmental matters" as a form of providing detailed guidance to auditors about their responsibility of considering environmental matters when planning and performing audits (CICA, 1994). The "Reporting on environmental performance" was publicised by the CICA during the same year. The efforts and recommendations on the CED have had an undoubted positive influence on the development of environmental reporting (Gray and Bebbington, 2001). In the United Kingdom, the ACCA Award scheme has immensely helped in promoting the development of CED. Johnson posits that "reporting only really took off in the UK after ACCA started the Awards. In the first years there were few applicants, but now there are very few FTSE250 companies that do not report" (reported in Thompson, 2002, p. 18)".

The ability of accountants to handle complicated accounting issues as well as to prepare sufficient and sophisticated accounting reports depends on their level of competence, which, in turn, relies on the level of formal accounting education and/or training they received. Hence, the existence of a well-developed system of accounting education is significant in improving the accounting and disclosure adopted in a country (Radebaugh, 1975; Enthoven, 1981; Bursal, 1984; Arpan and Radebaugh, 1985; Doupnik and Salter, 1995).

[12] A few newly industrial countries such as Singapore and Malaysia established the Singapore Environmental Reporting Award (SERA) and Malaysian Environmental Reporting Award (MERA) in mid-2002. Both schemes are modelled on the ACCA's UK Awards scheme (Thompson, 2002, p.18).

The most significant issue of accounting in developing countries is related to the lack of qualified instructors and educators, good textbooks and research (Foroughi, 1981; Ahmad, 2014). On the contrary, the general level of education in developed countries is high. For instance, professional accounting education in the United Kingdom has existed ever since 1854 and is currently regarded as attaining high standards (Arnold et al., 1994). This might partially explicate the distinctions between developing and developed countries in terms of CED practices. For example, Ahmad (2011, 2014) and Ibrahim (2014) identified that lack of expertise, qualifications and training in the field of CED have prevented Libyan companies from being involved with CED.

## CONCLUSION

The empirical investigation conducted into CED practice, of which voluntary CED is a subset, has witnessed a wide variety of literature adopting various theoretical perspectives, including theories related to agency, stakeholders, legitimacy and political economy. These theories explicate CED practices, each from different points of view and based on various assumptions. This paper stated that empirical evidence does not always support CED theories and that results are contradictory. The micro prospective of every theory might be the main reason impacting these divergences. It has been debated that the distinctions in the nature and the volume of CED rely on both internal and external environmental conditions (macro perspective). This paper has recognised that the interaction between internal and external environmental factors plays a significant role in determining to what extent theories (have or have not) offered a comprehensive basis for an explication of CED in any country. Understanding CED in any given country can emerge from within by viewing the perspectives and competence of accountants as well as managers of organisations, corporate characteristics, and its contextual factors and not just from analysing corporate reports. This lends greater support for the Environmental Determinism Theory as an appropriate foundation for the explication of CED. Such a macro perspective of this theory might contribute towards enhancing our complete understanding of why firms disclose or do not disclose CED. Future research can utilise this theoretical framework with the aim of testing it empirically.

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## BIOGRAPHY

**Prof. Nassr Saleh Mohamad Ahmad** is a professor in accounting at University of Gharyan , Gharyan, Libya. He has held teaching experience at Libyan universities and Sultan Qaboos University (Oman). He has taught various undergraduate and postgraduate courses in accounting and auditing. He is a member of the editorial board and ad-hoc reviewer of various academic local and international journals including: World Journal of Entrepreneurship, Management and Sustainable Development (WASD); Academy of Marketing Studies Journal (Allied Academies); Journal of Entrepreneurship Education (Allied Academies); Investment Management and Financial Innovations (Business Perspectives); Insurance Markets and Companies (Business Perspectives); Journal of International Business Research; Banks and Bank Systems (Business Perspectives); International Journal of Entrepreneurship (Allied Academies); Journal of International Business and Economic Affairs (ECO-ENA, Canada); Journal of Accounting Research and Management; Afro-Asian Journal of Finance and Accounting (AAJFA); SA Journal of Accounting Research (Cap Town University, South Africa); and REGIONOLOGY (National Research Mordovia State University, Russia. He has got the Outstanding Reviewer for World Journal of Entrepreneurship, Management and Sustainable Development in the Emerald Literati Network 2015 Awards for Excellence. He has published around fifty research papers in local and international academic journals. He has as well published four textbooks name: Auditing Theory, Management Accounting, ABC costing system and Salary and Social Security Accounting. He has successfully supervised numerous MSc Dissertations and PhD Thesis at University of Gharyan, Libyan Academy, Damascus University (Syria), and Griffith University, (Australia). He is a member of numerous local and international professional committees. He has an excellent professional experience. He hold high level positions in Libya.

**Dr. Allam Ahmed** is the Founding President of World Association for Sustainable Development (WASD) and Founding Editor of all its journals. Following several senior lecturing appointments in Edinburgh, London & Sussex Science Policy Research Unit – SPRU (world leader in research, consultancy and teaching in the field of Science and Technology Policy), where he established and lead the postgraduate programme MSc International Management, in 2009 Allam was appointed to lead the Government of Abu Dhabi major and first of its kind in the Middle East Knowledge Management Framework (Musharaka). He is also the Founding Director of the Middle Eastern Knowledge Economy Institute (MEKEI); Founder of Sudan Knowledge (SK); Visiting Professor at the Royal Docks School of Business and Law (2016–) and University of Brighton Business School, UK (2012–2015). He has travelled and worked in almost all continents of the world including substantial experience in Africa, Middle East and Europe. Allam's work is featured and archived by major international institutions and top universities such as World Bank; United Nations; European Commission; Swiss Government; UK Department for International Development (DFID); Government of St Lucia; World Food Programme, FAO; Imperial College London; Cambridge; Oxford; Princeton; Yale; Harvard; MIT; Stanford; Toronto; USA Congress; British Library; etc. Expert Advisor to the European Commission on International Scientific Cooperation (2006–2008); International Co-ordinator UNESCO Chair on Transfer of Technology (UNESCOTT) (2008–2010); Advisor African Capacity Building Foundation (ACBF) (2011–2013); referee for the UK Economic and Social Research Council (ESRC), Dutch Research Council (Netherlands Organisation for Scientific Research), Oxford University Press and for various governments, in Africa, Europe and the Middle East. He is the recipient of several international Awards and Medals and listed in the WHO'S WHO IN THE WORLD 2009–2019, WHO'S WHO IN FINANCE and BUSINESS 2009/2010 and WHO'S WHO IN AMERICA 2012–2014 published by Marquis Who's Who, USA.